

MANAGEMENT

SIXTEENTH EDITION

ROBBINS

COULTER

LONG



MANAGEMENT

16E

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Pearson

*To my wife, Laura
Steve*

*To my husband, Ron
Mary*

*To David, Henry, & Emerson
Lori*

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Welcome to the 16th edition of *Management*. First published in 1984, this book has become one of the world's most popular introductory management texts. It's used by hundreds of US colleges and universities; it's translated into Spanish, French, Russian, Dutch, Bahasa, Korean, and Chinese; and there are adaptations for Australia, Canada, India, and the Arab World.

New to This Edition

The 16th edition of *Management* addresses the evolving workplace at a pivotal time in the practice of management. Understanding that many students who use this text are not necessarily majoring in management, this edition continues to build on our approach of ensuring students see the importance and relevance of studying management. Each chapter opens with a common myth that students are likely to hold about that chapter's content. We then show them that what they thought they knew was wrong. The objective? To demonstrate that the practice of management is *not* all common sense.

Further, regardless of students' majors or career plans, they are likely to work in an organization. Whether that organization has three people or 300,000, there are common challenges that employees will encounter. We provide insights throughout the text, based on solid research, to help students survive and thrive in the workplace. In addition to revisions that uphold this commitment to demonstrating the importance and relevance of the course, other new aspects of this edition are highlighted below.

New Author

The most significant addition to this revision is a new co-author, Dr. Lori Long, who has been a contributor to previous editions of this text. Dr. Long took the lead in this revision and worked to ensure that the text maintains its reputation for readability and relevance while introducing fresh insights and perspectives.

With a blend of corporate, consulting, research, and teaching experience in human resource management, leadership development, culture cultivation, and innovation management, Dr. Long offers a well-rounded perspective that spans theory and practice. Her ability to bridge the gap between research and real-world application is a defining feature of her contributions to this edition.

Focus on Current Management Topics

New chapter openers and examples throughout update the text to focus on current management topics and emerging research. Throughout the text there is also a focus on two forces significantly impacting management practices with insights on how management is evolving to address them.

REMOTE AND HYBRID WORK The COVID-19 global pandemic accelerated the adoption of remote and hybrid work in organizations. Although research is still emerging on effective remote and hybrid work practices, today's reality requires managers to understand current best practices in offering remote and hybrid work options and how to optimize worker productivity in remote work environments. Coverage is provided in multiple chapters.

ARTIFICIAL INTELLIGENCE (AI) AI capabilities are advancing at an exponential rate and are reshaping many management practices. AI is becoming increasingly integrated into various aspects of business operations, from decision making to automation, and managers need to understand how AI can impact their organizations and how to harness its potential effectively. The opportunity for engagement or use of AI tools is addressed in every chapter of this edition.

New Chapter and Chapter Reorganization

The Management History Module has been revised to create a new chapter on the evolution of management. This new chapter is the most comprehensive, detailed, and updated review of management history available among introductory management texts. At this pivotal time in the practice of management, an understanding of the historical development of management concepts and practices provides context to help students appreciate how practices evolve in response to changing societal, economic, and technological factors. The remaining chapters have been reorganized, and the entrepreneurship chapter has been transitioned to a module in response to the growing number of colleges offering entrepreneurship as a separate course.

Streamlining and Enhancing Features

For this edition, we have streamlined and enhanced the features included within the text to retain its length and focus. The “Workplace Confidential,” “It’s Your Career,” and “Learning from Failure” features have been supplemented and updated to retain the text’s close focus on real-world application.

The Management Practice feature at the end of each part has also been thoroughly revised, with an updated “Integrative Case” and a new “Practice Your Data Analysis Skills” exercise to help students hone this valuable career skill.

End-of-chapter materials have been enhanced with new and updated cases, exercises, discussion questions, and much more.

Additional Chapter-by-Chapter Changes in This Edition

Chapter 1

- New Managerial Challenge: Focus on Remote or Hybrid Work
- New Managerial Challenge: Focus on Technology, including artificial intelligence and digital transformation
- New Managerial Challenge: Focus on Employee Well-Being

Chapter 2 (new chapter on evolution of management)

- Expanded coverage into the 21st century
- New coverage of early advocates of a social-person approach
- Coverage of the new industrial revolution and other recent developments in management research and practices
- New Learning from Failure: Learning from Failing Start-up Businesses
- New Workplace Confidential: Looking Back to Move Forward
- All new end-of-chapter questions and exercises
- New case: Uber’s CEO Gets Behind the Wheel
- New case: Managers Still Need to Be Data-Driven

Chapter 3

- New example for decision-making process
- New coverage of data and technology use in decision making
- New case: A Major League Baseball Rule Change

Chapter 4

- Expanded coverage of external environment to include investors and environmental, social, and governance (ESG) strategy
- New coverage on impact of remote work on culture

Chapter 5

- Expanded to include emerging practices in equity and inclusion
- Expanded coverage of dimensions of diversity to include socioeconomic status
- New coverage of measuring and reporting on diversity, equity, and inclusion (DEI) work
- New table: Stages of DEI Strategy

Chapter 6

- New coverage on the impact of remote work capabilities
- New Workplace Confidential: Succeeding in a Remote Job
- New case: Lululemon Power of Three × 2 Growth Strategy

Chapter 7

- New section: Stakeholder Capitalism
- New coverage of reporting on social responsibility and sustainability efforts including UN Sustainable Development Goals
- New Learning from Failure: From Greenwashing to Electric Cars
- New coverage on supporting ethical behavior including ethics officers and protecting whistleblowers

Chapter 8

- New section: Static versus Scenario Planning
- New section: SMART Objectives
- New case: Johnson Controls Using OpenBlue to Reach Net Zero

Chapter 9

- Revised and expanded coverage of the strategic management process
- New case: Nvidia's Gaming and AI Strategy

Entrepreneurial Ventures Module

- Revised chapter into a module
- Added coverage on the entrepreneurial mindset

Chapter 10

- New coverage of flexible workplace options
- New Learning from Failure: Return to Office? Workers Say No Way!
- New case: Life as a Digital Nomad in Foreign Cities

Chapter 11

- Expanded coverage of external influences on HR management, including social and cultural factors
- New coverage on the use of technology in hiring
- New It's Your Career: Nailing the Behavior-Based Interview
- New case: Employees with Side Hustles: It's No Secret

Chapter 12

- New coverage on changing culture
- Expanded coverage on types of innovation including breakthrough and sustaining innovations
- Revised and expanded coverage of strategies to stimulate innovation, including coverage of design thinking
- New coverage of the Business Model Canvas and idea incubation
- New Learning from Failure: Giving Up on Google Glass
- New case: Microsoft: Innovative Again

Chapter 13

- New coverage on improving attitudes using artificial intelligence
- New Learning from Failure: Troublesome Leader's Personality (WeWork)
- New case: Heat Waves Cause Employees to Walk Off the Job

Chapter 14

- New coverage of technology and motivation
- New section: Motivating Remote Workers

Chapter 15

- New section: Technology and Teams, including coverage of virtual collaboration platforms and use of artificial intelligence
- New case: US Women's Soccer: A Team in Transition
- New case: Taylor Swift's Bonuses Cause Their Own "Swift Quake"

Chapter 16

- New Learning from Failure: Childhood Lessons on Failure (Sarah Blakely)
- New content on emergent leadership
- New case: New Endorsements Give Power to College Athletes

Chapter 17

- Revised and expanded coverage of technology and communication
- New case: No Meetings?

Chapter 18

- New coverage of Key Performance Indicators
- New case: Feeding Chocolate to Cows

Our Three Guiding Principles

What has allowed this text to flourish for 40 years? We think the answer is in our three guiding principles: (1) offer cutting-edge topic coverage, (2) ensure that the writing is readable and conversational, and (3) make certain the presentation is relevant to students.

Cutting-Edge Topic Coverage

This book has always sought to provide the *latest topic coverage*. It was, for instance, the first introductory management text to discuss organizational culture, the symbolic view of management, behavioral decision making, sustainability, and value-chain management. This edition continues in that tradition, with cutting-edge topics like stakeholder investing, remote work, artificial intelligence, and employee well-being. And, of course, the entire research base for this edition has been fully updated.

High Readability

Every textbook author claims their books are *highly readable*. The reality is that few actually are. Most appear to be written more for professors than for students. From the first edition of this text, we were determined to make the field of management interesting and engaging for students. How did we do this? First, we committed to a conversational writing style. We wanted the text to read like normal people talk. And second, we relied on extensive use of examples. As your senior author learned early in his teaching career, students often forget theories, but they remember stories. So you'll find a wealth of current examples in this text.

Relevance

Since this text's inception, we have subjected every theory and concept to our "So What?" test. We ask ourselves: *Why is a specific concept relevant? Why should a student need to know this?* This test has guided us in deciding what to include and exclude over these many editions, as well as reminding us to explain the importance and relevance of concepts when it might not be obvious.

Solving Learning and Teaching Challenges

Speaking of relevance, if there is one component of this text that instructors will find important, it's our focus on providing job-relevant skills for students.

In the typical introductory management class, only about 20 percent of students are management majors. The rest are majoring in accounting, finance, marketing, information systems, or some other business discipline. As a result, instructors tell us that one of their most challenging obstacles in teaching the introductory management class is convincing these non-management majors of the course's importance. These non-management majors often question the course's relevance to their career goals. As one accounting student put it, "Why do I have to take this class? I have no interest in being a manager. My time would be better spent taking another course in tax or auditing."

We have an answer for those students: This text and your management class are relevant to anyone who plans to work in an organization. How? In addition to describing what effective managers do and offering insights into how organizations work, we include features that will help students develop the specific skills employers are looking for in job candidates and provide guidance to help students survive and thrive in the workplace. Let's highlight what those features are:

WORKPLACE CONFIDENTIAL Succeeding in a Remote Job

The emergence of remote work means companies no longer need to rely on finding talent in their local geographic area. They can also save money without the need to relocate recruits or provide office space. As an increasing number of companies offer the opportunity to work remotely, you will likely see more remote jobs available, giving you the chance to work from anywhere in the world. In fact, some countries are even offering digital nomad visas to attract remote workers. These special visas allow you to work remotely from within a country, typically for up to a year. Want to spend a year working from a beach in Barbados? You can! But although remote work might sound exciting, it is a challenge.

Before you accept that cool job working for a company on the other side of the country or the globe, you should first ask yourself—is remote work right for me? Although the lure of the flexibility is clear, sometimes the downside of remote work doesn't surface until you are into the job. And if you do accept the job, how can you make sure you succeed working remotely?

- **Make sure you have the equipment you need.** This is something you can ask before you start the job. Some companies may even provide an allowance to purchase an ergonomic chair or other equipment.
- **If you are working from home, make sure you have a designated workspace.** That will help you transition into work mode, and you can walk away from the space at the end of your workday. But also consider alternate work spots, especially if you need to be creative. Changing scenery is helpful, so scout out a good spot at the library or in a public coworking space.
- **Take care of your health.** Take regular breaks and make sure you stand up and stretch regularly. Make sure you block out breaks on your calendar, so you don't end up in back-to-back meetings.
- **Virtual meetings can cause fatigue.** Consider turning off your self-view on the screen—watching yourself is

Advice for Surviving and Thriving in the Workplace

Regardless of whether one is working in an organization employing three people or 300,000, there are common challenges that employees will encounter. We provide students with guidance for dealing with these challenges in our "Workplace Confidential" features.

Developing Resilience

"Learning from Failure" boxes illustrate how people like Sarah Blakely, James Dyson, and J.K. Rowling as well as companies like Google and Volkswagen have encountered setbacks, assessed what went wrong, gained new insights from their experience, and bounced back.

Resilience is a valuable quality for students and employees. These boxes can help students see the positive side of failures and how individuals and organizations have learned from their mistakes.

Learning from **FAILURE** Giving Up on Google Glass

Created by Google's X factory, the hope of a game-changing innovation in wearable products ended when Google finally stopped making Google Glass 10 years after a lackluster launch. The product was first introduced in 2013 at a retail price of \$1,500, offering consumers wearable glasses allowing them to access technology via their face instead of having to pull out a phone. The smart glasses were discontinued two years later, having never caught on. The failure was blamed on a clunky design, high price, and concerns around privacy.

In 2019 Google relaunched the product as the Glass Enterprise Edition, which shifted the focus from consumers to businesses with an intent to sell to industries such as manufacturing and logistics. But again, the product failed to catch on, and the company announced in 2023 that it would end production.

Where did Google go wrong? First, Google Glass was an example of a solution looking for a problem. Although the technology was an interesting idea, it was not fulfilling any customer need. And it was a high price for technology that was not needed. Customers also complained about privacy concerns because wearers could easily hit record to capture video at any time, making the glasses unwelcome in most public places.

Issues around the purpose of the glasses and the high cost seemed to plague corporate sales as well. When Google announced it would stop making the Glass Enterprise Edition, it was part of a larger cost-cutting initiative across the company. Although it made sense that Google tried to save its investment in Google Glass by relaunching it to a new market, ultimately the company lost millions of dollars by focusing on the novelty of technology instead of the needs of the customer.⁶²

IT'S YOUR CAREER

Nailing the Behavior-Based Interview

A common approach to interviewing is what is called the behavior-based interview. Based on the idea that past behavior is the best predictor of future behavior, the behavior-based interview asks you to share past experiences to demonstrate your skills and competencies. You know you are in a behavior-based interview when the questions start with “Tell me about a time when . . . ” or “Give me an example of . . . ” and then ask for you to share an experience that demonstrates a specific skill or ability. “Tell me about a time you had to manage a difficult customer” is an example of a behavior-based interview question.

The key to succeeding in a behavior-based interview is preparation! Start by making a list of the skills, abilities, or competencies that the job might require. The job posting is a good place to start to determine these. It is likely to list skills such as communication, teamwork, time management, and creativity.

Next, think about stories you can tell to share your experiences that demonstrate you have those skills. For example, did you write a persuasive email

that convinced your boss to try your idea? Did you create a time management process that helps you deliver assignments on time? And remember, not every experience has to be a success for you to learn from it. For example, maybe you had a team project that was a disaster, but through the project you learned how to better work in teams.

Finally, practice responding to the questions you think you will need to answer. The STAR method is a good way to focus your question responses to make sure you tell the interviewer what they need to know, without going on too long. You can organize your story to share the **Situation, Task, Action, and Result**.

- **Situation:** Share some context around the challenge you faced. Where were you working? What was your job?
- **Task:** What was the specific problem you solved, opportunity you took advantage of, or challenge you responded to?
- **Action:** Explain exactly what you did to resolve the problem, or what action you took in response to the challenge. Make sure you use “I” and not “we” to emphasize your role, even if it was a team project.
- **Result:** What was the outcome? Did you save a customer? Get an A on the project? If you are sharing a failure, what did you learn?⁷³

Career Guidance

We’ve found that students appreciate career guidance. Toward that end, we included “It’s Your Career” boxes that address skills that will enhance career progress. These include identifying your strengths and weaknesses, managing your time, developing your negotiation skills, and learning to read an organization’s culture.

Continued Focus on Practical Applications

This edition of *Management* continues our commitment to provide instructors with a comprehensive set of in-text exercises that allow students to translate what they’ve learned into practical applications. These include, for example, end-of-chapter cases, ethical dilemmas, and team-building exercises, plus a part-ending integrative case. Here’s a brief summary of these applications.

Case Applications

There are two case applications at the end of each chapter.

CASE APPLICATION 2

Taylor Swift’s Bonuses Cause Their Own “Swift Quake”

Taylor Swift’s Eras Tour was both a massive success and a massive production to execute. Her three-hour-plus, 44-song live show covers themes from her 17-year career. The 52-date sold-out US tour was an ambitious effort with elaborate stage designs being put up and taken down quickly.⁵⁷ Fans, nearly 54,000 per show, paid an average ticket price of \$250 to see Swift’s era-themed rooms moving on stage and screen with coordinated dance numbers, an acoustic set, and 10 outfit changes during each show. Obviously, there is a whole lot to pay attention to on stage.⁵⁸

Of course, Taylor Swift’s seemingly one-woman show required a significant team effort. Her fashion alone represented the work of several of the world’s most prominent designers, and she needed help changing costumes several times each show. The technically ambitious stage show, created and executed by designers and a variety of workers, showcased different albums of Swift’s career with unique backdrops.⁵⁹ Other team members included the 50-plus truckers transporting sets and equipment from one stadium to the next, caterers to feed everyone, workers handing out LED wristbands that sync up to songs in unison when Swift is singing, and many more.

Starbucks Integrative Case

Each of the six parts of this book concludes with the Starbucks integrative case. This case helps students see how concepts can be applied in an organization with which most are familiar as well as see the integrative nature of management. Each part of the case has been updated with developments since the previous edition.

Practice Your Data Analysis Skills

A coffee business started by three friends caught on, and currently has 10 locations, the environmentally conscious founders of this business have started to consider if the garbage generated by each store is problematic. Last month, the average waste sent to landfills amounted to 1,500 pounds per store. Stores are open seven days a week, and about 500 customers visit each store daily. It turns out that single-use coffee cups, approximately 500 per day per store, can be replaced by compostable paper cups at a cost of \$0.15 per cup. By implementing recycling, 600 pounds of garbage per store can be diverted from going to a landfill.

P2-19. What is the waste diversion rate per store if recycling and compostable cups are used? Assume 50 single-use cups equal one pound of garbage, and the waste diversion rate is calculated by dividing the amount of waste diverted by the total amount of waste, then multiply the total by 100. The waste diversion rate is presented as a percentage.

Continuing Case: Starbucks—Introduction

Community. Connection. Caring. Committed. Coffee. Five Cs that describe the essence of Starbucks Corporation—what it stands for and what it wants to be as a business. With more than 32,000 stores in eighty countries, Starbucks is the world’s number one specialty coffee retailer. The company also owns the Baya, Evolution Fresh, La Boulange, Princi, Starbucks Reserve, Seattle’s Best Coffee, Starbucks VIA, Starbucks Refreshers, Teavana, Verismo, and Torrefazione Italia brands.¹ It’s a company that truly epitomizes the challenges facing managers in today’s globally competitive environment. To help you better understand these challenges, we’re going to take an in-depth look at Starbucks through these continuing cases, which you’ll find at the end of every part of the text. Each of these six part-ending continuing cases will look at Starbucks from the perspective of the material presented in that part. Although each case “stands alone,” you’ll be able to see the progression of the management process as you work through each one.

Applied Data Analysis Skills

Following the Starbucks case at the end of each section, we have added a new “Practice Your Data Analysis Skills” assignment for students. Using a theme of a new coffee shop business, students can practice basic data analysis and apply their critical thinking skills to understand the implications of the data.

Skills Exercises

It’s not enough to “know” something. Students need to be able to apply that knowledge. Skills Exercises at the end of each chapter are designed to help achieve that goal. Some of these exercises include developing your skills at creativity, collaboration, building trust, interviewing, motivating others, and acquiring power.

SKILLS EXERCISE Developing Your Collaboration Skill

About the Skill

Collaboration is the teamwork, synergy, and cooperation used by individuals when they seek a common goal. In many cross-cultural settings, the ability to collaborate is crucial. When all partners must work together to achieve goals, collaboration is critically important to the process. However, cultural differences can often make collaboration a challenge.

Steps in Practicing the Skill

- **Look for common points of interest.** The best way to start working together collaboratively is to seek commonalities that exist among the parties. Common points of interest enable communications to be more effective.
- **Listen to others.** Collaboration is a team effort. Everyone has valid points to offer, and each individual should have an opportunity to express their ideas.
- **Check for understanding.** Make sure you understand what the other person is saying. Use feedback when necessary.
- **Accept diversity.** Not everything in a collaborative effort will “go your way.” Be willing to accept different ideas and different ways of doing things. Be open to these ideas and the creativity that surrounds them.

- **Seek additional information.** Ask individuals to provide additional information. Encourage others to talk and more fully explain suggestions. This brainstorming opportunity can assist in finding creative solutions.
- **Don’t become defensive.** Collaboration requires open communication. Discussions may focus on things you and others may not be doing or need to do better. Don’t take the constructive feedback as personal criticism. Focus on the topic being discussed, not on the person delivering the message. Recognize that you cannot always be right!

Practicing the Skill

Interview individuals from three nationalities different than your own about the challenges of collaborating with individuals from different cultures. What challenges do different cultures create when people are asked to collaborate? How do they recommend dealing with these challenges? What advice do they have for improving your ability to collaborate at work with people from different cultures? Do they think being bilingual and traveling to different countries will improve your ability to collaborate?

Ethics Dilemmas

Each chapter presents students with an ethical dilemma and encourages them to practice their skills in ethical decision making and critical decision making.

ETHICS DILEMMA

In many ways, technology has made all of us more productive; however, ethical issues do arise in how and when technology is used. Take competitive amateur and professional sports as an example. All kinds of technologically advanced sports equipment (swimsuits, golf clubs, ski suits, etc.) have been developed that can sometimes give competitors/players an edge over their opponents. Access to technology is expensive, meaning technology use in sports is not equally available to everyone.³²

- 4-8. Do you think the use of technology in sports is based on the desire to gain an advantage or the fear of competing at a disadvantage?³³ Is this an ethical concern for the use of technology?
- 4-9. What if your school (or country) were competing for a championship and couldn't afford to outfit athletes in such equipment, and it affected their ability to compete? Would that make a difference?
- 4-10. Given the degree of complexity and change technology has brought to amateur and professional sports, what can regulators (i.e., management) do to gain some control over their environment?

WORKING TOGETHER Team Exercise

Almost a third of employees who leave their companies within the first 90 days say they didn't fit into the company's culture.³⁴ This suggests that learning about a company's culture before you accept a job could save you a considerable amount of grief. To increase the chances that you'll fit with the culture of the company you next work for, form groups of three or four and share the characteristics of an organizational culture each group member wants (and doesn't want) in an employer.

Compare your lists for common factors. Now choose one of the group members' lists and, as a group, discuss: What could you do when visiting a company for an interview to find out whether it has the characteristics on the list? What questions could be asked during the interview to find out if the company has a strong or weak culture? What clues could be looked for when walking around the company to understand what the culture is like? Be ready to share your analysis with the class.

Team Exercises

Work in today's organizations is increasingly being done in groups and teams. And being a "team player" has become an important quality in the hiring process. To help students build their collaboration skills, we have included team exercises at the end of each chapter.

"My Turn to Be a Manager" Exercises

Additional opportunities for students to apply management concepts introduced in each chapter are the "My Turn to Be a Manager" exercises.

MY TURN TO BE A MANAGER

- Find current examples in any popular business periodical of both the omnipotent and symbolic views of management. Write a paper describing what you found and how your examples represent these views of management.
- Consider a business that you frequent (for example, a restaurant or coffee shop) and review the six aspects of the external environment discussed in the text. Create a list of factors in the external environment that could affect the management of the business you selected.
- Choose an organization you are familiar with or would like to know more about. Create a table identifying potential stakeholders of this organization. Then indicate what particular interests or concerns these stakeholders might have.
- Activist investors and special interest groups try to pressure top management at companies to make significant changes to their policies. How have executives at companies like Coca-Cola, Disney, Exxon, and Meta made changes in response to investors' or special interest groups' demands? Give some examples and indicate whether you agree or disagree with the changes. Was there any evidence of greenwashing at the company(ies) you researched?
- If you belong to a student organization, evaluate its culture by answering the following: How would you describe the culture? How do new members learn the culture? How is the culture maintained? If you don't belong to a student organization, talk to another student who does and evaluate it using the same questions.
- Research remote work and work nomads. In a short paper, discuss the positive and negative impacts these ways of working have on an organization with a strong culture. Would the effects be the same for an organization with a weak culture? Explain whether maintaining an organization's culture should be different if remote workers and work nomads are used.

For more information and resources, visit www.pearson.com.

About MyLab Management

To improve student results, we recommend pairing the text content with **MyLab Management**, which is the teaching and learning platform that empowers you to reach every student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and will help your students learn and retain key course concepts while developing skills that future employers are seeking in their candidates. From **Mini Sims** to **Personal Inventory Assessments** and **Dynamic Study Modules**, MyLab Management helps you teach your course, your way. Learn more at <https://www.pearson.com/en-us/higher-education/products-services/mylab/management.html>

Instructor Teaching Resources

Management 16e comes with the following teaching resources:

Supplements available to instructors at www.pearson.com	Features of the Supplement
Instructor's Manual authored by Nathan Hartman from Illinois State University	<ul style="list-style-type: none"> • Chapter-by-chapter summaries • Teaching notes • Answers for End-of-Chapter activities
Test Bank authored by Mike Casey	<ul style="list-style-type: none"> • Over 1800 multiple-choice, true/false, and short answer/essay questions • Aligned to Learning Objectives from the text • Classified according to difficulty level • AACSB learning standard identified (Written and oral communication, Ethical understanding and reasoning, Analytical thinking, Diverse and multicultural work environments, Reflective thinking, Application of knowledge, Interpersonal relations and teamwork, and Integration of real-world business experiences)
Computerized TestGen	<p>TestGen allows instructors to:</p> <ul style="list-style-type: none"> • Customize, save, and generate classroom tests • Edit, add, or delete questions from the Test Item Files • Analyze test results • Organize a database of tests and student results.
PowerPoints authored by Mike Casey	<p>Slides include all the graphs, tables, and equations in the text.</p> <p>PowerPoints meet accessibility standards for students with disabilities. Features include, but are not limited to:</p> <ul style="list-style-type: none"> • Keyboard and Screen Reader access • Alternative text for images • High color contrast between background and foreground colors

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Dr. Robbins is the world's best-selling textbook author in the areas of management and organizational behavior. His books have sold more than 14 million copies and have been translated into 20 languages. His books are currently used at more than 1,500 U.S. colleges and universities, as well as hundreds of schools throughout Canada, Latin America, Australia, New Zealand, Asia, Europe, and the Arab World.

Dr. Robbins also participates in masters' track competition. Since turning 50 in 1993, he's won 23 national sprint championships and 14 world sprint titles. He was inducted into the U.S. Masters Track & Field Hall of Fame in 2005.



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When she's not busy writing, Dr. Coulter enjoys putting around in her flower gardens, trying new recipes, reading all different types of books, and enjoying many different activities with husband Ron, daughter Sarah and her husband, James, and son-in-law Matt, and most especially with her two grandkids, Brooklynn and Blake, who are the delights of her life!



LORI K. LONG received her Ph.D. from Kent State University. As the Burton D. Morgan Endowed Chair in Entrepreneurship at Baldwin Wallace University, Dr. Long works across her campus to promote entrepreneurial thinking in all disciplines and teaches courses in management and entrepreneurship. Long's research interests include developing entrepreneurs, online learning, organizational culture, and effective work/life management strategies. Her work has been published in *Higher Education Skills and Work-Based Learning*, *Journal of Human Resources Education*, *Journal of Workplace Learning*, *International Journal of E-learning*, *Equal Opportunities International*, and *Journal of Management Development*, as well as several other journals, books, and conference proceedings.

Dr. Long also consults with businesses on people management, developing organizational culture, and building innovation ecosystems. When not working or writing, Dr. Long can be found enjoying the outdoors and traveling with her husband David.

Chapter 1

Managers and You in the Workplace

Learning Objectives

- 1.1 Describe** who managers are and where they work.
- 1.2 Explain** why managers are important to organizations.
- 1.3 List** the functions and roles of managers.
- 1.4 Describe** the factors that are reshaping and redefining the manager's job.
- 1.5 Identify** career options in management and skills that lead to career success.
- 1.6 Explain** the value of studying management.

Managers can make or break any organization. According to some government officials, even organized crime is threatened by poor management. A 2021 case against a mob boss in New York suggests that the Mafia is more likely to fail due to management challenges such as micromanagement and lack of succession planning than it is from gang wars or snitches. Further, younger members of the mob haven't received effective training, making the organization more vulnerable and leading to more arrests. Although we are in no way encouraging illegal activity, we can learn some things from the mob's mistakes.¹ In this chapter, we introduce you to managers and management by looking a little more broadly at (1) who managers are, (2) where they work, (3) what they do, and (4) why they are important. We wrap up the chapter by looking at the factors reshaping and redefining the manager's job and discussing why the field of management is important to you.

Management Myth: Only those who want to be a manager need to take a management course.

Management Reality: Anyone planning to enter the workforce benefits from understanding how management practices work.

WHO Are Managers, and Where Do They Work?

LO1.1 Describe who managers are and where they work.

You'll find managers in a variety of settings. They run large corporations, medium-sized businesses, and entrepreneurial start-ups. They're found in government departments, hospitals, not-for-profit agencies, schools, and even nontraditional organizations such as political campaigns and music tours. Managers can also be found doing managerial work in every country on the globe.

Who Is a Manager?

It used to be fairly simple to define who managers were: They were the organizational members who told others what to do and how to do it. It was easy to differentiate *managers* from *nonmanagerial employees*. Now, it isn't quite that simple. In many organizations, the changing nature of work has blurred the distinction between managers and nonmanagerial employees. Many traditional nonmanagerial jobs now include managerial activities, and many organizations no longer have formal managers. For example, Mercedes-Benz.io, which is an information technology (IT) subsidiary of Mercedes-Benz, has established a **holacracy** organizational structure that does away with traditional management roles.² The holacracy structure aims to distribute decision making throughout the organization by eliminating bosses and empowering teams or workgroups to manage themselves (see **Exhibit 1-1**).³ Workers have multiple roles that might change depending on the assignment or project, with different people taking the lead at different times; thus, everyone performs some management duties.

So, how *do* we define who managers are? A **manager** is someone who coordinates and oversees the work of other people so organizational goals can be accomplished. A manager's job is not about *personal* achievement—it's about helping *others* do their work. That may mean coordinating the work of a departmental group, or it might mean supervising a single person. It could involve coordinating the work activities of a team with people from different departments or even people outside the organization such as temporary employees or individuals who work for the organization's suppliers. Keep in mind that managers may also have work duties not related to coordinating and overseeing others' work. For example, an insurance claims supervisor might process claims in addition to coordinating the work activities of other claims clerks.

How can managers be classified in organizations? In traditionally structured organizations (often pictured as a pyramid because more employees are at lower organizational levels than at upper organizational levels), managers can be classified as first-line, middle, or top (see **Exhibit 1-2**). At the lowest level of management, **first-line (or frontline) managers** manage the work of nonmanagerial employees who typically are involved with producing the organization's products or servicing the organization's customers. These managers typically have titles such as *team leader*, *supervisor*, *shift manager*, *district manager*, *department head*, or *office administrator*. **Middle managers** are those between first-line managers and the top level of the organization. They may have titles such as *regional manager*, *store manager*, or *division manager*. Middle managers are mainly responsible for turning the organization's strategy into action. At the upper levels of the organization are the **top managers**, who are responsible for making organization-wide decisions and establishing the strategy and goals that affect the entire organization. These individuals typically have titles such as *executive vice president*, *president*, *managing director*, *chief operating officer*, or *chief executive officer*.

holacracy

An organizational structure that aims to distribute decision making throughout the organization by requiring teams or workgroups to manage themselves, rather than centralizing decision making in a traditional hierarchy

manager

Someone who coordinates and oversees the work of other people so organizational goals can be accomplished

first-line (frontline) managers

Managers at the lowest level of management who manage the work of nonmanagerial employees

middle managers

Managers between first-line managers and the top level of the organization

top managers

Managers at or near the upper levels of the organizational structure who are responsible for making organization-wide decisions and establishing the strategy and goals that affect the entire organization

Exhibit 1-1 Holacracy Structure

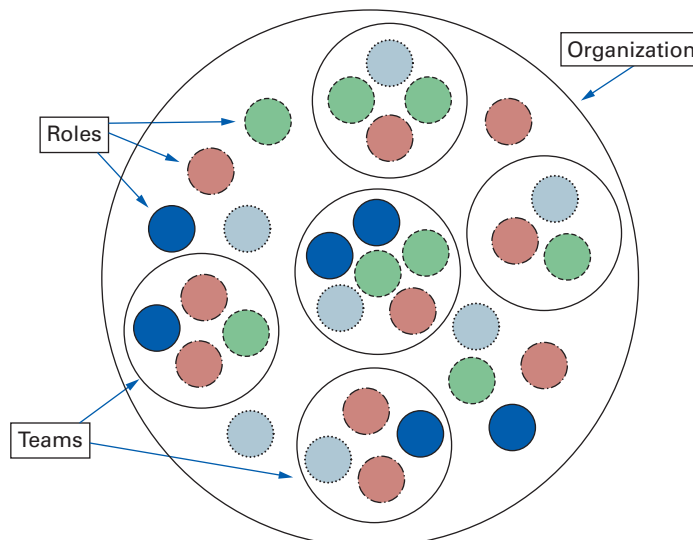
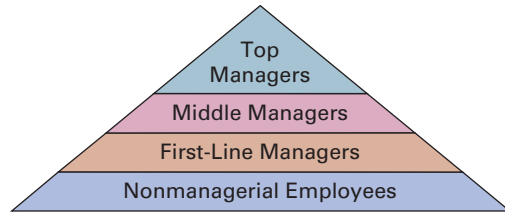


Exhibit 1-2
Levels of Management



In organizations such as Mercedes-Benz.io, where the teams are self-managed and leaders may change based on the project or other work demands, management is still needed. Someone must coordinate and oversee the work of others, even if that “someone” changes as work tasks or projects change or that “someone” doesn’t necessarily have the title of manager.

Where Do Managers Work?

Managers work in organizations, but what *is* an **organization**? It’s a deliberate arrangement of people to accomplish some specific purpose. As we shared in the introduction, the Mafia is actually an organization. Your college or university is also an organization; so are fraternities and sororities, government departments, churches, Apple, your neighborhood grocery store, Girl Scouts of America, the Pittsburgh Penguins hockey team, and the Mayo Clinic. All these entities have three common characteristics (see **Exhibit 1-3**).

organization
A deliberate arrangement of people to accomplish some specific purpose

First, an organization has a distinct purpose that is typically expressed through goals the organization seeks to accomplish. Second, each organization is composed of people. It takes people to perform the work that’s necessary for the organization to achieve its goals. Third, all organizations develop a deliberate structure within which members do their work. That structure may be open and flexible, with no specific job duties, or it may require strict adherence to explicit job arrangements. For instance, most big projects at Alphabet (the parent company of Google) are tackled by small, focused employee teams that set up in an instant and complete work just as quickly. Or the structure may be more traditional—like that of Procter & Gamble—with clearly defined rules, regulations, job descriptions, and some members identified as “bosses” who have authority over other members. In the military, there is a well-defined hierarchy. In the US Air Force, the General of the Air Force is the highest-ranking officer and Second Lieutenant is the lowest ranking officer. Between the two are nine officer ranks.



Projects at Google are often tackled by small teams like this one working in their Shanghai, China, office.
Source: Imaginechina Limited/Alamy Stock Photo

Many of today’s organizations are structured more like Alphabet, with flexible work arrangements, employee work teams, open communication systems, and supplier alliances. In these organizations, work is defined in terms of tasks to be done. And workdays have no time boundaries because work can be—and is—done anywhere, anytime. However, no matter what type of approach an organization uses, some deliberate structure is needed so work can get done, with managers overseeing and coordinating that work.

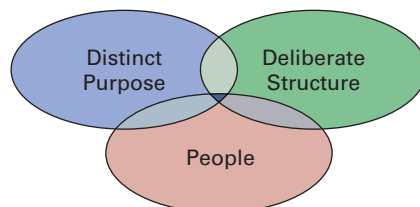


Exhibit 1-3
Characteristics of Organizations

WHY Are Managers Important?

LO1.2 Explain why managers are important to organizations.

Managers are important to organizations. Why? Let's look at three reasons.

The first is that *organizations need their managerial skills and abilities* more than ever in uncertain, complex, and chaotic times. As organizations deal with today's challenges—employee expectations for flexibility, the worldwide economic uncertainty, rapidly advancing technology—managers play an important role in identifying critical issues and crafting responses.

A second is that *they're critical to getting things done*. They create and coordinate the workplace environment and work systems so that others can perform their tasks. Or, if work isn't getting done or isn't getting done as it should be, managers are the ones who find out why and get things back on track.

Third, *managers make a difference in an organization's performance*. How do we know that? The Gallup Organization, which has polled millions of employees and tens of thousands of managers, has found the single most important variable in employee success is their interaction with their manager. Starting with the hiring process, Gallup has determined that the quality of the manager is a top factor for workers deciding to accept a job. Further, employees report that managers impact their engagement with the organization, how hard they work, and their decisions to stay or leave a company. These worker behaviors directly impact an organization's success or failure.⁴ Thus, the abilities and actions of managers have a direct impact on an organization's performance.

MANAGEMENT Versus Managers

LO1.3 List the functions and roles of managers.

Now that we know who managers are, where they work and why they are important, we need to understand what they actually do. To explain what managers do, first we will define management, and then we will explore the four functions of the practice of management and the roles managers engage in at work.

What Is Management?

Management involves coordinating and overseeing the work activities of others so their activities are completed efficiently and effectively. We already know that coordinating and overseeing the work of others is what distinguishes a managerial position from a nonmanagerial one. However, this doesn't mean that managers or their employees can do what they want anytime, anywhere, or in any way. Instead, management involves ensuring that work activities are completed efficiently and effectively by the people responsible for doing them, or at least that's what managers should be doing.

Efficiency refers to getting the most output from the least amount of inputs or resources. Managers deal with scarce resources—including people, money, and equipment—and want to use those resources efficiently. Efficiency is often referred to as “doing things right,” that is, not wasting resources. For example, Hilton Hotels uses a centralized reservation and customer service center to simplify operations and lower costs. Hilton also provides a centralized supply chain management solution that provides all of its hotel locations with the best prices, fastest delivery, and highest quality of inventory and supplies. These efficient, centralized management operations have helped sustain Hilton for more than 100 years, making it a leader in the hotel industry.⁵

It's not enough, however, just to be efficient. Management is also concerned with employee effectiveness. **Effectiveness** is often described as “doing the right things,” that is, doing those work activities that will result in achieving goals. Hilton's focus

management

Coordinating and overseeing the work activities of others so their activities are completed efficiently and effectively

efficiency

Getting the most output from the least amount of inputs or resources

effectiveness

Doing those work activities that will result in achieving goals



Guest service agents at Hilton Hotels have access to information on guests that belong to their Hilton Honors customer reward program. They can use the information to customize the experience for each guest.
 Source: Sorbis/Shutterstock

on the customer experience is a key reason the hotel has had sustained success.⁶ The company builds customer loyalty through its Hilton Honors program that rewards customers for frequent stays and also improves the customer experience by recording customer preferences and making them available to the management at any property where a guest stays. The managers at Hilton know to focus on the right thing—the customer—in order to ensure loyalty and success, because a hotel depends on customers choosing to stay at each location.

Whereas efficiency is concerned with the *means* of getting things done, effectiveness is concerned with the *ends*, or attainment of organizational goals (see **Exhibit 1-4**). In successful organizations, high efficiency and high effectiveness typically go hand in hand.

What Do Managers Do?

Now let’s take a more detailed look at what managers do. Describing what managers do isn’t easy. Just as no two organizations are alike, no two managers’ jobs are alike. Despite this, management researchers have developed different approaches to describe what managers do. Let’s take a closer look at manager functions and manager roles.

MANAGEMENT FUNCTIONS According to the functions approach, managers perform certain activities or functions as they efficiently and effectively coordinate the work of others. What are these functions? Henri Fayol, a French businessman in the early part of the twentieth century, suggested that all managers perform five functions: planning, organizing, commanding, coordinating, and controlling.⁷ (See **Chapter 2** for more information.) Today, we use four functions to describe a manager’s work: planning, organizing, leading, and controlling (see **Exhibit 1-5**). Let’s briefly look at each.

If you have no particular destination in mind, then any road will do; however, if you have someplace in particular you want to go, you have to plan the best way to get

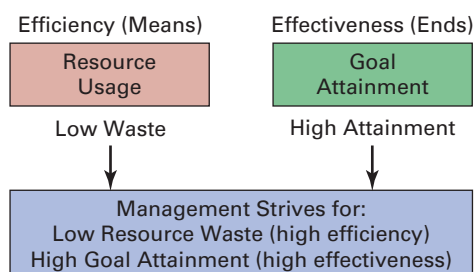
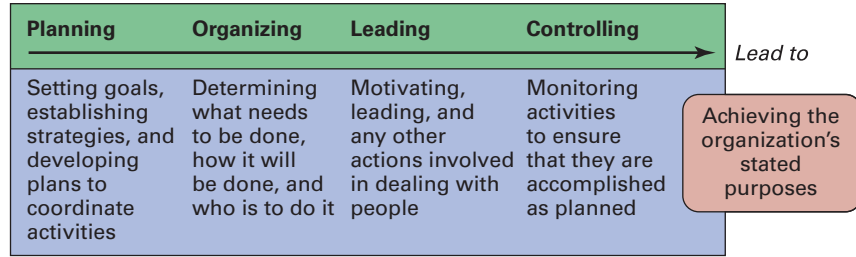


Exhibit 1-4
 Efficiency and Effectiveness
 in Management

Exhibit 1-5
Four Functions of Management



Leading is an important function of The Container Store manager Jaimie Moeller (left). She influences the behavior of employees by leading them in a team huddle before they begin their workday. Coaching employees to succeed in the store's team-selling environment helps Moeller achieve the store's sales performance and customer service goals. Source: James Borchuck/Tampa Bay Times/Zumapress.com/Alamy Stock Photo

planning
Management function that involves setting goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate activities

organizing
Management function that involves arranging and structuring work to accomplish the organization's goals

leading
Management function that involves working with and through people to accomplish organizational goals

controlling
Management function that involves monitoring, comparing, and correcting work performance

managerial roles
Specific actions or behaviors expected of and exhibited by a manager

there. Because organizations exist to achieve some particular purpose, someone must define that purpose and the means for its achievement. Managers are that someone. As managers engage in **planning**, they set goals, establish strategies for achieving those goals, and develop plans to integrate and coordinate activities.

Managers are also responsible for arranging and structuring the work that employees do to accomplish the organization's goals. We call this function **organizing**. When managers organize, they determine what tasks are to be done, who is to do them, how the tasks are to be grouped, who reports to whom, and where decisions are to be made.

Every organization has people, and a manager's job is to work with and through people to accomplish goals. This is the **leading** function. When managers motivate subordinates, help resolve work group conflicts, influence individuals or teams as they work, select the most effective communication channel, or deal in any way with employee behavior issues, they're leading.

The final management function is **controlling**. After goals and plans are set (planning), tasks and structural arrangements are put in place (organizing), and people are hired, trained, and motivated (leading), there has to be an evaluation of whether things are going as planned. To ensure goals are met and work is done as it should be, managers monitor and evaluate performance. Actual performance is compared with the set goals. If those goals aren't achieved, it's the manager's job to get work back on track. This process of monitoring, comparing, and correcting is the controlling function.

Just how well does the functions approach describe what managers do? Do managers always plan, organize, lead, and then control? Not necessarily. What a manager does may not always happen in this sequence. However, regardless of the order in which these functions are performed, managers do plan, organize, lead, and control as they manage.

MANAGEMENT ROLES Another perspective has been offered by Henry Mintzberg, a well-known management researcher who studied actual managers at work. In his first comprehensive study, Mintzberg concluded that what managers do can best be described by looking at the managerial roles they engage in at work.⁸ The term **managerial roles** refers to specific actions or behaviors expected of and exhibited by a manager. As shown in **Exhibit 1-6**, Mintzberg found 10 roles, grouped around interpersonal relationships, the transfer of information, and decision making.

The **interpersonal roles** involve people (subordinates and persons outside the organization) and other ceremonial and symbolic duties. The three interpersonal roles are figurehead, leader, and liaison. The **informational roles** involve collecting, receiving, and disseminating information. The three informational roles are monitor, disseminator, and spokesperson. Finally, the **decisional roles** entail making decisions or choices and include entrepreneur, disturbance handler, resource allocator, and negotiator. As managers perform these roles, Mintzberg proposed that their activities included both reflection (thinking) and action (doing).⁹

Exhibit 1-6
Mintzberg's Managerial Roles

Source: Based on H. Mintzberg, *The Nature of Managerial Work* (New York: Prentice Hall, 1983).



A number of follow-up studies have tested the validity of Mintzberg's role categories, and the evidence generally supports the idea that managers—regardless of the type of organization or level in the organization—perform similar roles.¹⁰ However, the emphasis that managers give to the various roles seems to change with organizational level.¹¹ At higher levels of the organization, the roles of disseminator, figurehead, negotiator, liaison, and spokesperson are more important, whereas the leader role (as Mintzberg defined it) is more important for lower-level managers than it is for either middle or top-level managers.

So which approach is better, managerial functions or Mintzberg's propositions? Although each does a good job of depicting what managers do, the functions approach still seems to be the generally accepted way of describing the manager's job. "The classical functions provide clear and discrete methods of classifying the thousands of activities managers carry out and the techniques they use in terms of the functions they perform for the achievement of goals."¹² Still, managerial roles provide insights into what managers do while planning, leading, organizing, and controlling.

interpersonal roles

Managerial roles that involve people and other duties that are ceremonial and symbolic in nature

informational roles

Managerial roles that involve collecting, receiving, and disseminating information

decisional roles

Managerial roles that revolve around making choices

MANAGERIAL Challenges Today and into the Future

LO1.4 Describe the factors that are reshaping and redefining the manager's job.

In today's world, managers are dealing with a host of challenges. The COVID-19 global pandemic had a significant and lasting impact on how organizations manage the workforce and the role of the manager. Three trends that will continue to disrupt and transform management practices are the normalization of remote or hybrid work, the use of technology, and the changing expectations of employees on how organizations support their overall well-being.¹³

Focus on Remote or Hybrid Work

One of the most significant outcomes of the COVID-19 pandemic has been the growth of remote and hybrid working. **Remote work** is the practice of accomplishing work tasks away from the company's worksite; **hybrid work** is the practice of working remotely part of the time and on-site part of the time. Although remote and hybrid working options have

remote work

The practice of accomplishing work tasks away from the company's worksite

hybrid work

The practice of working remotely part of the time but working at the company's worksite as well



Managers of remote workers must rely upon data and customer feedback to evaluate employee performance.

Source: Dragos Condrea/Alamy Stock Photo

digital transformation

The process of rethinking how to use technology, people, and processes to accomplish the work of the organization

artificial intelligence (AI)

Hardware or software systems that learn to make decisions and carry out actions on behalf of the people that operate the systems

gig economy

The labor market created by workers doing freelance work



Gig workers often work for more than one company in order to piece together a full-time job.

Source: Sundry Photography/Alamy Stock Photo

existed for a long time, not all organizations embraced them. During the global lockdown at the start of the pandemic, however, many organizations quickly adapted to remote work by necessity. But as the need to work remotely diminished, workers continued to demand remote work options because they found the flexibility improved their overall work–life balance. Not only are remote and hybrid options attractive to workers, but evidence also shows that remote workers are more productive, which means companies benefit as well.¹⁴

As flexible work options continue to grow, managers will need to develop skills to manage employees in a remote work environment. Gartner estimates that nearly 70 percent of manager–employee relationships today are at least partly asynchronous, which means the manager and the employee are not physically together interacting in real-time.¹⁵ As a result, managers

will have less involvement in workers’ day-to-day activities and will need to focus more on managing the outputs of employees’ work and less on the process to get to those outputs. For example, a remote customer service center manager can’t walk around and observe employees talking to customers. Instead, the manager will need to rely on feedback from customers to know if employees are doing a good job. That feedback will often come from software that monitors the customer service calls.

Focus on Technology

Monitoring customer service calls is just one example of how technology is transforming the practice of management. Many organizations are engaging in strategic **digital transformation** by rethinking how they use technology, people, and processes to accomplish the work of the organization. For example, in the practice of management, new technology will likely replace many tasks previously done by managers such as assigning work and encouraging productivity. In fact, some organizations are using technology such as artificial intelligence to provide employees feedback on their work. **Artificial intelligence (AI)** refers to hardware or software systems that learn to make decisions and carry out actions on behalf of the people that operate the systems. Essentially, AI is a computer making decisions that normally involve human intelligence.¹⁶

Technology has also impacted companies’ use of temporary or contract workers. Contract workers are not company employees; rather, they work for a company on an as-needed basis. The evolution of apps such as Door Dash and Uber have transformed the contract labor market, allowing workers to generate income via a *side hustle* or create a full-time job by bringing together different *gig* work arrangements. This evolution is often referred to as the **gig economy** because it describes a new labor market of workers doing freelance-type work. This development is also creating new challenges for managers. From scheduling and meeting work needs to ensuring worker safety, managing gig workers will continue to impact the practice of management.¹⁷

Focus on Employee Well-Being

Now and into the future, managers will need to focus more on employee well-being. Generally, well-being means that a person judges their life as positive and feels good, but there are many dimensions to well-being, including physical and mental health.¹⁸ Managers are becoming more critical to

improving employee well-being. For example, a Gallup study in 2002 found that 10 percent of workers reported their boss as a source of stress that affected their engagement with work. Twenty years later that number had grown to 70 percent, which means now more than ever, the manager’s role is important in reducing employees’ stress.¹⁹

And it is worthwhile to do so, because there is strong evidence that employees that are less stressed are more productive.²⁰ As our understanding of the impact of mental health on worker productivity has expanded, companies have realized the need to support employee well-being and expand managerial skill sets. For example, to support well-being, managers will need to build skills in coaching and providing emotional support to employees.

Management's approach to building a diverse and inclusive work environment also impacts employee well-being. Although companies have understood the importance of hiring employees with diverse backgrounds for many years, the future of management will require a more strategic focus on diversity, equity, and inclusion, as we will explore more thoroughly in **Chapter 5**. Following the viral #MeToo movement in 2017, which brought the issues of sexual harassment and assault to the forefront, and the growth of the Black Lives Matter movement in 2020, organizations have become aware of the importance of creating a diverse, equitable, and inclusive workplace.²¹ Companies not only can improve recruitment and retention efforts but also will see other impacts such as more creativity and innovation as well as better service to the customer. For example, the health insurance company Anthem's intentional efforts to diversify its leadership team to reflect its customer base has helped improve customer satisfaction now that the company has a better understanding of customer needs.²²



Companies are finding time in the workday to support employee wellness through activities such as yoga and meditation offered onsite.
Source: Bill Cheyrou/Alamy Stock Photo

Learning from FAILURE Successful Managers Learn from Their Failures

Microsoft cofounder Bill Gates says, "It's fine to celebrate success, but it is more important to heed the lessons of failure." And Jeff Bezos, founder and CEO of Amazon, actually prides himself on his failures. He says, "I've made billions of dollars of failures." Bezos embraces risk, and Amazon has created a culture that has an extreme tolerance for failure. For instance, Amazon Destinations tried to sell hotel rooms and bombed. So did Amazon's effort to create a mobile wallet, offer songs, and allow customers to test out apps before buying. One of its biggest failures was Fire Phone, which lost \$170 million, but led to Echo—its popular voice-activated speaker.

Behind thousands of success stories are paths strewn with setbacks and often failures. Remember: No one goes undefeated all the time. But out of those setbacks, for those individuals and organizations with persistence and the willingness to evaluate, change, and adapt—success frequently prevails. And what applies to managers and companies also applies to you. You're going to make mistakes, have setbacks, and sometimes fail in your endeavors. You need to learn from these and move on. For instance:

J. K. Rowling was a single mother, financially supported by governmental assistance, who had her manuscripts rejected by more than a dozen publishers before she found one to publish *Harry Potter*. Ms. Rowling, now a billionaire, is one of the richest women in Britain.

While classmates in high school, Bill Gates and Paul Allen started Traf-O-Data. They designed a computerized microprocessor that would analyze traffic data and create reports for the state of Washington highway department's traffic engineers. The goal was to optimize traffic and end road congestion. Unfortunately, their first demo didn't work, and the idea later became obsolete when the state of Washington offered to tabulate the tapes for cities for free. Although the concept failed, it provided Gates and Allen with the software skills that would lead to their creating a new start-up called "Micro-Soft."

And although you probably have a profile on LinkedIn, founder Reid Hoffman's first attempt at building an online networking site failed. SocialNet failed because it was unfocused in its purpose, attempting to help people connect for a variety of purposes from finding a roommate to finding true love. However, Hoffman credits his success with LinkedIn as resulting from this failure, noting that "one of the things I learned from that whole experience, was that you should focus on one domain that really matters to people and just do that really well."²³

We think there's a lot for you to learn through reading about others' failures, so throughout this text we include examples that illustrate major failures, what individuals and organizations learned, and the changes they made in response.²⁴

WHAT Careers Are in Management?

LO1.5 Identify career options in management and skills that lead to career success.

The increasing complexity of today’s workplace is driving the need for managers in organizations. According to the Bureau of Labor Statistics, employment in the broad category of management occupations is expected to grow 8 percent by 2031, which is above the average for all occupations.²⁵ The need for financial managers is projected as the fastest growth area (15.5 percent) due to the increased importance of managing risk in organizations, which we will talk about in **Chapter 18**. The growing digital economy is also increasing the demand for computer and information systems managers.²⁶ Beyond the expected career opportunities, why should you consider a career in management?

There are real rewards from holding a managerial position. There’s the satisfaction of creating a work environment in which organizational members can do their work to the best of their ability and thus help the organization achieve its goals. You help others find meaning and fulfillment in their work. You get to support, coach, and nurture others and help them make good decisions. In addition, as a manager, you often have the opportunity to think creatively and use your imagination. You’ll get to meet and work with a variety of people—both inside and outside the organization. Other rewards may include receiving recognition and status in your organization and in the community, playing a significant role in influencing organizational outcomes, and receiving attractive compensation in the form of salaries, bonuses, and stock options (see **Exhibit 1-7**).

What Skills Do Managers Need?

If you are considering a career as a manager, you can start now by building skills to help you succeed. We have all heard stories about a “bad boss” who either makes your job miserable or maybe doesn’t even know what you do. Organizations often fail to pick the person with the right skills or fail to train someone that is promoted to become a manager. This happens because a career in management often occurs after showing proficiency in another area. For example, one study found that salespeople who bring in high sales numbers are most often promoted to become a manager.²⁷ However, just because someone is good at their job does not mean they will be a good manager. Working as a sales representative requires a different skill set than working as a manager. In fact, the same study also found that sales performance was negatively correlated with performance as a sales manager; that is, the best salespeople are the worst managers!²⁸

UPS is a company that often promotes workers to managers but understands the importance of management skills.²⁹ The company’s on-road supervisors are immersed in a new manager orientation where they learn people and time management skills. The company started an intensive eight-day off-site skills training program for first-line managers as a way to improve its operations. What have supervisors learned from the skills training? Some things they mentioned learning were how to communicate more effectively and how to comply with safety laws and labor practices.

Exhibit 1-7 Management Salaries

Source: US Bureau of Labor Statistics, *Occupational Outlook Handbook* (data from September 8, 2022).

Occupation	2021 Median Pay
Computer and Information Systems Managers	\$159,010
Architectural and Engineering Managers	\$152,350
Advertising, Promotions, and Marketing Managers	\$133,380
Financial Managers	\$131,710
Compensation and Benefits Managers	\$127,530

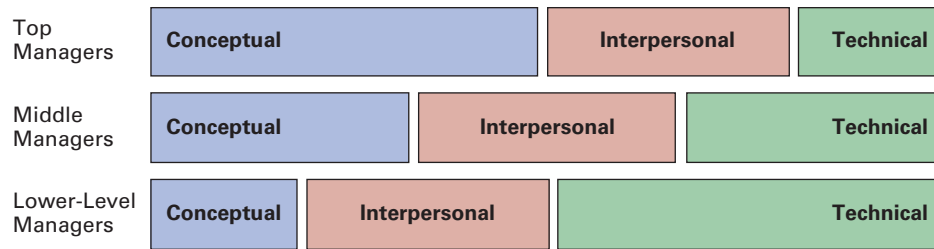


Exhibit 1-8
Skills Needed at Different Managerial Levels

What types of skills do managers need? Robert L. Katz proposed that managers need three critical skills in managing: technical, human, and conceptual.³⁰ (Exhibit 1-8 shows the relationships of these skills to managerial levels.) **Technical skills** are the job-specific knowledge and techniques needed to proficiently perform work tasks. These skills tend to be more important for first-line managers because they typically manage employees who use tools and techniques to produce the organization’s products or service the organization’s customers. Often, employees with excellent technical skills get promoted to first-line manager. Managers also need **interpersonal skills**, which involve the ability to work well with other people both individually and in a group. Because all managers deal with people, these skills are equally important to all levels of management. Managers with good human skills get the best out of their people. They know how to communicate, motivate, lead, and inspire enthusiasm and trust. Finally, **conceptual skills** are the skills managers use to think and to conceptualize about abstract and complex situations. Using these skills, managers see the organization as a whole, understand the relationships among various subunits, and visualize how the organization fits into its broader environment. Managers then can effectively direct employees’ work.

technical skills
Job-specific knowledge and techniques needed to proficiently perform work tasks

interpersonal skills
The ability to work well with other people individually and in a group

conceptual skills
The ability to think and to conceptualize about abstract and complex situations

Within these three core skill areas, managers may require specific skills depending on the company, their area of responsibility, or current workplace challenges. For example, managing workers in today’s complex world that includes remote work and the need to pay attention to workers’ mental health requires managers to develop their skills in empathy or the ability to understand others’ emotions and respond with compassion. Tricia Alcamo, the Chief People Officer at FanDuel, a gaming, fantasy sports, and sports betting company, knows that empathy is key to leadership success, noting that workers have much more going on than you see on the surface. When she joined FanDuel, she implemented a new leadership development program to help managers across the organization develop emerging skills such as empathy.³¹

WHY Study Management?

LO1.6 Explain the value of studying management.

If you’re not a management major nor planning on a career in management, you might rightly ask: Why should I study management? We can give you three reasons: the universality of management, the reality of work, and the insights it can provide you into life at work.

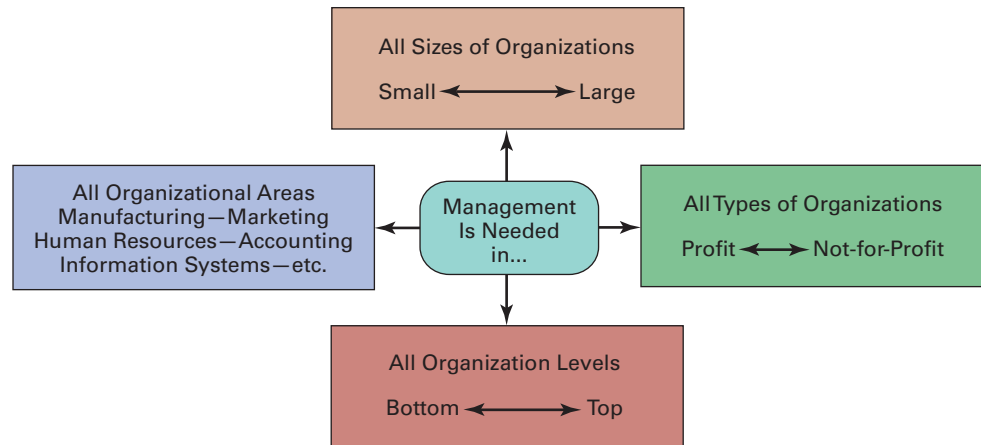
The Universality of Management

We can say with absolute certainty that management is needed in all types and sizes of organizations, at all organizational levels, in all organizational work areas, and in all organizations, regardless of where they’re located. This is known as the **universality of management** (see Exhibit 1-9). In all these organizations, managers must plan, organize, lead, and control; however, that’s not to say that management is always

universality of management
The reality that management is needed in all types and sizes of organizations, at all organizational levels, in all organizational areas, and in all organizations worldwide

Exhibit 1-9

Universal Need for Management



done in the same way. What a supervisor in an applications testing group at Snap Inc. (developer of Snapchat) does versus what the CEO of Snap Inc. does is a matter of degree and emphasis, not function. Because both are managers, both will plan, organize, lead, and control. How much and how they do so will differ.

Management is universally needed in all organizations. And organizations that are well managed—and we’ll share many examples of these throughout the text—develop a loyal customer base, grow, and prosper, even during challenging times. Those that are poorly managed find themselves losing customers and revenues. By studying management, you’ll be able to recognize poor management and work to get it corrected.

The Reality of Work

Another reason for studying management is the reality that for most of you, once you graduate from college and begin your career, you will either manage or be managed. For those who plan to be managers, an understanding of management forms the foundation upon which to build your management knowledge and skills. For those of you who don’t see yourself managing, you’re still likely to have to work with managers. Our experience tells us that you can gain a great deal of insight into the way your boss (and fellow employees) behave and how organizations function by studying management.

Gaining Insights into Life at Work

A good number of students regularly remind your authors that they’re not planning a career in management. These students’ career goals are to be accountants or financial analysts or marketing researchers or computer programmers. They ask us: Why do I need to take a management course? Our answer is: Because understanding management concepts and how managers think will help you get better results at work and enhance your career. And who knows, you may become a manager someday. Oftentimes, successful employees are promoted to managerial roles. For example, you may begin your career as an auditor with a major accounting firm and find that, a few years later, you’re overseeing an audit team or you’re a partner thrust into managing a regional office.

Throughout this text you’ll encounter pages that we call “Workplace Confidential.” This feature will introduce you to challenges you’re likely to face at work—like organizational politics, an uncommunicative boss, or an unfair performance review—and offer you specific suggestions on how to deal with these challenges.

If you expect to work with others—whether it’s in a *Fortune* 100 corporation or in a three-person start-up—studying management can pay demonstrable dividends.

WORKPLACE CONFIDENTIAL Dealing with Organizational Politics

In an ideal world, the good guys always win, everyone tells the truth, and job promotions and generous pay raises go to the most deserving candidate. Unfortunately, we don't live in such an ideal world. The world we live in is a political one.

Politics is a fact of life in organizations. People who ignore this fact do so at their own peril. But why, you may wonder, must politics exist? Isn't it possible for an organization to be politics free? It's possible, but most unlikely.

Organizations are made up of individuals and groups with different values, goals, and interests. This sets up the potential for conflict over limited resources. Departmental budgets, office allocations, project responsibilities, promotion choices, and salary adjustments are just a few examples of the resources about whose allocation organizational members will disagree. Further, whether true or not, gains by one individual or group are often perceived as being at the expense of others within the organization. These forces create a competition among members for the organization's limited resources. And although the interactions may change, the shift to virtual or hybrid work will likely not eliminate office politics. In fact, some speculate that the hybrid environment may create disparities between those working in the office and those working remotely.³²

Maybe the most important factor leading to politics within organizations is the realization that most of the facts that are used to allocate the limited resources are open to interpretation. What, for instance, is good performance? What's an adequate improvement? What constitutes an unsatisfactory job? One person's team player is another's "yes man." So it is in the large and ambiguous middle ground of organizational life—where the facts don't speak for themselves—that politics flourish. The above explains why some people in the workplace lie, misrepresent, conceal, backstab, play favorites, scheme, pass the buck, deny responsibility, form alliances, or engage in similar political actions.

If you want to improve your political skills at work, we offer the following suggestions:

- **Frame arguments in terms of organizational goals.** People whose actions appear to blatantly further their own interests at the expense of the organization are almost universally denounced, are likely to lose influence, and often suffer the ultimate penalty of being expelled from the organization. Make sure your actions appear to be in the best interests of the organization.
- **Develop the right image.** Make sure you understand what your organization wants and values from its employees—in terms of dress, associates to cultivate and those to avoid, whether to appear to be a risk-taker or risk averse, the importance of getting along with others, and so forth. This is even more important in a virtual office

where you need to exert an effort to demonstrate presence. Because the assessment of your performance is rarely a fully objective process, you need to pay attention to style as well as substance.

- **Gain control of organizational resources.** The control of organizational resources that are scarce and important is a source of influence. Knowledge and expertise are particularly effective resources to control. These resources make you more valuable to the organization and, therefore, more likely to gain security, advancement, and a receptive audience for your ideas.
- **Make yourself appear indispensable.** You don't have to be indispensable, as long as key people in your organization think that you are. If the organization's prime decision makers believe there is no ready substitute for what you bring to the organization, your job is likely safe and you're likely to be treated well.
- **Be visible.** If you have a job that brings your accomplishments to the attention of others, that's great. However, if not—without creating the image of a braggart—you'll want to let others know what you're doing by giving progress reports to your boss and others, having satisfied customers relay their appreciation to higher-ups, being seen at social functions, and being active in your professional associations.
- **Develop powerful allies.** It is often beneficial to have friends in high places. Network by cultivating contacts with potentially influential people above you, at your own level, and in the lower ranks. These allies often can provide you with information that's otherwise not readily available and provide you with support if and when you need it. Having a mentor in the organization who is well respected is often a valuable asset.
- **Avoid "tainted" members.** In almost every organization, there are fringe members whose status is questionable. Their performance and/or loyalty are suspect. Or they have strange personalities. Keep your distance from such individuals. Given the reality that effectiveness has a large subjective component, your own effectiveness might be called into question if you're perceived as being too closely associated with tainted members.
- **Support your boss.** Your immediate future is in the hands of your current boss. Because that person evaluates your performance, you'll typically want to have your boss on your side. You should make every effort to help your boss succeed, make them look good, support them if they are under siege, and spend the time to find out the criteria they will use to assess your effectiveness. Don't undermine your boss. And don't speak negatively of them to others.³³

Chapter 1

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO1.1 DESCRIBE who managers are and where they work.

Managers coordinate and oversee the work of other people so that organizational goals can be accomplished. Nonmanagerial employees work directly on a job or task and have no one reporting to them. In traditionally structured organizations, managers can be first-line, middle, or top. In more loosely structured organizations or a holacracy, managers may be less easy to identify, but managers still are needed to coordinate the work.

Managers work in an organization, which is a deliberate arrangement of people to accomplish some specific purpose. Organizations have three characteristics: they have a distinctive purpose, they are composed of people, and they have a deliberate structure. Organizations range from sororities and online companies like Amazon.com to nonprofits and local retail stores.

LO1.2 EXPLAIN why managers are important to organizations.

Managers are important to organizations for three reasons. First, organizations need their managerial skills and abilities in uncertain, complex, and chaotic times. Second, managers are critical to getting things done in organizations. Finally, managers make a difference in an organization's performance. The way employees are managed can affect the organization's financial performance by affecting employee productivity, loyalty, and engagement, and managerial ability has been shown to be important in creating organizational value.

LO1.3 LIST the functions and roles of managers.

Broadly speaking, management is what managers do, and it involves coordinating and overseeing the efficient and effective completion of others' work activities. Efficiency means doing things right; effectiveness means doing the right things.

The four functions of management are planning (setting goals, establishing strategies, and developing plans), organizing (arranging and structuring work), leading (working with and through people), and controlling (monitoring, comparing, and correcting work performance).

Mintzberg's managerial roles are interpersonal, which involves people and other ceremonial/symbolic duties (figurehead, leader, and liaison); informational, which involves collecting, receiving, and disseminating information (monitor, disseminator, and spokesperson); and decisional, which involves making choices (entrepreneur, disturbance handler, resource allocator, and negotiator).

LO1.4 DESCRIBE the factors that are reshaping and redefining the manager's job.

Three trends that will continue to disrupt and transform management practices are the normalization of remote or hybrid work, the use of technology, and the changing expectations of employees on how organizations support their overall well-being. As workers find value in remote work, managers will need to develop new skills in managing workers that are not physically present. Managers are rethinking how to use technology, people, and processes to accomplish the work of the organization. Artificial intelligence will also continue to change the way managers work. Technology has also impacted companies' use of temporary or contract workers, creating a new gig economy. And finally, managers will need to focus more on supporting the physical and mental health of their employees, while also working to create a diverse and inclusive workforce.

LO1.5 IDENTIFY career options in management and skills that lead to career success.

A career in management can be rewarding, and there are a variety of paths for managers. The increasing complexity of today's world is increasing the need for managers. Managers need a variety of skills depending on their role and level in the organization. Katz's managerial skills include technical skills, which are job-specific; interpersonal, or the ability to work with people; and conceptual, which is the ability to think and express ideas. As managers face new challenges, they will need to develop new skills such as empathy.

LO1.6 EXPLAIN the value of studying management.

It's important to study management for three reasons: (1) the universality of management, which refers to the fact that managers are needed in all types and sizes of organizations, at all organizational levels and work areas, and in all global locations; (2) the reality of work—that is, you will either manage or be managed; and (3) gaining an understanding of how managers think and how organizations operate.

REVIEW AND DISCUSSION QUESTIONS

- | | |
|---|---|
| <p>1-1. Describe what a manager does. How does the work of managers differ from that of nonmanagerial employees?</p> <p>1-2. Are managers important to organizations? Explain.</p> <p>1-3. What is the difference between efficiency and effectiveness? Explain why both are valuable to managers.</p> <p>1-4. Is there one best “style” of management? Discuss in terms of managerial functions and roles.</p> | <p>1-5. How are technology, social media, and other technological advances making a manager's job easier? More complex?</p> <p>1-6. Are the skills managers need different for lower-level and middle managers? Do managers at Amazon use managerial skills differently than those at UPS or Uber?</p> <p>1-7. Will the universality of management continue to be true in the future? Why or why not?</p> |
|---|---|

PREPARING FOR: My Career

ETHICS DILEMMA

The gap between the career development conversations managers provide and what employees want them to deliver is strikingly large. Unfortunately, 40 percent of managers never talk with employees about career goals and how to meet them, while 82 percent of employees would like to have career-related discussions with their managers between one and four times a year.³⁴ Moreover, younger employees place greater importance on these conversations, career development opportunities, and job training than older generations do.

- 1-8. Does an organization have an ethical responsibility to provide frequent career development advice to younger and less experienced employees? Explain your position.
- 1-9. If career opportunities and conversations in an organization are rare, should managers just hire older and more experienced employees who look for these things less often? Explain your position.

SKILL EXERCISE Developing Your Skills as a Manager

About the Skill

Research has shown that there are skills that most managers should have. Unfortunately, as many as 90 percent of managers don't have these skills.³⁵ Managers who have these

skills can set themselves apart from those without them. If you aren't yet a manager, developing these skills can be just what you need to get higher-level jobs and show others that you have management potential.

Steps in Practicing the Skill

- **Ask for feedback.** Managers often think they need to be in complete control without asking for feedback. Make it a habit to ask how you could do a better job or how you could be a more effective teammate. Get used to doing this now and then continue this skill once you are a manager.
- **View matters from employees' point of view.** Practice asking yourself what others at work might think of situations that arise. Ask people in different jobs or departments outside of your friendship group. Having these different perspectives will help you to make better decisions. You also score points by asking people for their input.
- **Understand the big picture.** Managers should think about not just their department, but also the company as a whole. Increase your understanding of how your job fits into what your company does. Then, go even bigger by researching trends in your company's industry.
- **Manage your own emotions.** When you are a manager, frustration and anger affect your employees. If you feel like you need to vent, do so outside of work. Practice treating everyone at work as if they are customers and work on stress management techniques, so you don't take your emotions out on others.
- **Acknowledge employees for good work.** Appreciation goes a long way toward improving morale. Let people at work know when they have done a good job or have made your work easier in some way.
- **Support employees in front of others.** Managers sometimes feel pressure to go along with their bosses rather than support their employees. Look for opportunities to stand up for people you work with when others aren't giving them the credit they deserve.
- **Manage your own career.** Develop a long-term career plan that you revisit regularly. Write in your calendar every 3 months that it is time to check your career plan and make any needed adjustments.
- **Recognize possible biases you may have and communicate with people different than yourself.** Most people have biases that they don't realize they have. When you are about to make a decision, ask yourself if there are any possible biases that might be relevant and ask someone with a different personality type, age, race, or background what they think.
- **Build trust and communication at work.** Get to know people at work beyond what must be said or done as a part of the job. Establish relationships with them and show that you care about them as people. Working with them will be much easier as a result.

Practicing the Skill

Select two of the skills listed above and write a plan on how you could spend one week working to improve each. Now go do it. Write notes describing your experiences—good and bad. What did you notice that was different after practicing these skills? What could you have done to practice these skills even more effectively? What steps could you take to improve these skills in the future?

WORKING TOGETHER Team Exercise

If you've worked for a manager, played for a coach, or been part of a group that had a leader, you've probably noticed management skills that those individuals could have improved. In groups of three or four, each student should describe a specific situation where the management skills they observed could have been improved. As a group,

decide what commonalities, if any, exist in the various situations. Using Mintzberg's roles, where were these individuals deficient? Now, brainstorm ways that these individuals might improve their skills. Be prepared to share what you learned with the class.

MY TURN TO BE A MANAGER

- Use the most current *Occupational Outlook Handbook* (US Department of Labor, Bureau of Labor Statistics) to research three different categories of managers. For each, prepare a bulleted list that describes the following: the nature of the work, training and other qualifications needed, earnings, and job outlook and projections data.
- Get in the habit of reading at least one current business periodical (*Wall Street Journal*, *Bloomberg Businessweek*, *Fortune*, *Fast Company*, *Forbes*, etc.). Sign up to follow a few of these publications on Twitter, Instagram, LinkedIn, and/or any other social media outlet the company uses.
- Explore the social media presence of your favorite company. Like them on Facebook and follow them on Twitter, Instagram, LinkedIn, and/or any other social media outlet the company uses.
- Interview two different managers and ask them the following questions: What are the best and worst parts about being a manager? What's the best management advice you ever received? What are the traits or skills good managers you work with possess? Tell them research in the *Harvard Business Review* reported that great managers discovered what was unique about each employee and learned how to use their knowledge of

each employee to get the work done in the best way possible.³⁶ Do they agree? Why or why not? Type up the questions and their answers to turn in to your professor.

- Accountants and other professionals have certification programs to verify their skills, knowledge, and

professionalism. What about managers? Two certification programs for managers are the Certified Manager (Institute of Certified Professional Managers) and the Certified Business Manager (Association of Professionals in Business Management). Research each of these programs. Prepare a bulleted list of what each involves.

CASE APPLICATION 1

Working with Artificial Intelligence

For most people, artificial intelligence (AI) brings to mind *replacing* jobs with robots. However, research has found that larger performance gains occurred when humans and machines *worked together* than when either humans or artificial intelligence worked alone.³⁷ A recent survey of nearly 12,000 employees revealed employees and AI are already working together—40 percent of workers said they use AI tools to help them with their work. Surprisingly, 68 percent of employees were using AI tools at work without telling their boss.³⁸

What do humans and machines working together look like? At clothing retailer H&M, human buyers and planners use AI to guide their work. They rely on data to figure out what styles will be purchased, by which types of customers, and what their customers might need in future seasons. Buyers and planners then build on that data to make final decisions.

A similar process is used by Nathan Cates, a buyer at Bombfell, an online styling service for men that sends customers boxes of clothing that they can keep or return. However, before buying an item, Cates insists on touching the fabric and testing it for features such as fabric sheerness and fit.³⁹ These tasks are not currently accomplished well by machines.

If you call your pharmacy to refill a prescription and don't talk to a human, pharmacy employees are freed up to spend their time on customer questions that are more complex. Some companies, like the Swedish bank SEB, use AI to monitor customer calls handled by humans to see how similar problems might be resolved or even prevented in the future.

Although it's difficult to predict exactly how artificial intelligence will affect jobs in the future, there are some aspects of jobs that may be impossible to automate effectively. As CEO Chida Khatua of the asset-management firm EquBot put it, "If I'm the customer explaining what I want, humans need to be involved. Sometimes I don't know what I really want."⁴⁰

DISCUSSION QUESTIONS

- 1-10. Which of the four management functions of a manager's work do managers most need guidance on from AI?
- 1-11. How might AI change a lower-level manager's job differently than a top manager's job by 2030?
- 1-12. What kinds of tasks do you think can be done by machines or computers in the future to help managers improve their employees' well-being?
- 1-13. What can you do to make yourself more valuable to companies so that they need you (and not a machine) to get work done?

**CASE
APPLICATION 2****Nike: Taking Customer Focus to a New Level**

As Nike learns what its customers want, it injects that information into the first step of its process: creating new shoes. In summer 2018, the company opened its first Nike Live concept store in Los Angeles.⁴¹ These stores combine digital app experiences with a retail location. Nike Live stores are all about Nike's new way of focusing on the customer. Through in-app offers, Nike directly connects with customers in the neighborhood to sell or make the sneakers and apparel they want. A pair of shoes are waiting for them in a locker that pops open upon their arrival in the store. Then, they can take the shoes for a run on an in-store treadmill. Have questions? No problem! Feel free to ask Nike athletes in person or through the app who are ready to answer those questions. Special offers also await customers visiting Nike Live stores. They can use the app at the store's special vending machine to get free merchandise, like Dri-Fit socks. Customers can even schedule curbside pickup from the store using the app.

Building a one-on-one relationship with consumers comes with perks. Nike doesn't have to spend months working with retailers on how to target customers. And, based on data from its apps, it can keep a step ahead in figuring out what customers want. Success at this and other Live stores led Nike to commit to increasing the number of Live store locations. Over the next few years, the company plans to add nearly 200 Live stores in North America and beyond.⁴²

Top management at Nike developed Live stores from strategic business plans announced in 2017 and 2020. Top management had middle managers and lower-level supervisors change processes throughout the company—including design, manufacturing, and sales. Both business plans represented a commitment to innovate how Nike sells to customers directly. So far, direct-to-consumer sales have paid off. Between 2017 and 2023, Nike's direct-to-consumer sales through its website and stores grew 106 percent, whereas its wholesale business grew by just 11 percent.⁴³ CEO John Donahoe plans to continue Nike's focus on innovating its direct-to-consumer approach. Nike, however, hasn't entirely left the wholesale market. Top management continues to look for the appropriate balance of Nike-owned stores, online sales, and wholesale sales of Nike products through other retailers, like Foot Locker.⁴⁴

DISCUSSION QUESTIONS

- 1-14. What makes Nike's focus on the customer efficient and effective?
- 1-15. If you were in charge of taking Nike's focus on the customer to the next level, what would you do?
- 1-16. What advantages of online shopping and in-person shopping do Nike Live stores try to combine? Why do you think (or why do you not think) Live stores will continue to be successful for Nike?
- 1-17. What do you think a focus on the customer will look like for companies in 2030?

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Chapter 2

The Evolution of Management

Learning Objectives

- 2.1 Describe** some examples of early management practices.
- 2.2 Explain** the various theories of the classical approach to management.
- 2.3 Discuss** the development and uses of the social-person approaches to management.
- 2.4 Describe** the quantitative approach to management.
- 2.5 Explain** the systems and contingency approaches to management.
- 2.6 Identify** important recent evolutions in the field of management.

Today, dozens of organizations—including McDonald's, UPS, and Tyson Foods—rely on a management-efficiency system that was devised more than 100 years ago. Early in the twentieth century, Frederick Taylor, an engineer in the steel industry, conducted extensive time and motion studies with the objective of improving worker efficiency. For instance, FedEx uses a quality-driven management (QDM) approach to managing its business that prioritizes measurement and using science to solve problems. Founder Fred Smith claims FedEx's QDM approach leads to success "through the elimination of waste, cost and unnecessary work, as well as better speed to market and customer satisfaction."¹

In this chapter, we'll provide a brief summary of how the field of study called management evolved. As with FedEx, you're going to see that today's managers still utilize many techniques that were introduced 30, 50, or even 100 years ago. This chapter will help you put into historical perspective much of what you'll learn in future chapters.

Management Myth: Studying history is a waste of time.

Management Reality: Studying management history helps you build capacity to evaluate the effectiveness of management practices.



Streamlined processes and quality checks ensure smooth operations at FedEx facilities.

Source: E. Jason Wambsgans/Chicago Tribune/TNS/Alamy Live News/McClatchy-Tribune/Tribune Content Agency LLC/Alamy Stock Photo

EARLY Management

LO2.1 Describe some examples of early management practices.

Although Henry Ford reportedly once said, “History is bunk. It’s about the past and we should live in the present,” you can better understand the present if you understand how we got here. As we’ll show in this chapter, current management practices didn’t pop out of thin air. They evolved. You can better put current practices into perspective when you understand where they came from.² A review of recent history also provides a platform from which to extrapolate how current trends such as remote work, diversity, and sustainability are likely to shape future management practices.

Management has been practiced for a long time. Organized endeavors directed by people responsible for planning, organizing, leading, and controlling activities have existed for thousands of years. Let’s look at some of the most interesting examples.

The Egyptian pyramids and the Great Wall of China are proof that projects of tremendous scope, employing tens of thousands of people, were completed in ancient times.³ For instance, it took more than 100,000 workers some 20 years to construct a single pyramid. Who told each worker what to do? Who ensured there would be enough stones at the site to keep workers busy? The answer is *management*. Regardless of what managers were called at the time, someone had to plan what was to be done, organize people and materials to do it, lead and direct the workers, and impose some controls to ensure that everything was done as planned.

The Roman Catholic Church also represents an interesting example of the practice of management. The current structure of the Church was basically established in the second century A.D. At that time, its objectives and doctrines



It took more than 100,000 workers some 20 years to construct an Egyptian pyramid. A project like this could not have been completed without managers.

Source: Anton Aleksenko/123RF

were essentially defined. Final authority was centralized in Rome. A simple authority hierarchy was created, which has remained basically unchanged for 2,000 years.

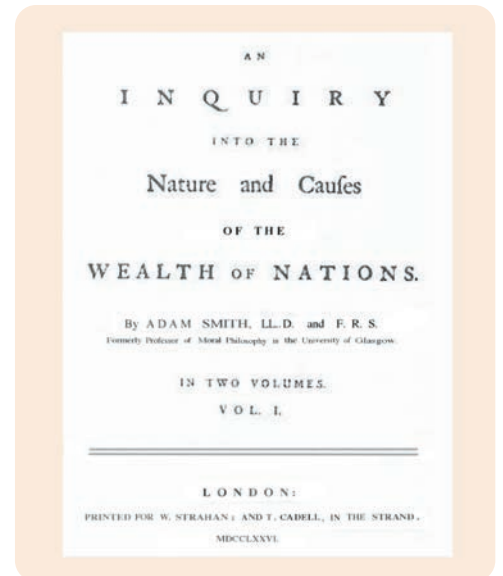
These examples from the past demonstrate that organizations have been with us for thousands of years and that management has been practiced for an equivalent period. However, it has been only in the past several hundred years, particularly in the last century, that management has undergone systematic investigation, acquired a common body of knowledge, and become a formal discipline for study.

Adam Smith's name is more typically cited in economics courses for his contribution to classical economic doctrine, but his discussion in *The Wealth of Nations*, published in 1776, included a brilliant argument on the economic advantages that organizations and society would gain from the **division of labor** (or **job specialization**)—that is, breaking down jobs into narrow and repetitive tasks. Using the pin industry as an example, Smith noted that 10 individuals, each doing a specialized task, could produce a total of about 48,000 pins a day among them. However, if each person worked alone, performing each task separately, those 10 workers would be lucky to make 200—or even 10—pins in a day. If each worker had to draw the wire, straighten it, cut it, pound heads for each pin, sharpen the point, and solder the head and pin shaft, it would be quite a feat to produce 10 pins in a day!

Smith concluded that division of labor increased productivity by increasing each worker's skill and dexterity, saving time lost in changing tasks, and creating labor-saving inventions and machinery. The wide popularity today of job specialization—think of the specialized tasks performed by members of a hospital surgical team, meal preparation tasks done by workers in restaurant kitchens, or positions played by players on a football team—is undoubtedly due to the economic advantages cited 250 years ago by Adam Smith.

Possibly the most important pre-twentieth-century influence on management was the **Industrial Revolution**. Begun in the eighteenth century in Great Britain, the Industrial Revolution had crossed the Atlantic to America by the end of the Civil War. Machine power was rapidly being substituted for human power. This, in turn, made it more economical to manufacture goods in factories. For instance, before the Industrial Revolution, an item, such as a blanket, was made by one person, typically at home. The worker would shear wool from their sheep, twist the wool into yarn, dye the yarn, weave the blanket manually on a home loom, and then sell the finished product to merchants who traveled to farms buying merchandise that then would be sold at regional fairs or markets. The introduction of machine power, combined with division of labor, made it possible to have large, efficient factories using power-driven equipment. A blanket factory with 100 people doing specialized tasks—some making wool into yarn, some dyeing, others working on the looms—could manufacture large numbers of blankets at a fraction of their previous cost. But these factories required managerial skills. Managers were needed to forecast demand, ensure that enough wool was on hand to make the yarn, hire workers, assign tasks to people, direct daily activities, coordinate the various tasks, ensure that the machines were kept in good working order and that output standards were maintained, find markets for the finished blankets, and so forth. When blankets were made individually at home, there was little concern with efficiency. However, when the factory owner had 100 people working for them and a regular payroll to meet, it became important to keep workers busy. Planning, organizing, leading, and controlling became necessary.

The advent of machine power, mass production, the reduced transportation costs that followed the rapid expansion of the railroads, and almost no governmental regulation also fostered the development of big corporations.



In 1776, Adam Smith published *The Wealth of Nations*, in which he explained the economic advantages that organizations and society would gain from the division of labor.

Source: Colport/Alamy Stock Photo

division of labor (job specialization)

The breakdown of jobs into narrow and repetitive tasks

Industrial Revolution

A period during the late eighteenth century when machine power was substituted for human power, making it more economical to manufacture goods in factories than at home



Starting in the late eighteenth century, when machine power was substituted for human power—a point in history known as the Industrial Revolution—it became more economical to manufacture goods in factories rather than at home.

Source: North Wind Picture Archives/Alamy Stock Photo

John D. Rockefeller was putting together the Standard Oil monopoly, Andrew Carnegie was gaining control of two-thirds of the steel industry, and similar entrepreneurs were creating other large businesses that would require formalized management practices. The need for a formal theory to guide managers in running their organizations had arrived. However, it was not until the early 1900s that the first major step toward developing such a theory occurred.

CLASSICAL Approaches

LO2.2 Explain the various theories of the classical approach to management.

Although we've seen how management has been used in organized efforts since early history, the formal study of management didn't begin until early in the twentieth century.

These first studies of management, often called the **classical approach**, emphasized rationality and making organizations and workers as efficient as possible. Two major theories compose the classical approach: scientific management and general administrative theory. The two most important contributors to scientific management theory were Frederick W. Taylor and the husband–wife team of Frank and Lillian Gilbreth. The two most important contributors to general administrative theory were Henri Fayol and Max Weber. Let's take a look at each of these important figures in management history.

classical approach

First studies of management, which emphasized rationality and making organizations and workers as efficient as possible

Scientific Management

If you had to pinpoint when modern management theory was born, 1911 might be a good choice. That was when Frederick W. Taylor's *Principles of Scientific Management* was published. Its contents were widely embraced by managers around the world. Taylor's book described his theory of **scientific management**: the use of scientific methods to define the “one best way” for a job to be done. His studies conducted before and after the book's publication would establish Taylor as the father of scientific management.

scientific management

An approach that involves using the scientific method to find the “one best way” for a job to be done



Frederick Taylor's *Principles of Scientific Management*, published in 1911, described his theory of scientific management.

Source: *The History Collection/Alamy Stock Photo*

FREDERICK TAYLOR Frederick Taylor worked at the Midvale and Bethlehem steel companies in Pennsylvania. As a mechanical engineer, he was continually appalled by workers' inefficiencies. Employees used vastly different techniques to do the same job. Virtually no work standards existed, and workers were placed in jobs with little or no concern for matching their abilities and aptitudes with the tasks they were required to do. They often “took it easy” on the job, and Taylor believed that worker output was only about one-third of what was possible. Taylor's solution was to apply the scientific method to shop-floor jobs. He spent more than two decades passionately seeking the “one best way” for each job to be done.

It's important to understand what Taylor saw at Midvale Steel that aroused his determination to improve the way things were done in the plant. At the time, there were no clear concepts of worker and management responsibilities. Virtually no effective work standards existed. Workers purposely worked at a slow pace. Management decisions were of the “seat-of-the-pants” nature, based on hunch and intuition. Most important, management and workers considered themselves to be in continual conflict. Rather than cooperating to their mutual benefit, they perceived their relationship as a zero-sum game—any gain by one would be at the expense of the other.

Taylor sought to create a mental revolution among both the workers and management by defining clear guidelines for improving production efficiency. He defined four principles of management, listed in **Exhibit 2-1**; he argued that following these principles would result in prosperity for both management and workers.⁴ Workers would earn more pay, and management more profits.

-
1. Develop a science for each element of an individual's work to replace the old rule-of-thumb method.
 2. Scientifically select and then train, teach, and develop the worker.
 3. Heartily cooperate with the workers to ensure that all work is done in accordance with the principles of the science that has been developed.
 4. Divide work and responsibility almost equally between management and workers. Management does all work for which it is better suited than the workers.
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Exhibit 2-1

Taylor's Four Principles of Scientific Management

Source: F. W. Taylor, *Principles of Scientific Management* (New York: Harper, 1911).

Probably the best-known example of Taylor's scientific management efforts was his pig iron experiment. Workers loaded "pigs" of iron (each weighing 92 pounds) onto rail cars. Their daily average output was 12.5 tons. However, Taylor believed that by scientifically analyzing the job to determine the "one best way" to load pig iron, output could be increased to 47 or 48 tons per day.

Taylor began his experiment by looking for a physically strong subject who placed a high value on the dollar. The individual Taylor chose was a big, strong Dutch immigrant, whom he called Schmidt. Schmidt, like the other loaders, earned \$1.15 a day, which even at the turn of the last century was barely enough for a person to survive on. As the example from Taylor's book demonstrates, Taylor used money—the opportunity to make \$1.85 a day—as the primary means to get workers like Schmidt to do exactly as they were told.⁵

Using money to motivate Schmidt, Taylor went about having him load the pig irons, alternating various job factors to see what impact the changes had on Schmidt's daily output. For instance, on some days Schmidt would lift the pig irons by bending his knees; on other days he would keep his legs straight and use his back. He experimented with rest periods, walking speed, carrying positions, and other variables. After a long period of scientifically trying various combinations of procedures, techniques, and tools, Taylor succeeded in obtaining the level of productivity he thought possible. By putting the right person on the job with the correct tools and equipment, by having the worker follow his instructions exactly, and by motivating the worker through the economic incentive of a significantly higher daily wage, Taylor was able to reach his 48-ton objective.

Another Taylor experiment dealt with shovel sizes. Taylor noticed that every worker in the plant used the same-sized shovel, regardless of the material he was moving. This made no sense to Taylor. If there was an optimal total shovel weight that would maximize a worker's shoveling output over an entire day, then Taylor reasoned that the size of the shovel should vary depending on the weight of the material being moved. After extensive experimentation, Taylor found that 21 pounds was the optimal shovel capacity. To achieve this optimal weight, heavy material such as iron ore would be moved with a small-faced shovel and light material such as coke with a large-faced shovel. Based on Taylor's findings, supervisors would no longer merely tell a worker to "shovel that pile over there." Depending on the material to be moved, the supervisor would now have to determine the appropriate shovel size and assign that size to the worker. The result, of course, was again significant increases in worker output.

Using similar approaches to other jobs, Taylor was able to define the one best way for doing each job. He could then, after selecting the right people for the job, train them to do it precisely in this one best way. To motivate workers, he favored incentive wage plans. Overall, Taylor achieved consistent improvements in productivity in the range of 200 percent or more. He reaffirmed the role of managers to plan and control and that of workers to perform as they were instructed. His *Principles of Scientific Management*, as well as other papers that Taylor wrote and presented, spread his ideas not only in the United States, but also in France, Germany, Russia, and Japan. One of the biggest boosts in interest in scientific management in the United States came during a 1910 hearing on railroad rates before the Interstate Commerce Commission. Appearing before the commission, an efficiency expert claimed that railroads could save \$1 million a day (equivalent to about \$30 million today) through the application of scientific management! The early acceptance of scientific management techniques

by US manufacturing companies, in fact, gave them a comparative advantage over foreign firms that made US manufacturing efficiency the envy of the world—for 50 years or more.

Taylor also inspired others to study and develop methods of scientific management. His most prominent followers were Frank and Lillian Gilbreth.

FRANK AND LILLIAN GILBRETH A construction contractor by trade, Frank Gilbreth gave up that career in 1912 to study scientific management after hearing Taylor speak at a professional meeting. Along with his wife, Lillian, a psychologist, he studied work arrangements to eliminate wasteful hand-and-body motions. The Gilbreths also experimented with the design and use of the proper tools and equipment for optimizing work performance.⁶

Frank is probably best known for his experiments in reducing the number of motions in bricklaying. By carefully analyzing the bricklayer's job, he reduced the number of motions in laying exterior brick from 18 to 4 1/2. On interior brick, the 18 motions were reduced to 2. He developed a new way to stack bricks, utilized the scaffold to reduce bending, and even devised a different mortar consistency that reduced the need for the bricklayer to level the brick by tapping it with a trowel.

The Gilbreths were among the first researchers to use motion picture films to study hand-and-body motions. They invented a device called a microchronometer that recorded time to fractions of a second, placed it in the field of study being photographed, and thus determined how long a worker spent enacting each motion. Wasted motions missed by the naked eye could be identified and eliminated. The Gilbreths also devised a classification scheme to label 17 basic hand motions (such as search, grasp, hold), which they called **therbligs** ("Gilbreth" spelled backward, with the th transposed). This allowed the Gilbreths a more precise way of analyzing the exact elements of any worker's hand movements.

therbligs

A classification scheme for labeling basic hand motions

PUTTING SCIENTIFIC MANAGEMENT INTO PERSPECTIVE Why did scientific management receive so much attention? Certainly, many of the guidelines Taylor and others devised for improving production efficiency appear to us today to be common sense. For instance, one can say that it should have been obvious to managers in those days that workers should be carefully screened, selected, and trained before being put into a job.

To understand the importance of scientific management, you have to consider the times in which Taylor and the Gilbreths lived. The standard of living was low. Production was highly labor intensive. Midvale Steel, in 1900, may have employed 20 or 30 workers who did nothing but load pig iron onto rail cars. Today, their entire daily tonnage could probably be loaded in several hours by one person with a hydraulic lift truck. But they didn't have such mechanical devices. Similarly, the breakthroughs Frank Gilbreth achieved in bricklaying are meaningful only when you recognize that most quality buildings at that time were constructed of brick, that land was cheap, and that the major cost of a plant or home was the cost of the materials (bricks) and the labor cost to lay them.

To illustrate this point, if 30 percent of the cost of a \$20,000 building represented the labor of bricklayers, and if bricklayer productivity could be improved by 300 percent, the cost of that building would be reduced to \$16,000. At the lower price, more buildings could be built because more people could afford them. Scientific management was important, therefore, because it could raise the standard of living of entire countries. Additionally, spending six months or more studying one job—as Taylor did in the pig iron experiment—made sense only for the labor-intensive procedures in which many workers performed the same tasks.

General Administrative Theorists

Another group of writers looked at the subject of management by focusing on the entire organization. We call them the *general administrative theorists*. They are important for developing broader theories of what managers do and what constitutes good

management practice. Because their writings set the framework for many of our contemporary ideas on management and organization, this group and the scientific management group are frequently referred to as the *classical theorists*. The most prominent of the general administrative theorists were Henri Fayol and Max Weber.

HENRI FAYOL We mentioned Henri Fayol in the previous chapter for having designated management as a universal set of functions—specifically planning, organizing, commanding, coordinating, and controlling. Because his writings were important, let's take a more careful look at what he had to say.⁷

Fayol wrote during the same time period as Taylor. Whereas Taylor was concerned with management at the shop level (or what we today would describe as the job of a supervisor) and used the scientific method, Fayol's attention was directed at the activities of *all* managers, and he wrote from his personal experience. Taylor was a scientist. Fayol, the managing director of a large French coal-mining firm, was a practitioner.

Fayol described the practice of management as something distinct from accounting, finance, production, distribution, and other typical business functions. He argued that management was an activity common to all human undertakings in business, government, and even the home. He then proceeded to state 14 **principles of management**—fundamental or universal truths—that could be applied to all organizational situations and could be taught in schools and universities. These principles are shown in **Exhibit 2-2**.

MAX WEBER Max Weber (pronounced *VAY-ber*) was a German sociologist. Writing in the early 1900s, Weber developed a theory of authority structures and described organizational activity based on authority relations.⁸ He described an ideal type of organization he called a **bureaucracy**. It was a system characterized by division of labor, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships. (See **Exhibit 2-3**.) Weber recognized that this “ideal bureaucracy” didn't exist in reality, but rather represented a selective reconstruction of the real world. He meant it as a basis for theorizing about how work could be done in large groups. His theory became the design prototype for many of today's large organizations.

1. **Division of work:** Specialization increases output by making employees more efficient.
2. **Authority:** Managers must be able to give orders, and authority gives them this right.
3. **Discipline:** Employees must obey and respect the rules that govern the organization.
4. **Unity of command:** Every employee should receive orders from only one superior.
5. **Unity of direction:** The organization should have a single plan of action to guide managers and workers.
6. **Subordination of individual interests to the general interest:** The interests of any one employee or group of employees should not take precedence over the interests of the organization as a whole.
7. **Remuneration:** Workers must be paid a fair wage for their services.
8. **Centralization:** The degree to which subordinates are involved in decision making.
9. **Scalar chain:** The line of authority from top management to the lowest ranks.
10. **Order:** People and materials should be in the right place at the right time.
11. **Equity:** Managers should be kind and fair to their subordinates.
12. **Stability of tenure of personnel:** Management should provide orderly personnel planning and ensure that replacements are available to fill vacancies.
13. **Initiative:** Employees allowed to originate and carry out plans will exert high levels of effort.
14. **Esprit de corps:** Promoting team spirit will build harmony and unity within the organization.



Henri Fayol's general administrative theory focused on what managers do and what defined good management practice.

Source: Yogi Black/Alamy Stock Photo

principles of management

Fundamental rules of management that could be applied in all organizational situations and taught in schools

bureaucracy

A form of organization characterized by division of labor, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships

Exhibit 2-2

Fayol's 14 Principles of Management

Source: Based on Henri Fayol's 1916 "Principles of Management," in *Administration Industrielle et Générale*, translated by C. Storrs as *General and Industrial Management* (London: Sir Isaac Pitman & Sons, 1949).

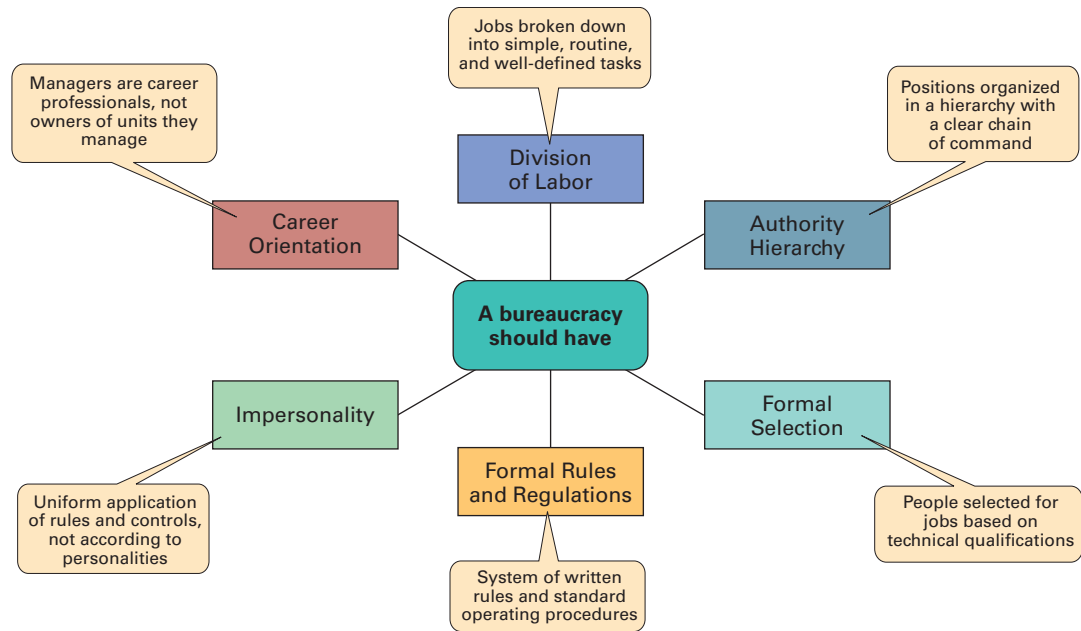


Max Weber developed a theory of authority structures and relations based on an ideal type of organization he called a bureaucracy.

Source: Keystone Pictures USA/ZumaPress/Alamy Stock Photo

Exhibit 2-3 Characteristics of Weber's Bureaucracy

Source: Based on *Essays in Sociology* by Max Weber, translated, edited, and introduced by H. H. Gerth and C. Wright Mills (New York: Oxford University Press, 1946).



Bureaucracy, as described by Weber, is not unlike scientific management in its ideology. Both emphasized rationality, predictability, impersonality, technical competence, and authoritarianism. Although Weber's ideas were less practical than Taylor's, the fact that his "ideal type" still describes many contemporary organizations attests to the importance of his work.

PUTTING THE GENERAL ADMINISTRATIVE THEORIES INTO PERSPECTIVE

A number of our current management ideas and practices can be directly traced to the contributions of the general administrative theorists. For instance, the functional view of the manager's job owes its origin to Henri Fayol. Also, although many of his principles may not be universally applicable to the wide variety of organizations that exist today, they became a frame of reference from which many current concepts have evolved.

Weber's bureaucracy was an attempt to formulate an ideal model around which organizations could be designed. It was a response to the abuses that Weber saw going on within organizations. Weber believed that his model could remove the ambiguity, inefficiencies, and patronage that characterized most organizations at that time. Although not as popular today as it was in the twentieth century, many of bureaucracy's components are still inherent in large organizations today. Many current managers will argue that bureaucratic structures hinder individual employees' creativity and limit an organization's ability to respond quickly to an increasingly dynamic environment. However, even in flexible organizations of creative professionals—such as Apple, Samsung, Microsoft, or Alphabet—bureaucratic mechanisms are necessary to ensure that resources are used efficiently and effectively.⁹

SOCIAL-PERSON Approaches

LO2.3 Discuss the development and uses of the social-person approaches to management.

Managers get things done by working with people. This explains why some writers have chosen to look at management by focusing on the organization's human and social factors. Much of what currently makes up the fields of human resource management and organizational behavior have come out of the work of those we have categorized as being part of the **social-person approaches** to management.

social-person approaches

Management theories that focus on the organization's human and social factors

Learning from FAILURE Learning from Failing Start-up Businesses

Throughout this text we share stories of leaders and companies who learned from failures and eventually went on to great success. But what if a company never recovers from a failure and goes out of business? Can you still learn from a failed company? The answer is yes! Most business textbooks share the stories of big business failures—for example, you’ve probably heard about Kodak developing the technology for digital photography but abandoning it because company managers thought consumers would never give up using film. Big business failures may be well known, but hundreds or even thousands of start-up businesses also fail each year and provide us with valuable management insights.

Although there is no way to precisely track every business that is started, some estimate that about 90 percent of

start-ups fail. Does that mean you shouldn’t start or work at a new business? Of course not! The economy depends on entrepreneurs starting new businesses addressing changing consumer needs and interests. But if you are going to start or become a manager at a new business, you can increase the odds of success by studying failed businesses to learn from others’ mistakes. In fact, many entrepreneurs consult the website “Startup Graveyard” to explore the failures of similar companies. Although sometimes a company is doomed to fail because it is based on a bad idea, more often failure is the result of bad decisions by managers and other stakeholders in a business. Taking some time to study the history of failed start-ups in your industry can help you avoid those same mistakes.¹⁰

The Early Advocates

Although a number of individuals in the early twentieth century and earlier recognized the importance of people to an organization’s success, five stand out as early advocates of a social-person approach: Robert Owen, Louis Brandeis, Hugo Münsterberg, Mary Parker Follett, and Chester Barnard.

ROBERT OWEN Robert Owen was a successful Scottish businessman who bought his first factory in 1789 when he was just 18. Repulsed by the harsh practices he saw in factories across Scotland—such as the employment of young children (many under the age of 10), 13-hour workdays, and miserable working conditions—Owen became a reformer. He chided factory owners for treating their equipment better than their employees. He said that they would buy the best machines, but then buy the cheapest labor to run them. Owen argued that money spent on improving labor was one of the best investments that business executives could make. He claimed that showing concern for employees both was highly profitable for management and would relieve human misery.

Owen proposed a utopian workplace. As one author noted, Owen is not remembered in management history for his successes, but rather for his courage and commitment to reducing the suffering of the working class.¹¹ He was more than 100 years ahead of his time when he argued, in 1825, for regulated hours of work for all, child labor laws, public education, company-furnished meals at work, and business involvement in community projects.¹²

LOUIS BRANDEIS In the early 1900s, Louis Brandeis was a prominent management consultant, business advisor, and public speaker. This man, who would go on to serve as a justice on the US Supreme Court from 1916 to 1939, also was one of the earliest advocates for what we today would call a “stakeholders” view of business.¹³

Ironically, Brandeis called his approach *scientific management*. But it was different from Taylor’s work. Brandeis’s interpretation of the term wasn’t just about efficiency. He argued that business has a responsibility to advance social goals. Economic efficiency was a necessary but not sufficient goal. Business also needed to provide good wages and working conditions, allow employees to participate in business decisions, develop better citizens, and take an active role in the community. A number of major businesses introduced his ideas with remarkable success.

HUGO MÜNSTERBERG Hugo Münsterberg created the field of industrial psychology—the scientific study of individuals at work to maximize their productivity and adjustment. His text, *Psychology and Industrial Efficiency*, was published in 1913. In it, he argued for the scientific study of human behavior to identify general patterns and to explain individual differences.¹⁴ Münsterberg suggested the use of psychological tests to improve employee selection, the value of learning theory in the development of training methods, and the study of human behavior in order to understand what techniques are most effective for motivating workers. Interestingly, he saw a link between scientific management and individual psychology. Both sought increased efficiency through scientific work analyses and through better alignment of individual skills and abilities with the demands of various jobs. Much of our current knowledge of selection techniques, employee training, job design, and motivation is built on the work of Münsterberg.



Social philosopher Mary Parker Follett's humanistic approach to management strongly influenced how we look at motivation, leadership, power, and authority.

Source: Mary Parker Follett,
https://en.wikipedia.org/wiki/Mary_Parker_Follett

MARY PARKER FOLLETT One of the earliest writers to recognize that organizations could be viewed from the perspective of individual and group behavior was Mary Parker Follett.¹⁵ A traditionalist writing in the time of scientific management but proposing more people-oriented ideas, Follett was a social philosopher; however, her ideas had clear implications for management practice. Follett thought that organizations should be based on a group ethic rather than individualism. Individual potential, she argued, remained only potential until released through group association. The manager's job was to harmonize and coordinate group efforts. Managers and workers should view themselves as partners—as part of a common group. As such, managers should rely more on their expertise and knowledge to lead subordinates rather than on the formal authority of their position. Her humanistic ideas influenced the way we look at motivation, leadership, power, and authority.

CHESTER BARNARD Also a traditionalist, Chester Barnard's ideas bridged classical and social-person approaches. Like Fayol, Barnard was a practitioner—he was president of New Jersey Bell Telephone Company. He had read Weber and was influenced by his writings. But unlike Weber, who had a mechanistic and impersonal view of organizations, Barnard saw organizations as social systems that required human cooperation. He expressed his views in his book, *The Functions of the Executive*,¹⁶ published in 1938.

Barnard believed that organizations were made up of people who have interacting social relationships. The manager's major roles were to communicate and stimulate subordinates to high levels of effort. A major part of an organization's success, as Barnard saw it, depended on obtaining cooperation from its personnel. Barnard also argued that success depended on maintaining good relations with people and institutions outside the organization with whom the organization regularly interacted. By recognizing the organization's dependence on investors, suppliers, customers, and other external constituencies, Barnard introduced the idea that managers had to examine the environment and then adjust the organization to maintain a state of equilibrium. Regardless of how efficient an organization's production might be, if management failed either to ensure a continuous input of materials and supplies or to find markets for its outputs, then the organization's survival would be threatened.

Barnard is also important for his enlightened ideas on authority. The dominant or **traditional view of authority** at the time he wrote was that a superior's right to exact compliance from subordinates develops at the top and moves down through an organization. The ultimate source of a manager's authority, in the traditional view, was the society that allows the creation of social institutions. Barnard offered a contrasting position, arguing that authority comes from below. His **acceptance view of authority** proposed that authority comes from the willingness of subordinates to accept it. According to Barnard, there can be no such thing as persons of authority, but only persons to whom authority is addressed. Should an employee disobey a superior's directive, the disobedience is a denial of the directive's authority over the employee. Of course, superiors may be able to punish subordinates who don't comply; nevertheless, the superior's directive has not been complied with.

traditional view of authority

A superior's right to exact compliance from subordinates develops at the top and moves down through an organization

acceptance view of authority

Authority comes from the willingness of subordinates to accept it

THE HAWTHORNE STUDIES Without question, the most important contribution to the social-person approach to management came out of the **Hawthorne Studies** undertaken at the Western Electric Company's Hawthorne Works in Cicero, Illinois. These studies, which started in 1924, were initially designed by Western Electric industrial engineers as a scientific management experiment. They wanted to examine the effect of various lighting levels on worker productivity. Like any good scientific experiment, control and experimental groups were set up, with the experimental group exposed to various lighting intensities and the control group working under a constant intensity. If you were the industrial engineers in charge of this experiment, what would you have expected to happen? It's logical to think that individual output in the experimental group would be directly related to the intensity of the light; however, they found that as the level of light was increased in the experimental group, output for both groups increased. Then, much to the surprise of the engineers, as the light level was decreased in the experimental group, productivity continued to increase in both groups. In fact, a productivity decrease was observed in the experimental group only when the level of light was reduced to that of moonlight. What would explain these unexpected results? The engineers weren't sure, but concluded that lighting intensity was not directly related to group productivity and that something else must have contributed to the results. They weren't initially able to pinpoint what that "something else" was, though.

In 1927, the Western Electric engineers asked Harvard professor Elton Mayo and his associates to join the study as consultants. Thus began a relationship that would last through 1932 and encompass numerous experiments in the redesign of jobs, changes in workday and workweek length, introduction of rest periods, and individual versus group wage plans.¹⁷ For example, one experiment was designed to evaluate the effect of a group piecework incentive pay system on group productivity. The results indicated that the incentive plan had less effect on a worker's output than group pressure, acceptance, and security. The researchers concluded that social norms or group standards were the key determinants of individual work behavior. In terms of the original lighting experiment, the researchers learned that just the awareness of being observed alters the behavior of people.

Scholars generally agree that the Hawthorne Studies had a game-changing impact on management beliefs about the role of people in organizations. Mayo concluded that people's attitudes and behavior are closely related, that group factors significantly affect individual behavior, that group standards establish individual worker output, and that money is less a factor in determining output than group standards, group attitudes, and security. These conclusions led to a new emphasis on the human factor in the management of organizations.

The Hawthorne studies have not been without critics. Attacks have been made on procedures, analyses of the findings, and the conclusions drawn.¹⁸ However, from a historical standpoint, it's of little importance whether the studies were academically sound or their conclusions justified. What is important is that they stimulated an interest in the human and social factors. The Hawthorne Studies went a long way toward changing the dominant view at the time that people were no different than machines; that is, you put them on the shop floor, crank in the inputs, and they produced a known quantity of outputs.

The Human Relations Movement

Another group within the social-person approach is important to management history for its unflinching commitment to making management practices more humane. Members of the **human relations movement** uniformly believed in the importance of employee satisfaction—a satisfied worker was believed to be a productive worker. For the most part, names associated with this movement—Dale Carnegie, Abraham Maslow, and Douglas McGregor—were individuals whose views were shaped more by their personal philosophies than by substantive research evidence.

Hawthorne Studies

A series of studies during the 1920s and 1930s that provided new insights into individual and group behavior



Workers at the Western Electric Company were subjects of an important series of studies that initiated the behavioral approach to management.

Source: Hawthorne Works Museum of Morton College

human relations movement
Management approach based on the belief that a satisfied worker is a productive worker

DALE CARNEGIE Dale Carnegie is often overlooked by management scholars, but his ideas and teachings have had an enormous effect on management practice. His book, *How to Win Friends and Influence People*,¹⁹ published in 1936, was read by millions in the 1930s, 1940s, and 1950s. In addition, tens of thousands of managers and aspiring managers attended his Dale Carnegie Institute or heard his speeches.

What was the theme of Carnegie's book, courses, and speeches? Essentially, he said that the way to success resided in (1) making others feel important through a sincere appreciation of their efforts; (2) making a good first impression; (3) winning people to your way of thinking by letting others do the talking, being sympathetic, and "never telling a man he is wrong"; and (4) changing people by praising good traits and giving the offender the opportunity to save face.²⁰

ABRAHAM MASLOW Abraham Maslow, a humanistic psychologist, proposed a theoretical hierarchy of five needs: physiological, safety, social, esteem, and self-actualization.²¹ In terms of motivation, Maslow argued that each step in the hierarchy must be satisfied before the next can be activated, and that once a need was substantially satisfied it no longer motivated behavior. Moreover, Maslow believed that self-actualization—that is, achieving one's full potential—was the summit of a human being's existence. Managers who accepted Maslow's hierarchy attempted to alter their organizations and management practices to reduce barriers that stood in the way of employees being able to self-actualize. In **Chapter 14** we'll discuss and evaluate Maslow's need hierarchy in detail.

DOUGLAS MCGREGOR Douglas McGregor is best known for his formulation of two sets of assumptions—Theory X and Theory Y—about human nature.²² We'll discuss these assumptions more fully in **Chapter 14**.

Briefly, Theory X presents an essentially negative view of people. It assumes that they have little ambition, dislike work, want to avoid responsibility, and need to be closely directed to work effectively. On the other hand, Theory Y offers a positive view. It assumes that people can exercise self-direction, accept responsibility, and consider work to be as natural as rest or play. McGregor believed that Theory Y assumptions best captured the true nature of workers and should guide management practice.²³

PUTTING THE HUMAN RELATIONS MOVEMENT INTO PERSPECTIVE The common thread that united human relations supporters was an unshakeable optimism about people's capabilities. They believed strongly in their cause and were inflexible in their beliefs, even when faced with contradictory evidence. No amount of contrary experience or research evidence would alter their views. However, in spite of this lack of objectivity, advocates of the human relations movement had a definite influence on management theory and practice. The fact that every principles of management and introductory psychology text continues to provide an extended description and analysis of Maslow's needs hierarchy—70 years after it was first proposed—suggests its influence on the fields of management and psychology.

Behavioral Science Theorists

One final category within the social-person approach encompasses a group of psychologists and sociologists who relied on the scientific method for the studying of organizational behavior. Unlike the theorists of the social-person movement, the **behavioral science theorists** engaged in *objective* research of human behavior in organizations. They carefully attempted to keep their personal beliefs out of their work. They sought to develop rigorous research designs that could be replicated by other behavioral scientists. In so doing, they hoped to build a science of organizational behavior.

Such psychologists as Fred Fiedler, Victor Vroom, Frederick Herzberg, Edwin Locke, David McClelland, Robert House, and Richard Hackman have made important contributions to our current understanding of leadership, employee motivation,

behavioral science theorists
Researchers who engaged in *objective*
research of human behavior in
organizations

and the design of jobs. Researchers with a sociological perspective, too, have made significant advances toward our understanding of organizational behavior. For instance, Jeffrey Pfeffer, Karen Jehn, and Charles Perrow have added important insights to our understanding of power, conflict, and organization design. The contributions of each of these behavioral science theorists will be detailed in later chapters.

QUANTITATIVE Approach

LO2.4 Describe the quantitative approach to management.

Although passengers bumping into each other when trying to find their seats on an airplane can be a mild annoyance for them, it's a bigger problem for airlines because lines get backed up, slowing down how quickly the plane can get back in the air. Based on research in space–time geometry, one airline innovated a unique boarding process called “reverse pyramid” that has saved at least two minutes in boarding time.²⁴ This is an example of the **quantitative approach**, which is the use of quantitative techniques to improve decision making. This approach also is known as management science.

quantitative approach
The use of quantitative techniques to improve decision making

The quantitative approach evolved from mathematical and statistical solutions developed for military problems during World War II. For instance, when the British confronted the problem of how to get the maximum effectiveness from their limited aircraft capability against the massive forces of the Germans, they turned to their mathematicians to devise an optimal allocation model. Similarly, US anti-submarine warfare teams used operations research techniques to improve the odds of survival for Allied convoys crossing the North Atlantic and for selecting the optimal depth-charge patterns for aircraft and surface vessel attacks on German U-boats.

After the war, many of the quantitative techniques used for military problems were applied to businesses. For example, one group of military officers, nicknamed the “Whiz Kids,” joined Ford Motor Company in the mid-1940s and immediately began using statistical methods and quantitative models to improve decision making at Ford.

What exactly does the quantitative approach do? It involves applying statistics, optimization models, information models, computer simulations, and other quantitative techniques to management activities. Linear programming, for instance, is a technique that managers use to improve resource allocation decisions; work scheduling can be more efficient as a result of critical-path scheduling analysis; and the economic order quantity model helps managers determine optimal inventory levels. Each of these is an example of quantitative techniques being applied to improve managerial decision making. Another area where quantitative techniques are used frequently is in total quality management.

A quality revolution swept through both the business and public sectors in the 1980s and 1990s.²⁵ It was inspired by a small group of quality experts, the most famous being W. Edwards Deming and Joseph M. Juran. The ideas and techniques they advocated in the 1950s had few supporters in the United States but were enthusiastically embraced by Japanese organizations. As Japanese manufacturers began beating US competitors in quality comparisons, however, Western managers took a more serious look at Deming's and Juran's ideas, which became the basis for today's quality-management programs.

Total quality management (TQM) is a management philosophy devoted to continual improvement and responding to customer needs and expectations. (See **Exhibit 2-4**.) The term *customer* includes anyone who interacts with the organization's product or services, internally or externally. It encompasses employees and suppliers, as well as the people who purchase the organization's goods or services. Continual improvement isn't possible without accurate measurements, which require statistical techniques that measure every critical variable in the organization's work

total quality management (TQM)
A philosophy of management that is driven by continuous improvement and responsiveness to customer needs and expectations

Exhibit 2-4

What Is Quality Management?

-
- **Intense focus on the customer:** The customer includes outsiders who buy the organization's products or services and internal customers who interact with and serve others in the organization.
 - **Concern for continual improvement:** Quality management is a commitment to never being satisfied. "Very good" is not good enough. Quality can always be improved.
 - **Process focused:** Quality management focuses on work processes as the quality of goods and services is continually improved.
 - **Improvement in the quality of everything the organization does:** This relates to the final product, how the organization handles deliveries, how rapidly it responds to complaints, how politely the phones are answered, and the like.
 - **Accurate measurement:** Quality management uses statistical techniques to measure every critical variable in the organization's operations. These are compared against standards to identify problems, trace them to their roots, and eliminate their causes.
 - **Empowerment of employees:** Quality management involves the people on the line in the improvement process. Teams are widely used in quality management programs as empowerment vehicles for finding and solving problems.
-

processes. These measurements are compared against standards to identify and correct problems.

Putting the Quantitative Approach into Perspective

The quantitative approach contributes directly to management decision making in the areas of planning and control. For instance, when managers make budgeting, queuing, scheduling, quality control, and similar decisions, they typically rely on quantitative techniques. Specialized software has expanded in recent years to make these techniques relatively easy for managers to use.

SYSTEMS and Contingency Approaches

LO2.5 Explain the systems and contingency approaches to management.

As we've seen, many elements of the earlier approaches to management theory continue to influence management practice today. Most of these earlier approaches focused on managers' concerns inside the organization. Starting in the 1960s, management researchers began to look at what was happening in the external environment outside the boundaries of the organization. Two contemporary management perspectives—systems and contingency—are part of this approach.

Systems Approach

The systems approach is based on a basic theory in the physical sciences but had never been applied to organized human efforts. In 1938, Chester Barnard first wrote in his book, *The Functions of the Executive*, that an organization functioned as a cooperative system. However, it wasn't until the 1960s that management researchers began to look more carefully at systems theory and how it related to organizations.

A **system** is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. Societies are systems, and so too are automobiles, animals, and human bodies. The systems perspective, for instance, has been used by physiologists to explain how animals maintain an equilibrium state by taking in inputs and generating outputs.

The two basic types of systems are closed and open. **Closed systems** are not influenced by and do not interact with their environment. Frederick Taylor's

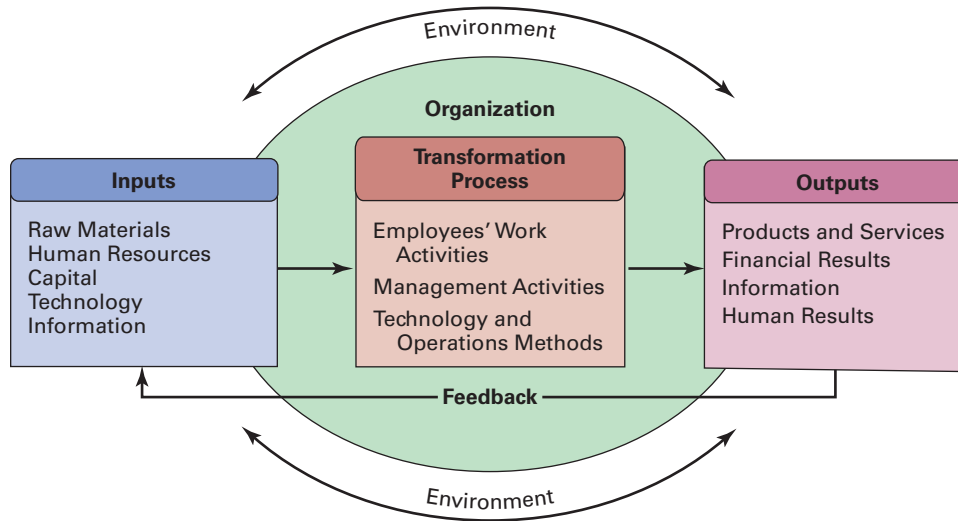
system

A set of interrelated and interdependent parts arranged in a manner that produces a unified whole

closed systems

Systems that are not influenced by and do not interact with their environment

Exhibit 2-5
An Organization as an Open System



mechanistic view of people and organizations was essentially a closed systems perspective. In contrast, **open systems** recognize the dynamic interaction of the system with its environment. Today, when we describe organizations as systems, we mean open systems; that is, we acknowledge the organization's constant interaction with its environment.

Exhibit 2-5 shows a diagram of an organization from an open systems perspective. For a business firm, inputs would be material, labor, and capital. The transformation process would turn these inputs into finished products or services. The system's success depends on successful interactions with its environment—that is, those groups or institutions upon which it is dependent. These might include suppliers, labor unions, financial institutions, government agencies, and customers. The sale of outputs generates revenue, which can be used to pay wages and taxes, buy inputs, repay loans, and generate profits for owners. If revenues are not large enough to satisfy environmental demands, the organization shrinks or dies.

How does the systems approach contribute to our understanding of management? Researchers imagined organizations as complex systems composed of many components, including individuals, groups, structure, goals, status, and authority. What this means is that as managers coordinate work activities in the various parts of the organization, they ensure that all these parts are working together so the organization's goals can be achieved. For example, the systems approach recognizes that, no matter how efficient the production department, the marketing group must anticipate changes in customer tastes and work with product development in creating products customers want—or the organization's overall performance will suffer.

In addition, the systems approach implies that decisions and actions in one organizational area will affect other areas. For example, if the supply-chain group fails to acquire the right quantity and quality of inputs, the production department won't be able to do its job.

Finally, the systems approach recognizes that organizations are not self-contained. They rely on their environment for essential inputs and as outlets to absorb their outputs. No organization can survive for long if it ignores government regulations, supplier relations, or the varied external constituencies on which it depends.

Contingency Approach

The early management theorists came up with management principles they generally assumed to be universally applicable. Later research found exceptions to many of these principles. For example, division of labor is valuable and widely used, but jobs

open systems
Systems that interact with their environment

Exhibit 2-6

Popular Contingency Variables

-
- **Organization size:** As size increases, so do the problems of coordination. For instance, the type of organizational structure appropriate for an organization of 50,000 employees is likely to be inefficient for an organization of 50 employees and vice versa.
 - **Routineness of task technology:** To achieve its purpose, an organization uses technology. Routine technologies require organizational structures, leadership styles, and control systems that differ from those required by customized or nonroutine technologies.
 - **Environmental uncertainty:** The degree of uncertainty caused by environmental changes influences the management process. What works best in a stable and predictable environment may be totally inappropriate in a rapidly changing and unpredictable environment.
 - **Individual differences:** Individuals differ in terms of their desire for growth, autonomy, tolerance of ambiguity, and expectations. These and other individual differences are particularly important when managers select motivation techniques, leadership styles, and job designs.
-

contingency approach

A management approach that recognizes organizations as different, which means they face different situations (contingencies) and require different ways of managing

can become too specialized. Bureaucracy is desirable in many situations, but in some circumstances, other structural designs are more effective. Management is not (and cannot be) based on simplistic principles to be applied in all situations. Different and changing situations require managers to use different approaches and techniques. The **contingency approach** (sometimes called the situational approach) says that organizations are different, face different situations (contingencies), and require different management techniques.

A good way to describe contingency is “if, then.” *If* this is the way my situation is, *then* this is the best way for me to manage in this situation. It’s intuitively logical because organizations and even units within the same organization differ—in size, goals, work activities, and the like. It would be surprising to find universally applicable management principles that would work in *all* situations. But, of course, it’s one thing to say that the way to manage “depends on the situation” and another to say what the situation is. Management researchers continue working to identify these situational variables. **Exhibit 2-6** describes four popular contingency variables. Although this list is far from comprehensive—more than 100 different variables have been identified—it represents those most widely used and gives you an idea of what we mean by the term *contingency variable*. The primary value of the contingency approach is that it stresses there are no simplistic or universal rules for managers to follow.

RECENT History

LO2.6 Identify important recent evolutions in the field of management.

We complete this chapter by bringing history into recent times. There have been dozens of trends and movements in recent years that have shaped, and are shaping, current management practices. In this section, we briefly explore three of them: the new industrial revolution, globalization, and sustainability.

The New Industrial Revolution: Technology and Computerization

No contemporary history of management would be complete without recognizing the important influence that technology and computerization have played in defining current practices. We highlighted the evolving role that artificial intelligence plays in changing the future of management in **Chapter 1**, and we will share some additional

insights on AI in chapters that follow. Here we highlight just a few more technology considerations for the future.

Your grandparent could get a good job in a factory with a high school education or less. The demands of those jobs required little skill. Today's factories are highly computerized and require employees with the skills to operate complex equipment. Technology has made computerized manufacturing a mainstay of today's "factory." Managing today's skilled technicians is different than managing a group of unskilled, minimum-wage workers.

Technology also has made it possible for organizations to create virtual teams—people who work together but are geographically dispersed. In response, managers have had to learn how to manage people from a distance. The internet, email, Skype, Zoom, and other technological innovations allow managers and employees to instantly communicate, meanwhile breaking down the barriers between work and nonwork hours. Today's professional, for instance, is now essentially "on call" 24/7. This has also led to the emergence of remote and hybrid working, which we introduced in **Chapter 1** and explore further throughout the text.

As we also introduced in **Chapter 1**, technology has helped create the gig economy, which provides flexibility and freedom to employers and independent workers by replacing career jobs with short-term engagements. This includes freelance, independent, and contract work. Most of the job growth among US workers in the past decade has been in gig work. A recent report indicated that 34 percent of the US workforce is now gig workers.²⁶ That is some 65 million workers! Popular employers in the gig economy include Uber, Lyft, TaskRabbit, and Upwork.

Maybe the most profound impact that technology has had on business firms has been its ability to make established businesses obsolete. Managers must now be constantly attuned to new competitors who are using technology to disrupt long-established products and services. Disruptive innovation is reshaping markets as diverse as reference guides, newspapers, and movie rentals. Just ask the former executives at Encyclopedia Britannica, Denver's *Rocky Mountain News*, and Blockbuster Video.

Globalization

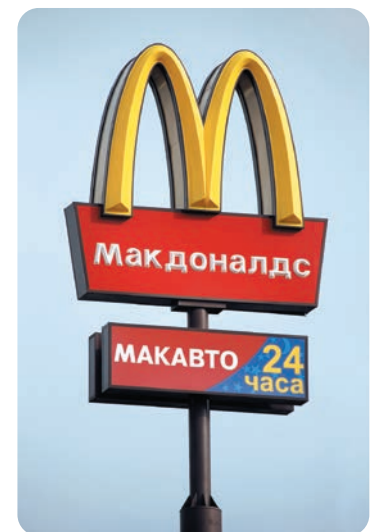
Management began to break down national borders and aggressively pursue global strategies in the 1960s. Companies began to realize the potential of foreign markets, the idea of offshoring production became popular, and domestic producers became increasingly aware that competitors were as likely to come from across the ocean as from across town.

Within a few short years, McDonald's began selling hamburgers in Moscow; Toyota was importing cars to the United States; Honda was producing cars in Ohio; and Exxon, a so-called American company, was receiving the bulk of its revenues from sales outside the United States. These examples illustrate that managers had come to see that the world was a global market and that success would depend on adapting their organization's cultures, systems, and processes to ones different from their own.

In **Chapter 6**, we'll explain both the advantages and disadvantages of globalization and how it has changed the way managers do their job.

Sustainability and the ESG Movement

Floods, fires, hurricanes, typhoons, tornados, droughts, excessive heat, record cold: The world is experiencing destabilizing climate change. History suggests that our environmental crisis is an unintended effect of the Industrial Revolution, where mass production required the use of fossil fuels and manufacturing operations led to pollution.²⁷



The first Russian McDonald's opened in Moscow in 1990.
Source: Martin Thomas Photography/Alamy Stock Photo

In 1969 the United States passed the National Environmental Policy Act declaring a national policy “to create and maintain conditions under which humans and nature can exist in productive harmony, that permit fulfilling the social, economic and other requirements of present and future generations.”²⁸ What started as a response to this new law emerged as what we now call sustainability.

Sustainability practices initially focused on conserving natural resources by minimizing their use, reducing waste, and acting to protect the environment. In the 1990s, sustainability expanded to examine a company’s broader impact on society, including the economic and social outcomes of business practices. Often referred to as the “triple bottom line,” today’s sustainability practices focus on planet, people, and profits.²⁹

The sustainability movement is a worldwide trend, it’s here to stay, and it’s reshaping the goals of business. In fact, there is an increasing focus on reporting sustainable business practices to company stakeholders such as investors. Many companies are using environment, social, and governance (ESG) reporting frameworks, which measure and quantify a company’s commitment to environmental sustainability, social responsibility, and good corporate governance.³⁰ Essentially, sustainability practices and ESG reporting recognize a business’s responsibility to the communities where it operates and society in general, which is the same view that Louis Brandeis proposed more than a century ago.

WORKPLACE CONFIDENTIAL Looking Back to Move Forward

You might think that reading this chapter on history is just helping you complete your management class, but there is some real value to your career in looking at the past. As we’ve shared in this chapter, studying the history of management practices helps us understand how our current practices have evolved over time. But there are other benefits to studying business history. For example, you can become a better leader yourself by learning about successful leaders of the past.

And although learning about history allows you to draw from the experience of others, it also can help you develop skills such as critical thinking. Learning about what happened in the past, what worked and what failed, and why will help you learn how to study problems and think critically. History helps us develop perspective and learn how to approach problems by asking the right questions. History can also inspire us with new ideas that draw on the past.

Beyond these benefits of a general study of the history of management, there are some specific instances when you should make sure you take some time to explore the past to position yourself for success in your career. First, you should start by studying the history of a company to prepare for a job interview.

You’ve probably been told to make sure you learn about a company before you go to a job interview. It shows that you are interested in a company if you understand what the company does. But digging a little deeper into the company’s history can give you an edge in the interview process. It will help you not only position yourself well, allowing you to better understand how your skills and abilities align with

the company, but also give you good insights on questions to ask.

So how do you learn about a company’s history? Here are a few ideas:

- You should already know to look at the company website, but don’t just look at the job postings or the front page. Thoroughly explore the entire website and learn about the company’s history. Find out how the company started and about significant events and developments at the company over the years.
- Look online for news articles about the company. Search for recent news as well as developments over time. Keep in mind that company failures are not likely going to be highlighted on the company’s website, but understanding the challenges a company has faced in the past could help you.
- Talk to anyone you know at the company to learn more about the company’s history and what is important to know if you want to work there. If you don’t know anyone, do some research to find alumni from your college that work at the company.

But even after you are hired, getting into the habit of looking at the past can help you prepare to bring new ideas forward and get your ideas listened to. As you start your career, you will learn that bringing new ideas to a company can help you get promoted to new opportunities. But if you bring an idea forward without research, you might hear

“we tried that before and it didn’t work.” However, if you find out ahead of time that an idea has been tried before, you can prepare a pitch that addresses why it did not work in the past and what is different about your idea to make it work now.

So what should you do if you have a new idea?

- Start by talking with others—either coworkers or your boss. Has your idea been considered before, or has the company tried something similar?
- If an idea has been tried before, what happened? Why didn’t it work? Is there a way that you can reposition your idea to address whatever challenge was faced before?

- Depending on your idea, do some research to find out if your idea has been tried by a competitor or at a different company. You can also learn from other companies’ history.

Spending this time finding out everything you can about the past can help you better position new ideas. And it might even give you some insights that help you shape and improve your idea, allowing you to make a real impact.

These are just a few examples of how looking at the past can help you move forward. Spending your time studying history not only helps you do well in class, but also will develop into a habit that will be a valuable skill as you move forward in your career.³¹

Chapter 2

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO2.1 DESCRIBE some examples of early management practices.

Studying history is important because it helps us see the origins of today’s management practices and recognize what has and has not worked. We can see early examples of management practice in the construction of the Egyptian pyramids and the Great Wall of China. One important historical event was the publication of Adam Smith’s *The Wealth of Nations*, in which he argued for the benefits of division of labor (job specialization). Another was the Industrial Revolution, when it became more economical to manufacture in factories than at home. Managers were needed to manage these factories, and these managers needed formal management theories to guide them.

LO2.2 EXPLAIN the various theories of the classical approach to management.

Frederick W. Taylor, known as the “father” of scientific management, studied manual work using scientific principles—that is, guidelines for improving production efficiency—to find the one best way to do those jobs. Frank and Lillian Gilbreth’s primary contribution was finding efficient hand-and-body motions and designing proper tools and equipment for optimizing work performance. Henri Fayol believed the functions of management were common to all business endeavors but also were distinct from other business functions. He developed 14 principles of management from which many current management concepts have evolved. Max Weber described an ideal type of organization he called a bureaucracy—characteristics that many of today’s large organizations still have. Today’s managers use the concepts of scientific management when they analyze basic work tasks to be performed, use time-and-motion studies to eliminate wasted motions, hire the best qualified workers for a job, use adaptive robotics to boost worker efficiency, and design incentive systems based on output. They use general administrative theory when they perform the functions of management and structure their organizations so that resources are used efficiently and effectively.

LO2.3 DISCUSS the development and uses of the social-person approaches to management.

The early advocates (Robert Owen, Hugo Münsterberg, Mary Parker Follett, and Chester Barnard) contributed various ideas to the practice of management, but all believed that people were the most important asset of the organization and should be managed accordingly. The Hawthorne Studies dramatically affected management beliefs about the role of people in organizations, leading to a new emphasis on the human behavior factor in managing. The behavioral approach has largely shaped how today's organizations are managed. Many current theories of motivation, leadership, group behavior and development, and other behavioral issues can be traced to the early advocates and the conclusions from the Hawthorne Studies.

LO2.4 DESCRIBE the quantitative approach to management.

The quantitative approach involves the application of statistics, optimization models, information models, and computer simulations to management activities. Today's managers use the quantitative approach, especially when making decisions, as they plan and control work activities such as allocating resources, improving quality, scheduling work, or determining optimum inventory levels. Total quality management—a management philosophy devoted to continual improvement and responding to customer needs and expectations—also makes use of quantitative methods to meet its goals.

LO2.5 EXPLAIN the systems and contingency approaches to management.

The systems approach says that an organization takes in inputs (resources) from the environment and transforms or processes these resources into outputs that are distributed into the environment. This approach provides a framework to help managers understand how all the interdependent units work together to achieve the organization's goals and that decisions and actions taken in one organizational area will affect others. In this way, managers can recognize that organizations are not self-contained, but instead rely on their environment for essential inputs and as outlets to absorb their outputs.

The contingency approach says that organizations are different, face different situations, and require different ways of managing. It helps us understand management because it stresses there are no simplistic or universal rules for managers to follow. Instead, managers must look at their situation and determine that if this is the way my situation is, then this is the best way for me to manage.

LO2.6 IDENTIFY important recent evolutions in the field of management.

The new industrial revolution reflects the dramatic changes that technology and computerization are bringing to the manager's job. This includes changes in the workplace that create new challenges for managers such as virtual teams, remote work, and gig workers. Further, technology has made many businesses obsolete. Globalization continues to impact the manager's job as we now work across borders more easily. Businesses have demonstrated a commitment to address the impacts of climate change through sustainability practices that have evolved to address economic and social impacts as well. These practices are increasingly being measured by ESG reporting frameworks.

REVIEW AND DISCUSSION QUESTIONS

- 2-1. Why is the Industrial Revolution significant for managers?
- 2-2. How have the classical approaches of management shaped management in today's organizations? Are any of the classical approaches of management still relevant?
- 2-3. In what ways did the social-person and human relations approaches influence management?
- 2-4. What is a bureaucracy? Do bureaucracies still exist today?
- 2-5. Is the quantitative approach to management still useful to managers? Explain.
- 2-6. Describe total quality management.
- 2-7. How do systems theory and the contingency approach make managers better at what they do?
- 2-8. Explain sustainability and the ESG movement in the field of management. What implications do they have for someone studying management?

PREPARING FOR: My Career

ETHICS DILEMMA

A focus on productivity is not new for companies run by Elon Musk. He expected Tesla employees to work 100 hours a week before the release of its Model 3, sharing that he did so himself and often sleeps in his office. When Musk took the reins at Twitter, he made it clear that the same hardcore approach to productivity was expected of Twitter employees, suggesting they leave the company if they were unwilling to commit to this approach to work. In one tweet, he confirmed that workers were provided beds in the office to allow them to rest up and

keep working. As an opponent of remote work, Musk's communication on the topic made it clear to his staff that only those with exceptional performance would receive a passing grade.³²

- 2-9. Can managers focus too aggressively on productivity?
- 2-10. Should there be concerns about safety, quality, or customers' cybersecurity at Twitter?
- 2-11. How will the changes at Twitter affect employee commitment and turnover?

SKILL EXERCISE Developing Your Skills as a Manager

About the Skill

Continuous improvement is a practice used to develop positive changes. It asks managers to focus on endlessly improving processes. The aim is to create a virtuous cycle of enhancements managers make to continually improve how work is done in ways that pay off for the organization. Managers generally identify problem areas as places to look for new opportunities. New processes are proposed and tested by taking input from employees, customers, and other stakeholders. Results from tests and constructive feedback lead to modifications to the operations. As a result, the work becomes more efficient.³³

Steps in Practicing the Skill

- **Plan.** Select a problem, process, or part of a process to be improved and develop a way to improve the process.
- **Do.** Implement the change and test the results of the change. Reassess the plan and make changes if further adjustments are needed.

- **Check.** Look at the results of the change and determine if the improvements have had the intended effect.
- **Act.** If the results are positive, implement the change on a permanent basis. Now go back and review the entire process again to look for other areas of improvement.³⁴

Practicing the Skill

Can the principles of continuous improvement help you be more efficient? Choose a task you do regularly (such as laundry, fixing dinner, grocery shopping, studying for exams, etc.). Analyze it by writing down the steps involved in completing that task. See if any activities could be combined or eliminated. Find "one better way" to do this task. And the next time you have to do the task, try to look for other improvements! Post a demonstration or description on social media and ask followers for suggestions on how to make it even more efficient. How much time was saved?

WORKING TOGETHER Team Exercise

Students at almost any level of education have heard of the Industrial Revolution. The Industrial Revolution had a major impact on management and management theory. Surprisingly, the fourth Industrial Revolution, which is happening now, has the potential to create significant change in how work is accomplished and require brand-new management theories. In groups of three or four,

briefly research the fourth Industrial Revolution and have each group member describe how technology will radically change how business and management are done. As a group, decide which idea is most likely to happen first and which is expected to have the biggest impact. Now, brainstorm ways new theories will be created and taught to students. Be prepared to share what you learned with the class.

MY TURN TO BE A MANAGER

- Conduct research and identify a new management theory proposed in the last 5 years. Write a brief opinion on whether you think the new theory will impact future management practices.
- How do business organizations survive for 100+ years? Obviously, they've seen a lot of historical events come and go. Choose one of these companies and research its history: Avon, Coca-Cola, General Electric, Procter & Gamble, or Target. How has it changed over the years? From your research on this company, what did you learn that could help you be a better manager?
- Pick one historical event from the twenty-first century and do some research on it. Write a paper describing the impact this event might be having or has had on how workplaces are managed.
- Come on, admit it. You could be more sustainable, and you probably know managers who could be more sustainable too. Talking about sustainability is more common than creating a more sustainable workplace, but do managers need to get employees to be more sustainable? Pretend you are the manager in charge of a department in a big-box retailer. Describe how you would increase the department's sustainability using any of the following management approaches or theories: scientific management, general administrative theory, quantitative approach, behavioral approach, systems theory, and contingency theory.

CASE APPLICATION 1

Uber's CEO Gets Behind the Wheel

Uber's ride-sharing business makes money by receiving a percentage of the fares from every ride and delivery, but Uber's profits depend on having enough drivers to meet the demand from customers. After the COVID-19 restrictions were lifted and the economy reopened, Uber found riders returned faster than the drivers. To address the driver shortage, Carrol Chang, Uber's head of driver operations, proposed that the company's executives find ways to improve the driver experience by working as drivers. In response to this request, CEO Dara Khosrowshahi started delivering food and driving passengers on the weekends for Uber. Interacting with riders showed him how difficult the job could be for drivers. He quickly identified glitches in Uber's systems and took his findings to specific leaders by providing notes, photos, and screenshots he collected between fares.

The CEO's findings led to revisions in how the company signed up drivers and made it easier for drivers to change from offering rides to delivering food. The company also produced a video showing food delivery drivers how to find their way around restaurants so they could easily pick up the orders they were asked to deliver. The resulting changes marked a sharp upturn for a company that wasn't typically seen as being driver-friendly, as noted by Robert Mollins, an analyst at Gordon Haskett Research Advisors, "I think they've really woken up to the fact that everything starts with the drivers and everything else just falls into place."³⁵

DISCUSSION QUESTIONS

- 2-12. Does Uber’s method for improving its drivers’ experience match the quantitative method? Explain. How could executives at Uber improve their data collection?
- 2-13. How would the early advocates for the social-person approaches feel about Uber’s CEO’s decision to get behind the wheel?

CASE APPLICATION 2**Managers Still Need to Be Data-Driven**

Fredrick Taylor’s scientific management was a breakthrough for managers. Those willing to use a clipboard and a stopwatch could find the best way for work to get done. Managers learned data offered insight into uncovering better work practices, going beyond intuition and personal experience as a basis for decisions. As a result, the usefulness of data is now undisputed. In Taylor’s time, managers worked in a world with little data, whereas managers in the 21st century navigate a terrain where technology generates abundant data. Now managers can easily use data to check whether old practices remain effective in comparison to possibilities offered by new technology. For example, as organizations plan to keep up to 60 percent of meetings in a virtual format, managers need to revisit assumptions about what it means to plan, lead, and coordinate an effective meeting.³⁶

Tapping into data to manage better means looking at the employee experience and the tools they use. Managers like those at AXA, a global insurance company, have found 90 percent of their workers now prefer a hybrid work structure compared to just 38 percent before 2019.³⁷ Managers need to figure out if hybrid work is effective and how to best structure a hybrid work arrangement. To foster the productivity and well-being of their hybrid teams, managers need to find the balance between the right amount of time employees should spend in the office working together and working virtually. Managers can do so by collecting data on the employee experience and examining productivity in different in-office vs. remote time configurations. Managers can also look at the effectiveness of tools to communicate and work in a remote environment. Clearly, data will help managers better understand and improve the hybrid experience, leading to a more productive workforce.

DISCUSSION QUESTIONS

- 2-14. What data should managers collect to determine the best hybrid work arrangements?
- 2-15. Do managers have to offer hybrid work arrangements to remain competitive? Explain.
- 2-16. Because hybrid work arrangements are driven by employee preferences that will change over time, is it possible to find the “best way” to work remotely? Explain.
- 2-17. How can managers find the best way to do hybrid work and still put people first?

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Chapter 3

Making Decisions

Learning Objectives

- 3.1 Describe** the eight steps in the decision-making process.
- 3.2 Explain** the four approaches managers can use when making decisions.
- 3.3 Classify** decisions and decision-making styles.
- 3.4 Describe** how biases affect decision making.
- 3.5 Explain** how technology can improve decision making.

A bad decision can be costly for a company. As the COVID-19 pandemic closed fitness centers and gyms in 2020, the high-end exercise equipment company Peloton Interactive reacted to the surge in sales with a bad decision: to invest in manufacturing to meet the increased demand. As a result, the company spent millions on a factory it would never use. Company leadership misjudged the surge in demand for its stationary bikes and made the decision to build permanent production capacity. However, after the spike in sales in 2020, demand for the exercise equipment began to decrease, and a year later sales were down by more than 40 percent. In response, the company not only stopped building the new factory, but also laid off hundreds of workers.¹

Decision making is the essence of management. Although some risk taking in management is necessary, all managers would like to make good decisions because they're judged on the outcomes of those decisions. The leaders at Peloton Inc. made a quick decision and misjudged the spike in sales. In this chapter, we examine the concept of decision making and how managers make decisions.

Management Myth: Managers mostly just rely on “gut instincts” when making decisions.

Management Reality: Managers can make better decisions by understanding the decision-making process.

THE Decision-Making Process

LO3.1 Describe the eight steps in the decision-making process.

Managers at all levels and in all areas of organizations make **decisions**; that is, they make choices among alternatives. For instance, top-level managers make decisions about their organization's goals, where to locate manufacturing facilities, what new markets to move into, or whether to cancel hit TV shows. Middle- and lower-level

decision

A conclusion or resolution made after considering alternatives

managers make decisions about production schedules, product quality problems, pay raises, and employee discipline. Our focus in this chapter is on how *managers* make decisions. But making decisions isn't something that just managers do. *All* organizational members make decisions that affect their jobs and the organization they work for.

Decision making is best understood as a process rather than just a choice. Even for something as straightforward as deciding where to go for lunch, you do more than just choose burgers or pizza or tacos. Granted, you may not spend a lot of time contemplating your lunch decision, but you still go through the process when making that decision. This eight-step process is as relevant to personal decisions as it is to corporate decisions. We'll use an example—a manager deciding on which electronic standing desk to purchase—to illustrate the steps in the process.

Step 1: Identify a Problem

Every decision starts with a **problem**, a discrepancy between an existing and a desired condition.² Let's work through an example. Amanda is a manager of a large customer service center looking for new standing desks for employees. The company is aware that employees' overall well-being is negatively affected by sitting for long periods and wants to select new desks that offer employees the opportunity to stand during different times of the day. Amanda needs to decide which standing desk the company should purchase.

How do managers identify problems? Unfortunately, in the real world, problems don't come with neon signs flashing "problem." In this example, Amanda learned of employee challenges of sitting for long periods from a wellness survey, but problems are not always obvious. Managers have to be cautious not to confuse problems with symptoms of the problem. For instance, is a 5 percent drop in sales a problem? Or are declining sales merely a symptom of the real problem, such as poor-quality products, high prices, bad advertising, or shifting consumer preferences?



When making a decision about which standing desk to purchase, you can consider decision-making criteria such as durability and height range. Source: Andrey_Popov/Shutterstock

problem
A discrepancy between an existing and a desired condition

Step 2: Identify Decision Criteria

Once a manager has identified a problem, they must identify the **decision criteria** important or relevant to resolving the problem. Whether explicitly stated or not, every decision maker has criteria guiding their decisions. In our example, Amanda decides after careful consideration that the electronic control to move the desk up and down, height range, durability, and ability for each employee to customize the desk are the relevant criteria in her decision.³

decision criteria
Criteria that define what's important or relevant to resolving a problem

Step 3: Allocate Weights to the Criteria

Rarely are the relevant criteria equally important. So the decision maker needs to weight the items in order to give them the correct priority in the decision. How? A simple way is to give the most important criterion a weight of 10 and then assign weights to the rest using that standard. Of course, you could use any number as the highest weight. The key is assessing the *relative* importance of the criteria. The weighted criteria for our example are shown in **Exhibit 3-1**.

Durability	10
Height range	8
Electronic control	6
Customization	4

Exhibit 3-1
Important Decision Criteria

Exhibit 3-2

Possible Alternatives

	Durability	Height Range	Electronic Control	Customization
Uplift V2	7	8	6	9
Fully Jarvis	6	9	5	8
Vari Electric	8	7	7	5
NewHeightsXT	10	10	8	7
VertDesk v3	9	6	10	6

Step 4: Develop Alternatives

The fourth step in the decision-making process requires the decision maker to list viable alternatives that could resolve the problem. In this step, a decision maker needs to be creative, and the alternatives are only listed—not evaluated just yet. Our manager, Amanda, has identified five standing desk options.

Step 5: Analyze Alternatives

Once alternatives have been identified, a decision maker must evaluate each one. How? By using the criteria established in step 2. **Exhibit 3-2** shows the assessed values that Amanda gave each alternative after doing some research on them. (Note: This is just an example. Our apologies to any standing desk manufacturer that might disagree with Amanda's analysis.)

Keep in mind that this data represents an assessment of the five alternatives using the decision criteria, but *not* the weighting. When you multiply each alternative by the assigned weight, you get the weighted alternatives, as shown in **Exhibit 3-3**. The total score for each alternative, then, is the sum of its weighted criteria.

Sometimes a decision maker might be able to skip this step. If one alternative scores highest on every criterion, you wouldn't need to consider the weights because that alternative would already be the top choice. Or, if the weights were all equal, you could evaluate an alternative merely by summing up the assessed values for each one. (Look again at Exhibit 3-2.)

Step 6: Select an Alternative

The sixth step in the decision-making process is choosing the best alternative or the one that generated the highest total in step 5. In our example (**Exhibit 3-3**), Amanda would choose the VertDesk v3 standing desk because it scored higher than all of the other alternatives (222 total).

Step 7: Implement the Alternative

In step 7, the decision is put into action by conveying it to those affected and getting their commitment to it. Research evidence indicates that if the people who must implement a decision participate in the process, they're more likely to support it than if you just tell them what to do.⁴

Exhibit 3-3

Evaluation of Alternatives

	Durability	Height Range	Electronic Control	Customization	Total
Uplift V2	70	64	36	38	208
Fully Jarvis	60	72	30	32	194
Vari Electric	80	56	42	20	198
NewHeightsXT	100	80	48	28	212
VertDesk v3	90	48	60	24	222

Step 8: Evaluate Decision Effectiveness

The last step in the decision-making process involves evaluating the outcome or result of the decision to see whether the problem was resolved. If the evaluation shows that the problem still exists, then the manager needs to assess what went wrong. Was the problem incorrectly defined? Were errors made when evaluating alternatives? Was the right alternative selected but poorly implemented? In this example, Amanda can evaluate the employees' satisfaction with the desks, and in the long term she could look at employee wellness measures.

APPROACHES to Decision Making

LO3.2 Explain the four approaches managers can use when making decisions.

Although everyone in an organization makes decisions, decision making is particularly important to managers. As **Exhibit 3-4** shows, it's part of all four managerial functions. That's why managers—when they plan, organize, lead, and control—are called *decision makers*.

The fact that almost everything a manager does involves making decisions doesn't mean that decisions are always time-consuming, complex, or evident to an outside observer. Most decisions are routine. For instance, every day of the year you make a decision about what to wear. It's no big deal. You've made the decision thousands of times before. It's a pretty simple decision and can usually be handled quickly. It's the type of decision you almost forget *is* a decision. And managers also make dozens of these routine decisions every day; for example, which employee will work what shift next week, what information should be included in a report, or how to resolve a customer's complaint. Keep in mind that even though a decision seems easy or has been faced by a manager a number of times before, it's still a decision. Let's look at four perspectives on how managers make decisions.

Planning

- What are the organization's long-term objectives?
- What strategies will best achieve those objectives?
- What should the organization's short-term objectives be?
- How difficult should individual goals be?

Organizing

- How many employees should I have report directly to me?
- How much centralization should there be in an organization?
- How should jobs be designed?
- When should the organization implement a different structure?

Leading

- How do I handle employees who appear to be unmotivated?
- What is the most effective leadership style in a given situation?
- How will a specific change affect worker productivity?
- When is the right time to stimulate conflict?

Controlling

- What activities in the organization need to be controlled?
- How should those activities be controlled?
- When is a performance deviation significant?
- What type of management information system should the organization have?

Exhibit 3-4 Decisions Managers May Make



Managers must make decisions as they plan, organize, lead, and control.

Source: fizkes/123RF

rational decision making

Deciding on choices that are logical and consistent and maximize value

Rationality

We assume that managers will use **rational decision making**; that is, they'll make logical and consistent choices to maximize value.⁵ After all, if managers are anything, they should be rational. This should include, for example, not allowing emotions or expediency to influence their choices.

ASSUMPTIONS OF RATIONALITY What does it mean to be a “rational” decision maker? A rational decision maker would be fully objective and logical. The problem faced would be clear and unambiguous, and the decision maker would have a clear and specific goal and know all possible alternatives and consequences. Finally, making decisions rationally would consistently lead to selecting the alternative that maximizes the likelihood of achieving that goal. These assumptions apply to any decision—personal or managerial. However, for managerial decision making, we need to add one additional assumption—decisions are made in the best interests of the organization. These assumptions of rationality aren't very realistic. Managers don't always act rationally, but the next concept can help explain how most decisions get made in organizations.

Bounded Rationality

Despite the unrealistic assumptions, managers are *expected* to be rational when making decisions.⁶ They understand that “good” decision makers are supposed to do certain things and exhibit logical decision-making behaviors as they identify problems, consider alternatives, gather information, and act decisively but prudently. When they do so, they show others that they're competent and that their decisions are the result of intelligent deliberation. However, a more realistic approach to describing how managers make decisions is the concept of **bounded rationality**, which says that managers make decisions rationally but are limited (bounded) by their ability to process information.⁷ Because they can't possibly analyze all information on all alternatives, managers **satisfice** rather than maximize; that is, they accept solutions that are satisfactory and sufficient or “good enough.” They're being rational within the limits (bounds) of their ability to process information. Let's look at an example.

bounded rationality

Decision making that's rational but limited (bounded) by an individual's ability to process information

satisfice

To choose solutions that are satisfactory and sufficient or “good enough”

Suppose you're a finance major and upon graduation you want a job, preferably as a personal financial planner at a major investment bank with a minimum salary of \$65,000 and within 100 miles of your hometown. After your first few interviews, you accept the first job offer you receive, to be a business credit analyst—not exactly a personal financial planner but still in the finance field—at a regional bank fifty miles from home at a starting salary of only \$57,500. If you had done a more comprehensive job search, you would have discovered a job in personal financial planning at an investment bank seventy-five miles from your hometown and starting at a salary of \$65,000. Exactly what you wanted! But you weren't a perfectly rational decision maker because you didn't maximize your decision by searching all possible alternatives and then choosing the best. Because the first job offer was satisfactory (or “good enough”), you behaved in a bounded-rationality manner by accepting it.

Intuition

When Travis Kalanick, former CEO of Uber, conceived of the idea of surge pricing, many of his executives and a good portion of customers thought it was a stupid idea.⁸ Charging customers more for service when demand is highest or driving more difficult seemed foolish and sure to alienate customers. When all your competition has uniform pricing, modifying Uber's prices to match demand seemed irrational and certain to kill business. But Kalanick stuck to his guns, and his decision proved smart. Business boomed, and dynamic pricing is now an accepted aspect of Uber's business model. And companies across other industries have adapted the model, including Disney.

Like Travis Kalanick, managers often use their intuition to help their decision making. What is **intuitive decision making**? It's making decisions on the basis of experience, feelings, and accumulated judgment. Researchers studying managers' use of intuitive decision making have identified five different aspects of intuition, which are described in **Exhibit 3-5**.⁹ How common is intuitive decision making? One survey found that almost half of the executives surveyed “used intuition more often than formal analysis to run their companies.”¹⁰

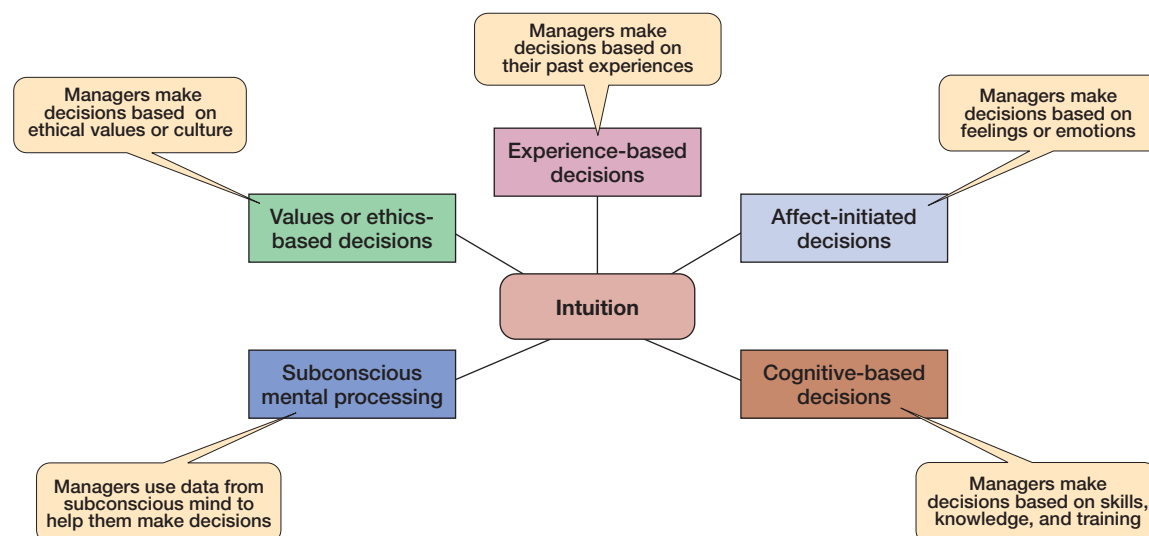
Intuitive decision making can complement both rational and bounded-rational decision making.¹¹ First of all, a manager who has had experience with a similar type of problem or situation often can act quickly with what appears to be limited information because of that past experience. Alternatively, recent research suggests that in highly uncertain situations where further data gathering won't make the right decision

intuitive decision making
Making decisions on the basis of experience, feelings, and accumulated judgment

Exhibit 3-5

What Is Intuition?

Source: Based on L. A. Burke and M. K. Miller, “Taking the Mystery Out of Intuitive Decision Making,” *Academy of Management Executive*, October 1999, 91–99.



any clearer, intuition can be useful.¹² In addition, evidence indicates that individuals who experienced intense feelings and emotions when making decisions actually achieved higher decision-making performance, especially when they understood their feelings as they were making decisions. The old belief that managers should ignore emotions when making decisions may not be the best advice.¹³

Evidence-Based Management

Much of Amazon's success can be directly attributable to its reliance on data-driven decisions.¹⁴ For instance, based on what customers have bought in the past, the items in their virtual shopping cart, what items a customer has ranked or reviewed after purchase, and what products a customer has viewed when visiting its site, Amazon is able to provide relevant recommendations to customers and increase sales.

The logic of data-driven management decisions owes a lot to medical research. If a patient is exhibiting unusual physical symptoms, doctors will rely on the best available evidence for proper diagnosis and treatment. The same applies to every decision maker. Any decision-making process can be enhanced through the use of relevant and reliable evidence, whether it's buying a cell phone plan or deciding on a new office location. That's the reasoning behind **evidence-based management (EBMgt)**, the systematic use of the best available evidence to improve management practice.¹⁵ And that evidence might be hard computer data, the opinions of experts, or the prior experience of colleagues. In essence, EBMgt is an attempt to operationalize rationality.

EBMgt is obviously relevant to managerial decision making. Its four essential elements are (1) the decision maker's expertise and judgment; (2) external evidence that's been evaluated by the decision maker; (3) opinions, preferences, and values of those who have a stake in the decision; and (4) relevant organizational (internal) factors such as context, circumstances, and organizational members. The strength or influence of each of these elements on a decision will vary with each decision. Sometimes, the decision maker's intuition (judgment) might be given greater emphasis in the decision; other times it might be the opinions of stakeholders; and at other times, it might be ethical considerations (organizational context). The key for managers is to recognize and understand the mindful, conscious choice as to which elements are most important and should be emphasized in making a decision. Using evidence-based management helps overcome individual biases and limitations of human judgment.¹⁶

evidence-based management (EBMgt)

The systematic use of the best available evidence to improve management practice

TYPES of Decisions

LO3.3 Classify decisions and decision-making styles.

In a very simple sense, the problems managers encounter can be classified as routine and familiar or new and unusual. In response, managers will use one of two different types of decisions.

Structured Problems and Programmed Decisions

Some problems are straightforward. The decision-maker's goal is clear, the problem is familiar, and information about the problem is easily defined and complete. Examples might include when a customer returns a purchase to a store, when a supplier is late with an important delivery, how a news team responds to a fast-breaking event, or how a college handles a student wanting to drop a class. Such situations are called **structured problems** because they're straightforward, familiar, and easily defined. For instance, a restaurant server spills a drink on a customer's coat. The customer is upset and the manager needs to do something. Because it's not an unusual occurrence, there's probably some standardized routine for handling it; for example, the manager offers to have the coat cleaned at the restaurant's expense. This is what we call a **programmed decision**, a repetitive decision that can be handled by a routine approach. Because the problem is structured, the manager doesn't have to go to the trouble and expense of going through an

structured problems

Straightforward, familiar, and easily defined problems

programmed decision

A repetitive decision that can be handled by a routine approach

involved decision process. The “develop-the-alternatives” stage of the decision-making process either doesn’t exist or is given little attention. Why? Because once the structured problem is defined, the solution is usually self-evident or at least reduced to a few alternatives that are familiar and have proved successful in the past. The spilled drink on the customer’s coat doesn’t require the restaurant manager to identify and weigh decision criteria or develop a long list of possible solutions. Instead, the manager relies on one of three types of programmed decisions: procedure, rule, or policy.

A **procedure** is a series of sequential steps a manager uses to respond to a structured problem. The only difficulty is identifying the problem. Once it’s clear, so is the procedure. For instance, a supply-chain manager receives a request from a warehouse manager for 15 tablets for the inventory clerks. The purchasing manager knows how to make this decision by following the established purchasing procedure.

A **rule** is an explicit statement that tells a manager what can or cannot be done. Rules are frequently used because they’re simple to follow and ensure consistency. For example, rules about lateness and absenteeism permit supervisors to make disciplinary decisions rapidly and fairly.

The third type of programmed decision is a **policy**, a guideline for making a decision. In contrast to a rule, a policy establishes general parameters for the decision maker rather than specifically stating what should or should not be done. Policies typically contain an ambiguous term that leaves interpretation up to the decision maker. Here are some sample policy statements:

- The customer always comes first and should always be *satisfied*.
- We promote from within, *whenever possible*.
- Employee wages shall be *competitive* within community standards.

Notice that the terms *satisfied*, *whenever possible*, and *competitive* require interpretation. For instance, the policy of paying competitive wages doesn’t tell a company’s human resources manager the exact amount they should pay for a specific job, but it does guide the manager in making the decision.

Unstructured Problems and Nonprogrammed Decisions

Not all the problems managers face can be solved using programmed decisions. Many organizational situations involve **unstructured problems**, new or unusual problems for which information is ambiguous or incomplete. At the onset of the COVID-19 pandemic, grocery store managers were faced with several unstructured problems. How can we keep our employees safe? How can we meet the needs of our customers who aren’t able to come into our store? How do we keep our shelves stocked when our suppliers aren’t able to ship us products?

When problems are unstructured, managers must rely on nonprogrammed decision making in order to develop unique solutions. **Nonprogrammed decisions** are unique and nonrecurring and involve custom-made solutions. Grocery store managers decided on a variety of custom-made solutions to address the problems created by the pandemic. For example, even smaller grocery stores decided to offer some kind of curbside pickup process for customers to purchase groceries without coming in the store.

procedure

A series of sequential steps used to respond to a well-structured problem

rule

An explicit statement that tells managers what can or cannot be done

policy

A guideline for making decisions

unstructured problems

Problems that are new or unusual and for which information is ambiguous or incomplete

nonprogrammed decisions

Unique and nonrecurring decisions that require a custom-made solution



During the COVID-19 pandemic, many small grocery stores made non-programmed decisions about how to service their customers, resulting in some stores offering a curbside pickup process.

Source: Steve Skjold/Alamy Stock Photo

Exhibit 3-6Programmed Versus
Nonprogrammed Decisions

Characteristic	Programmed Decisions	Nonprogrammed Decisions
Type of problem	Structured	Unstructured
Managerial level	Lower levels	Upper levels
Frequency	Repetitive, routine	New, unusual
Information	Readily available	Ambiguous or incomplete
Goals	Clear, specific	Vague
Time frame for solution	Short	Relatively long
Solution relies on ...	Procedures, rules, policies	Judgment and creativity

Comparing Decision Types

Exhibit 3-6 describes the differences between programmed and nonprogrammed decisions. Lower-level managers mostly rely on programmed decisions (procedures, rules, and policies) because they confront familiar and repetitive problems. As managers move up the organizational hierarchy, the problems they confront become more unstructured. Why? Because lower-level managers handle the routine decisions and let upper-level managers deal with the unusual or difficult decisions. Also, upper-level managers delegate routine decisions to their subordinates so they can deal with more difficult issues.¹⁷

Decision-Making Styles

Put Maria and Jessica into the same decision situation, and Jessica almost always seems to take longer to come to a solution. Jessica's final choices aren't necessarily always better than Maria's, she's just slower in processing information. Additionally, if there's an obvious risk dimension in the decision, Maria seems to consistently prefer a riskier option than does Jessica. What this illustrates is that all of us bring our individual style to the decisions we make.

Research on decision styles has identified four different individual approaches to making decisions.¹⁸ The basic foundation of this model is recognition that people differ along two dimensions. One of these dimensions is an individual's way of *thinking*. This builds on our previous discussion of approaches to decision making by proposing that we have a preferred or fallback style. Some of us tend to be more rational and logical in the way we think or process information. Rational types look at information in order to make sure that it's logical and consistent before proceeding to make a decision. Others tend to be more creative and intuitive. Intuitive types don't have to process information in a certain order but are comfortable looking at it as a whole.

The other dimension describes an individual's *tolerance for ambiguity*. Again, some of us have a low tolerance for ambiguity and prefer order and certainty in the way we structure information so that ambiguity is minimized. In contrast, some of us can tolerate high levels of ambiguity and can process many thoughts at the same time. When these two dimensions are diagrammed, they form four styles of decision making (see **Exhibit 3-7**). These are directive, analytic, conceptual, and behavioral.

People using the *directive* style have low tolerance for ambiguity and seek rationality. They are efficient and logical, but their efficiency concerns result in decisions being made with minimal information and with few alternatives assessed. Directive types make decisions fast and they focus on the short run.

The *analytic* type has a much greater tolerance for ambiguity than do directive decision makers. This means that analytic types are more comfortable than directives when uncertainty is involved in a decision. Analytic managers would be best characterized as careful decision makers with the ability to adapt to or cope with new situations.

Individuals with a *conceptual* style tend to be very broad in their outlook and consider many alternatives. Their focus is long range, and they are very good at finding creative solutions to problems.

The final category—the *behavioral* style—characterizes decision makers who work well with others. They're concerned with the achievement of peers and those working for

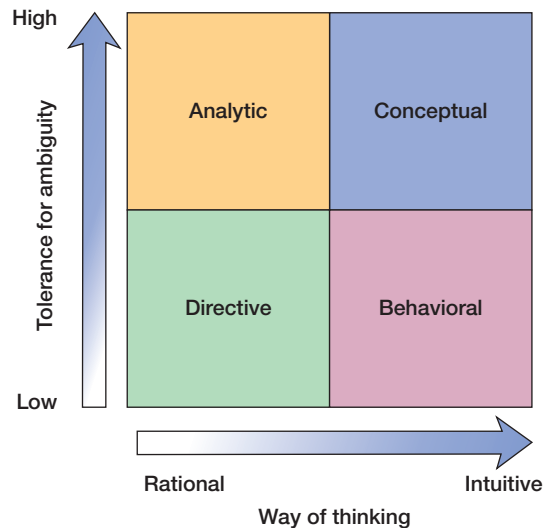


Exhibit 3-7 Decision-Style Model

Source: A. J. Rowe and J. D. Boulgarides, *Managerial Decision Making* (Upper Saddle River, NJ: Prentice Hall, 1992), 29.

them and are receptive to suggestions from others, relying heavily on meetings for communicating. This type of manager tries to avoid conflict and seeks acceptance by others.

Although these four categories are distinct, most managers have characteristics that fall into more than one. It's probably best to think in terms of a manager's dominant style and their backup styles. Some managers rely almost exclusively on their dominant style; however, more flexible managers can make shifts depending on the situation.

Business students and people in the managerial ranks tend to score highest on the analytic style. That's not surprising given the emphasis that formal education, particularly business education, gives to developing rational thinking. For instance, courses in accounting, statistics, economics, and finance all stress rational analysis.

Learning from FAILURE James Dyson: A Man of a Thousand Failures

Sir James Dyson is a firm believer in failure. In fact, he says it's an essential part of his success. He has successfully internalized the famous quote by Thomas Edison: "I have not failed. I've just found 10,000 ways that won't work."

Dyson's revolutionary Dual Cyclone vacuum cleaner, which came out in 1993, was 15 years in the making. He says he created 5,126 versions, which all failed, before he made one that worked. And although Dyson has found success with other products, such as its hand dryers, the company developed many products that never made it to market. But even failed products help the company learn. For example, the futuristic-looking Dyson Zone headphones released in 2023 were born from a previous failure. The noise-canceling, high-fidelity headphones that include an air purification mask came from technology that was originally developed for Dyson's failed attempt at an electric car.

Dyson says he hires people who "embrace the fact that failure is interesting." He views it as the essence of creativity. He argues that creativity means creating

something that no one could have devised, something that hasn't existed before and solves problems that haven't been solved before. Dyson recognizes that the creative process inherently comes with setbacks and dead ends, but he accepts those setbacks and dead ends as worth the effort in order to create something revolutionary. And Dyson's approach proves that you can consistently create innovative products if you're willing to let people fail in the process.¹⁹



Sir James Dyson invented many products and technologies by understanding that to create something revolutionary, you must accept setbacks and failures.
Source: ROUX Olivier/SAGAPHOTO.
COM/Alamy Stock Photo

DECISION-MAKING Biases and Errors

LO3.4 Describe how biases affect decision making.

heuristics

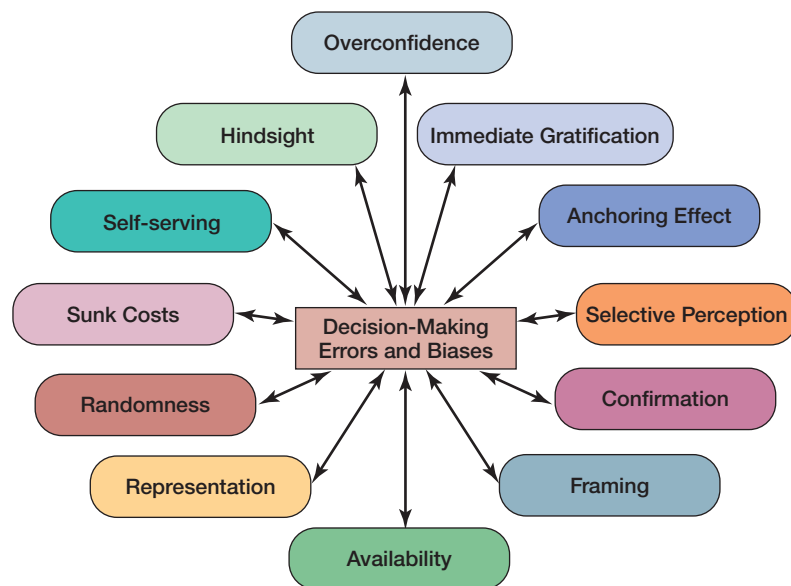
Shortcuts that managers use to simplify or speed up decision making

When managers make decisions, they may use shortcuts, or **heuristics**, to simplify or speed up their decision making. Heuristics can be useful because they help make sense of complex, uncertain, and ambiguous information.²⁰ Even though managers may use heuristics, that doesn't mean those shortcuts are reliable. Why? Because they may lead to errors and biases in processing and evaluating information. **Exhibit 3-8** identifies 12 common decision errors of managers and biases they may have. Let's look at each.²¹

1. **Overconfidence bias:** Occurs when decision makers think they know more than they do or hold unrealistically positive views of themselves and their performance.
2. **Immediate gratification bias:** Occurs when decision makers want immediate rewards and would like to avoid immediate costs. For these individuals, decision choices that provide quick payoffs are more appealing than those with payoffs in the future.
3. **Anchoring effect:** Occurs when decision makers fixate on initial information as a starting point and then, once set, fail to adequately adjust for subsequent information. First impressions, ideas, prices, and estimates carry unwarranted weight relative to information received later.
4. **Selective perception bias:** Occurs when decision makers selectively organize and interpret events based on their biased perceptions. This influences the information they pay attention to, the problems they identify, and the alternatives they develop.
5. **Confirmation bias:** Exhibited when decision makers seek out information that reaffirms their past choices and discounts information that contradicts past judgments. These people tend to accept at face value information that confirms their preconceived views and are critical and skeptical of information that challenges these views.

Exhibit 3-8

Common Decision-Making Biases



6. **Framing bias:** Occurs when decision makers select and highlight certain aspects of a situation while excluding others. By drawing attention to specific aspects of a situation and highlighting them, while at the same time downplaying or omitting other aspects, they distort what they see and create incorrect reference points.
7. **Availability bias:** Happens when decision makers tend to remember events that are the most recent and vivid in their memory. This distorts their ability to recall events in an objective manner and results in skewed judgments and probability estimates.
8. **Representation bias:** Occurs when decision makers assess the likelihood of an event based on how closely it resembles other events or sets of events. Managers exhibiting this bias draw analogies and see identical situations where they don't exist.
9. **Randomness bias:** Describes the actions of decision makers who try to create meaning out of random events. They do this because most decision makers have difficulty dealing with chance even though random events happen to everyone, and there's nothing that can be done to predict them.
10. **Sunk costs error:** Occurs when decision makers forget that current choices can't correct the past. They incorrectly fixate on past expenditures of time, money, or effort in assessing choices rather than on future consequences. Instead of ignoring sunk costs, they can't forget them.
11. **Self-serving bias:** Exhibited when decision makers are quick to take credit for their successes and to blame failure on outside factors.
12. **Hindsight bias:** The tendency for decision makers to falsely believe that they would have accurately predicted the outcome of an event once that outcome is actually known.



In annual performance reviews, many managers fall victim to the availability bias when they focus on recent employee behaviors rather than behaviors over the entire year.
Source: New Africa/Shutterstock

Managers avoid the negative effects of these decision errors and biases by being aware of them and then not using them! Fortunately, some research shows that training can successfully help employees to recognize particular decision-making biases and reduce subsequent biased decision making over the long term.²² Beyond that, managers also should pay attention to *how* they make decisions and try to identify the heuristics they typically use and critically evaluate the appropriateness of those heuristics. Finally, managers might want to ask trusted individuals to help them identify weaknesses in their decision-making style and try to improve on those weaknesses.

Although these individual strategies can help overcome biases in the decision-making process, organizational leaders can also improve decisions by looking at how decisions are made and taking steps to eliminate the biases that might be present. For example, leaders can establish criteria for certain types of decisions to make sure that decision makers aren't focusing on just one potential outcome. Or they can provide decision makers diverse sources of information, such as organizational data and stakeholder perspectives, to make sure that decisions aren't made based on limited information.²³

USING TECHNOLOGY to Improve Decision Making

LO3.5 Explain how technology can improve decision making.

The last 20 years have seen a dramatic change in the ability of managers to access data and information. A major impetus for this change has been technology. For example, retail giant Walmart has engaged data and technology to keep ahead of competitors. In 2017 the company established Data Café, an integrated data analytics hub that connects more than 200 internal and external data sets such as customer profiles and transaction data. In 2019 the company started experimenting with artificial intelligence solutions through its Intelligent Retail Lab. Embracing technology to support decision making has helped Walmart innovate with solutions such as sensors on shelves to track inventory. This innovation not only allows the shelves to be restocked in real time but also collects data to be used later to make decisions to improve customer satisfaction and reduce costs.²⁴

We conclude this chapter by exploring the use of technology to support and improve organizational decision making.

WORKPLACE CONFIDENTIAL Making Good Decisions

Life comes with tough decisions. And so do jobs. The tough decisions start with choosing whether to accept an initial job offer. They often continue with deciding who to befriend and trust at work, whether or not to join a new work team or accept a promotion to a new city, how to respond to a situation that might compromise your ethics, or how to relay bad news to your boss.

Let's begin with the basic tenet that you can't avoid tough decisions by ignoring them. The decision to do nothing *is still a decision*. It's a decision to maintain the status quo.

You can maintain the status quo by following either of two paths—one active and the other passive. You can rationally assess your current situation, identify your options, carefully review the strengths and weaknesses of these options, and conclude that no new alternative is superior to the path you're currently taking. This active approach is fully consistent with rational decision making. Our concern here, however, is with the passive approach—where the current path is followed only because you fail to consider your other options. You don't, for instance, want to find yourself regretting having spent 20 years in a go-nowhere job that you disliked because you avoided looking for other opportunities.

How do you counter the nondecision decision? The first step is awareness. You can't opt out of decisions by ignoring them. To do so is merely choosing to continue along the path you're on. That path may be the one you want, but the astute decision maker recognizes that there are costs associated with maintaining the status quo as well as with change. You also need to directly challenge the status quo. It's not merely enough to know that doing nothing is a decision. You also need to occasionally justify why you *shouldn't* pursue another path that's different from the one you're currently following. For example, why aren't you looking for other job opportunities? Finally, consider the costs of

inaction. Too often we focus only on the risks associated with change. You're less likely to get caught up in decision inaction if you also address the risks related to doing nothing.

We should also take a look at arguably the three most critical errors you're likely to make in your decision making: overconfidence, a short-term focus, and the confirmation bias. Although each is briefly mentioned in this chapter, let's take a closer look at them.

It has been said that no problem in judgment and decision making is more prevalent and more potentially catastrophic than overconfidence. Almost all of us suffer from it. When we're given factual questions and asked to judge the probability that our answers are correct, we tend to be far too optimistic. In general, we overestimate our knowledge, undervalue risk, and overestimate our ability to control events.

Studies have found that when people say they're 65 percent to 70 percent confident that they're right, they're actually correct only about 50 percent of the time. And when they say they're 100 percent sure, they tend to be only 70 percent to 85 percent correct.

To reduce overconfidence, begin by recognizing this tendency and expect it to most likely surface when your confidence is extremely high or when accurate judgments are difficult to make. Next, adjust your confidence awareness to reflect your level of expertise on an issue. You're most likely to be overconfident when you're considering issues outside your expertise. Finally, directly address this bias by challenging yourself to look for reasons why your predictions or answers might be wrong.

A lot of us suffer from the tendency to want to grab for immediate rewards and avoid immediate costs. If it feels good, we want to do it now; if it implies pain, we want to

postpone it. This immediate gratification bias explains why it's so hard to diet, quit smoking, avoid credit card debt, or save for retirement. Each comes with an immediate reward—tasty food, an enjoyable cigarette, an immediate purchase, or extra disposable money to spend. And each delays its costs to some nebulous future.

If you see yourself as vulnerable to the immediate gratification bias, what can you do? First, set long-term goals and review them regularly. This can help you focus on the longer term and help you to justify making decisions whose payoff may be far into the future. If you don't know where you want to be in 10 or 20 years, it's easier to discount your future and live for the moment. Second, pay attention to both rewards *and* costs. Our natural tendency is to inflate immediate rewards and underplay future costs. For instance, think about what it would be like to be retired with no savings and trying to live on a \$1,200-a-month Social Security check. Or look around for examples of people who didn't plan for their future and now are suffering the consequences.

Finally, the rational decision-making process assumes that we objectively gather information. But we don't. We *selectively* gather information so it confirms our current beliefs, and we dismiss evidence that challenges those beliefs. We also tend to accept at face value information that confirms our preconceived views, while being critical and skeptical of information that challenges these views.

Overcoming this confirmation bias begins by being honest about your motives. Are you seriously trying to get information to make an informed decision, or are you just looking for evidence to confirm what you'd like to do? If you're serious about this, then you need to purposely seek out contrary or disconfirming information. That means you have to be prepared to hear what you don't want to hear. You'll also need to practice skepticism until it becomes habitual. In the same way that a defense attorney seeks contradictory evidence to disprove a plaintiff's case, you have to think of reasons why your beliefs might be wrong and then aggressively seek out evidence that might prove them to be so.²⁵

Big Data

Big data is a term that refers to huge and complex sets of data.²⁶ These data sets are composed of so much information that traditional data-processing application software is unable to deal with them. For instance, cloud-computing capacity now can allow a room full of legal opinions to be put online. It used to take a lawyer several days or even weeks to find relevant cases to support a client's case, but now it can be done in seconds. Similarly, football and basketball coaches and managers are using big data to guide drafting decisions and even play calling. Although big data is captured in organizations and can support decision making, we are just beginning to understand the impact that the use of big data has on overall organizational performance. Emerging evidence does show that organizations that collect a variety of types of data and invest the time into analyzing the data have improved performance.²⁷

big data

Huge and complex sets of data

Artificial Intelligence

Big data has opened the door to widespread use of artificial intelligence (AI). As noted in **Chapter 1**, AI is using the power of computers to replicate the reasoning functions of humans.²⁸ It goes well beyond the simple "if-then" processing of computer software. AI has the ability to learn and solve complex problems.

You already know how big data and AI are changing the lives of consumers with products like Siri, Google Maps, Uber, and self-driving cars. But big data and AI, along with machine learning, deep learning, and analytics, are rapidly changing how managers make decisions.

Managers can use AI to either augment or automate decision making. Augmenting means the manager still makes the decision, but it is supported by AI software that provides the manager insights or guidance. For example, a lawyer could use an AI program to draft legal contracts. The lawyer then remains involved in the decision making by finalizing each contract, deciding which clauses to leave in or take out of it. In other cases, AI could be used to automate decision making. A lawyer could use a different AI software program to automate the contract review process in a larger organization that has to process a lot of contracts. The AI program could review contracts and automatically approve any that meet all requirements.²⁹

machine learning

A method of data analysis that automates analytical model building



Amy Hood, CFO at Microsoft, uses big data to determine how to allocate spending and forecast sales opportunities for the company.

Source: Jason Redmond/Reuters

deep learning

Use of algorithms to create a hierarchical level of artificial neural networks that simulate functions of the human brain

analytics

The use of mathematics, statistics, predictive modeling, and machine learning to find meaningful patterns and knowledge in a data set

Machine Learning and Analytics

AI increasingly facilitates **machine learning** and deep learning. The former is a method of data analysis that automates analytical model building.³⁰ It's a branch of AI based on the idea that systems can learn from data, identify patterns, and make decisions with little or no human assistance. You probably already realize that Netflix uses AI and machine learning to make suggestions to you on what to watch based on what you have watched in the past. But Netflix also uses machine learning to help shape production offerings of original content produced by its studio.³¹

Amy Hood, CFO at Microsoft, is credited with reshaping the way her company allocates spending and wins contracts by using machine learning tools.³² For instance, she analyzed historical data from 750,000 customers to forecast sales opportunities for each product, customer, and city worldwide. Another system Hood installed predicts which customers need more attention and which are at risk of defecting.

Deep learning is a subset of machine learning.³³ It uses algorithms to create a hierarchical level of artificial neural networks that simulate functions of the human brain. Imitating the human brain, the nodes are connected like a web. This enables machines to process data in a nonlinear fashion. A deep-learning system, for instance, has allowed computers to identify skin cancers at a level equivalent to the best experts. A deep-learning system was fed more than 100,000 images of malignant melanomas and harmless moles. The AI program was then put up against 58 highly experienced dermatologists. The AI program found 95 percent of the 300 melanomas versus 87 percent found by the doctors.³⁴

ChatGPT, a chatbot that uses deep learning to digest large quantities of text data, is another AI tool that can support managerial decision making. The tool's ability to interact with natural language can allow managers to pose questions and receive responses more quickly than traditional analytic tools allow.³⁵

A final term you should know is **analytics**. This is the use of mathematics, statistics, predictive modeling, and machine learning to find meaningful patterns and knowledge in a data set.³⁶ The use of data analytics to help organizations achieve their goals is probably best illustrated in the sports industry. In 2003, the book *Moneyball: The Art of Winning an Unfair Game*, by Michael Lewis, gave the public a glimpse into the use of data analytics in professional baseball when about 10,000 data points were available. Twenty years later, advancing technology such as wearable devices have given baseball managers more than 10 billion data points to work with to help make decisions on everything from player acquisition to fan retention.³⁷

Technology and Human Judgment

When Google launched its new AI technology Bard in a Twitter ad in 2023, the company learned a tough lesson on the importance of human judgment. The inaugural advertisement for the new chatbot responded inaccurately to a question about the discovery of exoplanets. Social media users quickly pointed out the error, and in the hours that followed, the stock value of Alphabet, Google's parent company, dropped by nearly \$100 billion in response! Ironically, some social media users suggested the company could have fact-checked Bard on Google.³⁸

Although human judgment is far from perfect, it is likely not wise for companies to rely entirely on AI for decision making, especially for unstructured or uncertain decision environments. Some organizations are using decision-making approaches that integrate human judgment and AI. Using AI to augment decisions, as noted previously, could take advantage of the strengths of both approaches while mitigating the risks of relying on either. For example, AI can be used to confirm or test a decision made by a human expert, or AI could support the expert by generating a number of decision alternatives.³⁹

Marc Benioff, CEO of the cloud-based software company Salesforce, says that AI has changed the company's decision-making processes, thereby strengthening management decisions. Salesforce's AI software, called Einstein, helps executives make decisions by providing information and suggestions, but the managers ultimately make the decisions. Benioff reports that Einstein has helped eliminate bias in the decision-making process by limiting discussions driven by personal agendas or organizational politics.⁴⁰

We can state, unequivocally, that AI usage among all businesses is sure to expand in the near future. And with this trend toward using technology to access and interpret information, managers will be less dependent on inconsistent and incomplete data. There will be less need to rely only on intuition. And, maybe most exciting, because AI software can learn through experience, decisions will increasingly reflect the values and goals of the manager. The result will be managerial decisions that more closely approach the assumptions of rationality.



Marc Benioff, CEO of Salesforce, has embraced the use of AI in managerial decision making.

Source: Abaca Press/Alamy Stock Photo

Chapter 3

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO3.1 DESCRIBE the eight steps in the decision-making process.

A decision is a choice. The decision-making process consists of eight steps: (1) identify the problem; (2) identify decision criteria; (3) allocate weights to the criteria; (4) develop alternatives; (5) analyze alternatives; (6) select an alternative; (7) implement the alternative; and (8) evaluate decision effectiveness.

LO3.2 EXPLAIN the four approaches managers can use when making decisions.

First, the assumptions of rationality are as follows: the problem is clear and unambiguous; a single, well-defined goal is to be achieved; all alternatives and consequences are known; and the final choice will maximize goal achievement. Second, bounded rationality says that managers make rational decisions but are bounded (limited) by their ability to process information. Satisficing happens when decision makers accept solutions that are good enough. Third, intuitive decision making means making decisions on the basis of experience, feelings, and accumulated judgment. And fourth, using evidence-based management, a manager makes decisions systematically based on the best available evidence.

LO3.3 CLASSIFY decisions and decision-making styles.

Programmed decisions are repetitive decisions that can be handled by a routine approach and are used when the problem being resolved is straightforward, familiar, and easily defined (structured). Nonprogrammed decisions are unique decisions that require a custom-made solution and are used when the problems are new or unusual (unstructured) and for which information is ambiguous or incomplete. Individuals' decision-making styles can be classified according to two dimensions: way of thinking (rational or intuitive) and tolerance for ambiguity (low or high). These dimensions result in four styles of decision making: directive, analytic, conceptual, and behavioral.

LO3.4 DESCRIBE how biases affect decision making.

The 12 common decision-making errors and biases are overconfidence, immediate gratification, anchoring, selective perception, confirmation, framing, availability, representation, randomness, sunk costs, self-serving bias, and hindsight. Ways to minimize these biases include increasing awareness of the biases, training to recognize biases, paying attention to how decisions are made, and asking others to identify weaknesses in decision making.

LO3.5 EXPLAIN how technology can improve decision making.

Big data refers to large and complex sets of data. Artificial intelligence uses the power of computers to replicate humans' reasoning functions. Machine learning and deep learning are facilitated by artificial intelligence. Analytics uses math, statistics, modeling, and machine learning to find patterns in data sets. However, no matter how comprehensive these approaches are, they need to be accompanied by good judgment.

REVIEW AND DISCUSSION QUESTIONS

- 3-1. Why is decision making described as the essence of a manager's job?
- 3-2. Describe the decision-making process.
- 3-3. Compare and contrast the five ways managers use intuition and evidence to make decisions. Can bounded rationality impact intuition and evidence-based management?
- 3-4. Explain the two types of problems and decisions. Contrast the four decision-making styles.
- 3-5. Is there a difference between wrong decisions and bad decisions? Why do good managers sometimes make wrong decisions? Bad decisions?
- 3-6. Describe some of the decision errors and biases. How do managers reduce errors and biases in their decisions?
- 3-7. Explain why blending technology with decision making will improve managers' judgment.

PREPARING FOR: My Career

ETHICS DILEMMA

IKEA's sleekly designed Sladda bike was launched in 2016 to great acclaim. It was marketed as helping customers to drive less. It had a click-in system to add baskets and racks. It would require less maintenance since there wasn't any chain to oil. However, in May 2018, IKEA recalled the Sladda. The bike's belt drive—which replaced the traditional bike chain—had snapped for some consumers. Two bike riders reported minor injuries.

IKEA reported that there was no feasible way to repair the Sladda belt drives. While some bike experts think a chain could have been added to the Sladda, such a change on every bike would have been expensive. Yet some companies might have repaired the bikes. Jon Goulet, director of quality for the bike company Specialized, said in

an interview that even if a problem was costly to fix, "we would probably still just choose to make it right, because it's part of our brand proposition to be rider-centric." Not fixing the bikes doesn't seem like it's part of the sustainability solution IKEA claimed at the bike's launch. Some skeptics wonder whether the Sladda's slow sales might be partly to blame for IKEA's decision to recall it and stop production.⁴¹

- 3-8. Was the decision by Ikea to recall and stop production of the Sladda appropriate? Explain both "why" and "why not."
- 3-9. If you were a manager, how would you use this incident to "teach" employees about ethics and decision making?

SKILLS EXERCISE Select the Best Alternative Decision-Making Skills

About the Skill

Decision makers often face a problem with several possible solutions. The challenge lies in determining which of the possible solutions is best for the decision maker. Hence, identifying and evaluating alternatives across multiple options is a skill worth practicing to increase the probability that a superior choice can be found. Weighting the alternatives quantitatively helps the decision maker see alternatives in ways others can't see.

Steps in Practicing the Skill

- **Identify decision criteria.** Once several solutions are identified to solve the problem, it is necessary to identify the criteria needed to determine which solution best resolves the problem. Because some attributes distinguish one solution from another, it is necessary to select four to seven of the most important attributes to serve as the criteria for selecting among the different solutions.
- **Allocate weights to the criteria.** Each attribute has a different level of importance in the decision, meaning the decision maker needs to assign an importance weight to each selected criteria. For simplicity, it is best to assign weights on a numerical scale (from 1 [low importance to me] to 10 [very important to me]).
- **Measure each criteria.** After identifying the decision criteria, the decision maker must rate how well the different criteria perform for each available solution. Rating each criteria on a scale of 1 to 10 makes the judgments and arithmetic easier. For example, assigning a value to the categories on a scale from 1 (Poor) to 10 (Best) is common.
- **Analyze alternatives.** Once the importance of the criteria and values for each have been assigned, the information can be combined by calculating a weighted average. Each

value is multiplied by the weight attached to each solution to determine a total score for each of the decision's possible solutions.

- **Select an alternative.** A comparison of total scores makes it possible to rank the solution choices. Those with higher values represent better choices for the decision maker, whereas lower scoring choices represent less desirable solutions.⁴²

Practicing the Skill

Developing your skill in selecting the best decision is similar to building your muscles through exercise: It requires effort over time. Practice by assuming you need to determine the best city for you to call home after graduation. First, list some solution choices by selecting three to seven cities where you might live after graduating. Be creative. You don't have to only consider those cities with which you are already familiar; include a couple of options offering something new. Now identify the ideal characteristics a city would have to have for you to live there after graduation. Identify four or more characteristics (e.g., weather, proximity to family, nightlife) on your own and select some characteristics provided by websites like moving.com (<https://www.moving.com/tips/how-to-choose-the-right-city-for-you/>). Weigh these categories on a scale from 1 (not desirable to me) to 10 (very desirable to me). Now, for each city, rank how well each of the city's attributes perform on the characteristics you selected. Rate each on a scale of 1 (poor) to 10 (best). Now calculate a total score for each city by determining the weighted average, which is the sum of each characteristic's score multiplied by its weight. The highest-scoring city is the best solution because it is higher than all other alternatives. Are there any surprises?

WORKING TOGETHER Team Exercise

What important decisions are being made on your campus? Are students asking for a new course or major? Does the administration want to build a new building, dorm, parking lot, or sports complex? In groups of three or four students, select a decision that interests the group. Describe how the administration on campus likely used, will use, or could use

the decision-making process to identify a viable solution on your campus. Be prepared to share your thoughts on how effectively students feel administrators will be at using this process to reach a solution. If the group has an idea of how the process can be improved, share it with the class and administration at your school!

MY TURN TO BE A MANAGER

- Consider a big decision that you have made. Write a description of the decision using the steps in the decision-making process as your guide. What could you have done differently in the process to improve your decision?
- Write a procedure, a rule, and a policy for your instructor to use in your class. Be sure that each one is clear and understandable, and be sure to explain how it fits the characteristics of a procedure, a rule, or a policy.

- Find three examples of managerial decisions described in any of the popular business periodicals (*Wall Street Journal*, *Bloomberg Businessweek*, *Fortune*, etc.). Write a paper describing each decision and any other information, such as what led to the decision, what happened as a result of the decision, and so forth. What did you learn about decision making from these examples?
- Interview two managers and ask them for suggestions on the decision-making steps and styles you need to learn more about to be a good decision maker. Write down their suggestions and be prepared to present them in class.
- Do a web search on the phrase “eight of the biggest business mistakes in history.” Pick three of the examples and describe what happened. What’s your reaction to the examples? How could the managers have made better decisions?
- Visit the Mindtools website (www.mindtools.com) and find the decision-making toolkit. Explore the decision-making tools suggestions and evaluate how they compare to this chapter’s recommendations. Identify ways both are similar and different.

CASE APPLICATION 1

Making Decisions with Bad Data

Decisions should be better with *more* data, but few managers know how much good or bad data they have. Bad data wastes managers’ time, increases costs, and hinders decision making. Estimates suggest managers frequently face the problems associated with bad data, and bad data is estimated to result in annual losses in productivity of \$3.1 trillion in the US economy.⁴³ Outdated data, for example, is a form of “bad data.” United Airlines managers used data collected years earlier to make forecasts about passenger seating demand, but today’s passengers no longer follow the passenger flying patterns represented in the data. Because United’s managers followed plans developed with these forecasts, the airline missed out on \$1 billion in revenue.

Other companies have found bad data can come from parties outside of their company’s operations with no clear direction on how to deal with it. For example, fake reviews raise product ratings for the sole purpose of luring more customers. Amazon’s third-party sellers put fake positive reviews on Amazon because they knew customers use them as data to make purchasing decisions. Amazon spends considerable time and money correcting this problem by verifying customer reviews.⁴⁴

Bad data can also affect stock investor decisions. Eli Lilly and Company’s stock dropped 4.45 percent when a verified Twitter account resembling the actual Eli Lilly Twitter account falsely stated the company was excited to announce its insulin would now be free to customers.⁴⁵ To make matters worse, Eli Lilly discovered it was difficult to spread the accurate information because Twitter tweets containing false information are shared more often and spread faster than those containing true information. Tweets with falsehoods generate more retweets because Twitter users are more likely to have an emotional response and a desire to post a response spreading the false bad data faster and more widely.⁴⁶

DISCUSSION QUESTIONS

- 3-10. What should managers and companies do to minimize their use of bad data?
- 3-11. How might intuition, the analytical decision style, and the conceptual decision style help to work against problems arising from using bad data?
- 3-12. What does this case illustrate about using the correct data to make important decisions?

CASE APPLICATION 2

A Major League Baseball Rule Change

Major League Baseball (MLB) is known for using analytics and evidence-based management to make decisions. Data collected on the rise of walks, strikeouts, and home runs caused the average time of played games in 2019, 2020, and 2021 to be the three longest in MLB history.⁴⁷ Fan feedback suggested that fans wanted shorter games and more action. Because the MLB guides its decisions by what the fans want to see on the field, it conducted experiments to determine ways to shorten games and make them more active.

Results from experiments in 8,000 Minor League Baseball games revealed that using a pitch clock shortened games by more than 25 minutes. More stolen base attempts and higher scoring games were also added benefits of instituting a pitch clock.⁴⁸ So at the start of the 2023 season, Major League Baseball added a rule requiring teams to use a pitch clock. Pitchers have 15 seconds with the bases empty and 20 seconds with a runner on base to pitch the ball after they receive it from the catcher.

Early results suggested the pitch clock is effective. The reality is that building a better game using data is going to be the norm in baseball. Owners and teams are getting another look at what the future will look like. “Throughout the extensive testing of recent years, Minor League personnel and a wide range of fans—from the most loyal to casual observers—have recognized the collective impact of these changes in making the game even better and more enjoyable,” MLB Commissioner Robert D. Manfred Jr. said when the new pitch clock rule was approved.⁴⁹

DISCUSSION QUESTIONS

- 3-13. What do you think Major League Baseball needs to do to evaluate if the pitch clock is effective over the next five years?
- 3-14. How might rational and intuitive decision making both be involved when Major League Baseball changes the rules of the game?
- 3-15. What decision-making errors might Major League Baseball fall victim to as it tries to improve the game for its fans?

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PART 1 Management Practice

Continuing Case: Starbucks—Introduction

Community. Connection. Caring. Committed. Coffee. Five Cs that describe the essence of Starbucks Corporation—what it stands for and what it wants to be as a business. With more than 32,000 stores in eighty countries, Starbucks is the world’s number one specialty coffee retailer. The company also owns the Baya, Evolution Fresh, La Boulange, Princi, Starbucks Reserve, Seattle’s Best Coffee, Starbucks VIA, Starbucks Refreshers, Teavana, Verismo, and Torrefazione Italia brands.¹ It’s a company that truly epitomizes the challenges facing managers in today’s globally competitive environment. To help you better understand these challenges, we’re going to take an in-depth look at Starbucks through these continuing cases, which you’ll find at the end of every part of the text. Each of these six part-ending continuing cases will look at Starbucks from the perspective of the material presented in that part. Although each case “stands alone,” you’ll be able to see the progression of the management process as you work through each one.

The Beginning

“We aren’t in the coffee business, serving people. We’re in the people business, serving coffee.” That was the philosophy of Howard Schultz, chief executive officer emeritus of Starbucks.² It’s a philosophy that has shaped—and continues to shape—the company.

The first Starbucks, which opened in Seattle’s famous Pike Place Market in 1971, was founded by Gordon Bowker, Jerry Baldwin, and Zev Siegl. The company was named for the coffee-loving first mate in the book *Moby Dick*, which also influenced the design of Starbucks’s distinctive two-tailed siren logo. Schultz, a successful New York City businessperson, first walked into Starbucks in 1981 as a sales representative for a Swedish kitchenware manufacturer. He was hooked immediately. He knew that he wanted to work for this company, but it took almost a year before he could persuade the owners to hire him. After all, he was from New York, and he hadn’t grown up with the values of the company. The owners thought Schultz’s style and high energy would clash with the existing culture. But Schultz was quite persuasive and was able to allay the owners’ fears. They asked him to join the company as director of retail operations and marketing, which he enthusiastically did. Schultz’s passion for the coffee business was obvious. Although some of the company’s employees resented the fact that he was an “outsider,” Schultz had found his niche and he had lots of ideas for the company. It was clear he wanted to make a positive impact at Starbucks.

About a year after joining the company, while on a business trip to Milan, Schultz walked into an espresso bar and right away knew that this concept could be successful in the United States. He felt there was nothing like the Italian espresso bar in America. In Italy, the espresso bar was an extension of people’s front porch. This discovery was an emotional experience for Schultz, who believed intuitively the Italian experience could and needed to be replicated by Starbucks in the United States. Schultz recognized that although Starbucks treated coffee as produce, something to be bagged and sent home with the groceries, the Italian coffee bars were more like an experience—a warm, community experience. That’s what Schultz wanted to re-create in the United States. However, Starbucks’s owners weren’t really interested in making Starbucks big and didn’t really want to give the idea a try. So Schultz left the company in 1985 to start his own small chain of espresso bars in Seattle and Vancouver called Il Giornale. Two years later, when Starbucks’s owners finally wanted to sell, Schultz raised \$3.8 million from local investors to buy them out. That small investment eventually made him a billionaire!³

Company Facts

Starbucks’s main product is coffee—more than 30 blends and single-origin coffees. In addition to fresh-brewed coffee, here’s a sampling of other products the company also offers:

- **Handcrafted beverages:** Hot and iced espresso beverages, coffee and noncoffee blended beverages, and smoothies
- **Merchandise:** Home espresso machines, coffee brewers and grinders, premium chocolates, coffee mugs and coffee accessories, and other assorted items
- **Fresh food:** Baked pastries, sandwiches, salads, hot breakfast items, and yogurt parfaits
- **Global consumer products:** Starbucks Frappuccino® coffee drinks, Starbucks Iced Coffee drinks, Starbucks Liqueurs, and a line of super-premium ice creams
- **Starbucks card and My Starbucks Rewards® program:** A reloadable stored-value card and a consumer rewards program
- **Brand portfolio:** Starbucks Entertainment, Ethos™ Water, Seattle’s Best Coffee, Teavana teas, and Fontana syrups

As of October 2022, the company had 402,000 full- and part-time partners (employees) around the world.⁴ Some of the “interesting” executive positions include chief operating officer; global chief marketing officer; chief creative officer; executive vice president of partner resources and chief community officer; global responsibility chief, global supply chain; executive vice president, global coffee; learning business partner; and international partner resource coordinator.

Decisions, Decisions

After running the show for 15 years at Starbucks, Howard Schultz, at age 46, stepped out of the CEO job for the first time in 2000 (he remained as chairman of the company) because he was “a bit bored.” By stepping down as CEO—which he had planned to do, had prepared for, and had no intention of returning to—essentially he was saying that he agreed to trust the decisions of others.

At first the company thrived, but then the perils of rapid mass-market expansion began to set in and customer traffic began to fall for the first time ever. As he watched what was happening, there were times when he felt the decisions being made were not good ones. Schultz couldn’t shake his gut feeling that Starbucks had lost its way. In fact, in a memo dubbed the “espresso shot heard round the world,” he wrote to his top managers explaining in detail how the company’s unprecedented growth had led to many minor compromises that, when added up, led to a “watering down of the Starbucks experience.”⁵ Among his complaints: sterile “cookie cutter” store layouts, automatic espresso machines that eliminated the “barista theater” of roasting and brewing a cup of coffee, and flavor-locked packaging that didn’t allow customers to inhale and savor that distinctive coffee aroma. Schultz felt Starbucks had lost its “cool” factor, and his criticism of the state of the company’s stores was blunt and bold. There was no longer a focus on coffee, only on making the cash register ring. Within a year of the memo (and eight years after he left the CEO position), Schultz was back in charge and working to restore the Starbucks experience. His goals were to fix the troubled stores, to reawaken the emotional attachment with customers, and to make long-term changes like reorganizing the company and revamping the supply chain. The first thing he did, however, was to apologize to the staff for the decisions that had brought the company to this point. In fact, his intention to restore quality control led him to a decision to close all (at that time) 7,100 US stores for one evening to retrain 135,000 baristas on the coffee experience—what it meant, what it was. It was a bold decision, and one that many “experts” felt would be a public relations and financial disaster. But Schultz felt doing so was absolutely necessary to revive and reenergize Starbucks. Another controversial decision was to hold a leadership conference with all store managers (some 8,000 of them) and 2,000 other partners—all at one time and all in one location. Why? To energize and galvanize these employees around what Starbucks stands for and what needed to be done for the company to survive and prosper. Schultz was unsure about how Wall Street would react to the cost, which was around \$30 million total (airfare, meals, hotels, etc.), but again, he didn’t care because he felt doing so was absolutely necessary and critical. In the interim years, Starbucks grew and prospered. In 2017, Schultz stepped down again as CEO, although he remained the single largest shareholder.

Schultz helped to choose the new Starbucks president and CEO, Kevin Johnson. Johnson had to figure out how to handle the reality of stiff competition and slow same-store sales

growth. Johnson worked to improve customer service, offer new drinks, and expand growth in China, and he closed all 379 Teavana stores and sold off the Tazo tea brand. Johnson also had to determine how to respond when two African Americans were arrested at a Philadelphia Starbucks while waiting for a friend. This received a huge amount of media attention—most of it negative and suggesting the company was racist. Johnson earned praise for making a face-to-face apology to the two men and closing nearly 8,000 Starbucks stores for anti-bias training. Johnson also oversaw the extension of paid paternity leave and paid time off to care for sick family members for hourly employees, and increased the wages to a minimum of \$15 per hour for all US employees.⁶

Johnson retired at the end of the COVID-19 pandemic in 2022. Howard Schultz stepped in as the interim CEO and led the search for Johnson’s replacement. Laxman Narasimhan, former CEO of consumer goods company Reckitt Benckiser Group, took the reins as the new CEO in April 2023. Prior to taking over, Narasimhan worked with Schultz for several months to learn Starbucks’s operations and culture, and Schultz reported he has led the company for the last time. The new leadership will face the challenges of unionization among some of its US baristas.⁷

So, we’re beginning to see how Starbucks epitomizes the five Cs—community, connection, caring, committed, and coffee. In this Continuing Case in the Management Practice section at the end of parts 2–6, you’ll discover more about Starbucks’s unique and successful ways of managing. As you work on these remaining continuing cases, keep in mind that there may be information included in this introduction that you might want to review.

Discussion Questions

- P1-1.** What management skills do you think would be most important for Laxman Narasimhan to have? Why? What skills do you think would be most important for a Starbucks store manager to have? Why?
- P1-2.** How might the following management theories/approaches be useful to Starbucks: scientific management, organizational behavior, quantitative approach, and systems approach?
- P1-3.** Choose three of the current trends and issues facing managers and explain how Starbucks might be impacted. What might be the implications for first-line managers? Middle managers? Top managers?
- P1-4.** Give examples of how Laxman Narasimhan might perform interpersonal roles, informational roles, and decisional roles.
- P1-5.** Look up Laxman Narasimhan and notice what is mentioned about him. How might his experiences and background affect the way the company is managed?

- P1-6.** Go to the company's website, www.starbucks.com, and find the list of senior officers. Pick one of those positions and describe what you think that job might involve. Try to envision what types of planning, organizing, leading, and controlling this person would have to do.
- P1-7.** Look up the company's mission and guiding principles on the company's website. What do you think of the mission and guiding principles?
- P1-8.** Describe how the mission and guiding principles would influence how a barista at a local Starbucks store does their job. Describe how they would influence how one of the company's top executives does their job.
- P1-9.** Was Starbucks's response to the Philadelphia crisis a programmed or nonprogrammed decision? Explain your answer.
- P1-10.** How might biases and errors affect the decision making done by Starbucks executives? By Starbucks store managers? By Starbucks partners?

Practice Your Data Analysis Skills

Three friends started a coffee business. After paying payroll, bills, rent, and other fixed costs, the three owners each took home \$35,000 last year. Their small shop roasted and sold wholesale coffee beans directly to restaurants, caterers, and individuals who ground the beans at home. Traditional wholesale-roasted coffee beans cost their shop (including the cost of labor) \$10 per pound, while specialty coffee beans cost \$15 per pound. Specialty coffee represented 30 percent of all sales, and the markup on their wholesale beans was 100 percent. In the past, free samples of coffee and cold Frappuccino-type drinks were given to customers in the store, but starting Monday, the store will use some of its ground traditional coffee beans as they begin to sell cups of coffee for \$3 and cold Frappuccino-type drinks for \$5 each instead of giving them away as free samples.

- P1-11.** After sales start on Monday, how much total revenue and profit will the store make from the first 100 customers? Assume each customer will buy one pound of coffee beans and a coffee drink. Thirty percent of sales will be wholesale specialty coffee beans and cold Frappuccino-type drinks. On average, one pound of coffee makes 35 \$3 coffees or 60 \$5 cold Frappuccino-type drinks (which use half of a cup of coffee with other ingredients costing \$0.25 per cup). Is the

profit margin on the drinks appropriate for this business? (Hint: the markup formula is the selling price minus cost divided by cost.)

- P1-12.** How successful was the three friends' decision to sell coffee drinks? Would you advise them to work to expand the decision to sell coffee drinks or to maintain a focus on selling wholesale coffee beans?

Notes for the Part 1 Continuing Case

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7. H. Haddon, "Starbucks's New CEO, Laxman Narasimhan, Takes Coffee Chain's Helm," *Wall Street Journal*, March 20, 2023, <https://www.wsj.com/articles/starbucks-new-ceo-laxman-narasimhan-takes-coffee-chains-helm-f6e8ae?page=1>.

Chapter 4

Influence of the External Environment and the Organization's Culture

Learning Objectives

- 4.1** *Contrast the actions of managers according to the omnipotent and symbolic views.*
- 4.2** *Describe the constraints and challenges facing managers in today's external environment.*
- 4.3** *Discuss the characteristics and importance of organizational culture.*

Although there has been a growing interest in healthier food options for some time, there is an increasing focus on plant-based options as more consumers are choosing to consume less meat. Food manufacturers and restaurants are responding to this trend with new options. For example, in 2022 PepsiCo, the largest food and beverage company in North America, invested in a joint venture with Beyond Meat, a plant-based meat company. The venture produces new plant-based snacks to add to PepsiCo's growing line of healthier snack alternatives, helping the company meet a demand based on changing customer preferences.¹

In this chapter, we're going to look at the challenges incurred by the external environment and discuss the characteristics of organizational culture. But before we address these topics, we first need to look at two perspectives on the degree to which managers actually influence an organization's success or failure.

Management Myth: A manager should only focus on employees to make a company successful.

Management Reality: A manager must be aware of the environment—both outside of the company and the culture within the company—to make a company successful.

THE MANAGER: Omnipotent or Symbolic?

LO4.1 Contrast the actions of managers according to the omnipotent and symbolic views.

How much difference does a manager really make in how an organization performs? The dominant view in management theory and society in general is that managers are directly responsible for an organization's success or failure. We call this perspective the

omnipotent view of management

The view that managers are directly responsible for an organization's success or failure

symbolic view of management

The view that much of an organization's success or failure is due to external forces outside managers' control

omnipotent view of management. In contrast, others have argued that much of an organization's success or failure is due to external forces outside managers' control. This perspective is called the **symbolic view of management**. Let's look at each perspective to try and clarify just how much credit or blame managers should get for their organization's performance.

The Omnipotent View

In **Chapter 1**, we stressed how important managers were to organizations. Differences in an organization's performance are assumed to be due to the decisions and actions of its managers. Good managers anticipate change, exploit opportunities, correct poor performance, and lead their organizations. When profits are up, managers take the credit and are rewarded with bonuses, stock options, and the like. When profits are down, top managers are often fired in the belief that "new blood" will bring improved results. For instance, after just two years on the job, Disney CEO Bob Chapek was fired due to poor earnings and other challenges at the company.² In the omnipotent view, someone has to be held accountable when organizations perform poorly, regardless of the reasons, and that "someone" is the manager. Of course, when things go well, managers also get the credit—even if they had little to do with achieving the positive outcomes.

This view of managers as omnipotent is consistent with the stereotypical picture of the take-charge business executive who overcomes any obstacle in seeing that the organization achieves its goals. And this view isn't limited to business organizations. It also explains turnover among college and professional sports coaches, who are considered the "managers" of their teams. Coaches who lose more games than they win are usually fired and replaced by new coaches who are expected to correct the poor performance.

The Symbolic View

Zoom, the video conference behemoth, was started almost 10 years before the pandemic hit, and in December 2019 the company had 10 million daily users. Fast forward 18 months, and it had over 300 million daily users! Did management expertise have anything to do with this 2,900 percent increase in users? Clearly not. The company was merely in the right place at the right time. The pandemic locked people in, and Zoom became the new meeting platform.³

The symbolic view says that a manager's ability to affect performance outcomes is influenced and constrained by external factors over which it has little or no control.⁴

According to this view, it's unreasonable to expect managers to significantly affect an organization's performance. Instead, performance is influenced by factors such as the economy, customers, governmental policies, competitors' actions, industry conditions, and decisions made by previous managers.

Following the symbolic view, management has, at best, only a limited effect on *substantive organizational outcomes*. What management does affect greatly are *symbolic* outcomes. Management's role is seen as creating meaning out of randomness, confusion, and ambiguity. Management creates the illusion of control for the benefit of stockholders, customers, employees, and the public. When things go right, we need someone to praise. Management plays that role. Similarly, when things go wrong, we need someone to blame. Management plays that role too. However, according to the symbolic view, the *actual* part management plays in success or failure is minimal.

Reality Suggests a Synthesis

In reality, managers are neither helpless nor all-powerful. Internal constraints that restrict a manager's decision options exist within every organization. These internal constraints are derived from the organization's culture. In addition, external



The COVID-19 pandemic created an unplanned opportunity for significant growth for Zoom Video Communications.

Source: Girts Ragelis/Alamy Stock Photo

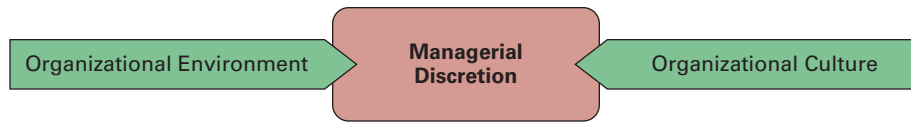


Exhibit 4-1
Constraints on Managerial Discretion

constraints impinge on the organization and restrict managerial freedom. The external constraints come from the organization's environment.

Exhibit 4-1 shows the manager as operating within constraints. The organization's culture and environment press against the manager, restricting his or her options. Yet in spite of these constraints, managers are not powerless. There still remains an area of discretion in which managers can exert a significant amount of influence on an organization's performance—an area in which good managers differentiate themselves from poor ones.

THE EXTERNAL ENVIRONMENT: Constraints and Challenges

LO4.2 Describe the constraints and challenges facing managers in today's external environment.

The recognition that no organization operates independently was a major contribution of the systems approach to management (see **Chapter 2**). In this section we want to demonstrate how forces in the environment play a major role in shaping and limiting managers' actions.

Defining the Environment and Environmental Uncertainty

The term **environment** refers to institutions or forces that are outside the organization and potentially affect the organization's performance. The reason the environment is important is because not all environments are the same. They differ by what we call their degree of **environmental uncertainty**.

environment
Institutions or forces that are outside the organization and potentially affect the organization's performance

ENVIRONMENTAL UNCERTAINTY Environmental uncertainty refers to the degree of change and complexity in an organization's environment. The matrix in **Exhibit 4-2** shows these two aspects.

environmental uncertainty
The degree of change and complexity in an organization's environment

The first dimension of uncertainty is the *degree of change*. If the components in an organization's environment change frequently, it's a *dynamic* environment. If change is minimal, it's a *stable* one. A stable environment might be one with no new

		Degree of Change	
		Stable	Dynamic
Degree of Complexity	Simple	Cell 1 Stable and predictable environment Few components in environment Components are somewhat similar and remain basically the same Minimal need for sophisticated knowledge of components	Cell 2 Dynamic and unpredictable environment Few components in environment Components are somewhat similar but are continually changing Minimal need for sophisticated knowledge of components
	Complex	Cell 3 Stable and predictable environment Many components in environment Components are not similar to one another and remain basically the same High need for sophisticated knowledge of components	Cell 4 Dynamic and unpredictable environment Many components in environment Components are not similar to one another and are continually changing High need for sophisticated knowledge of components

Exhibit 4-2
Environmental Uncertainty Matrix

competitors, few technological breakthroughs by current competitors, little activity by pressure groups to influence the organization, and so forth. For instance, the paint industry operates in a mostly stable environment—there are a few large paint manufacturers and little technological change. The main external concern for a paint company is fluctuations in the home building market; products may need to change occasionally due to customer preferences, but it is mostly a stable market. In contrast, the recorded music industry faces a dynamic (highly uncertain and unpredictable) environment. Digital formats and music-downloading sites turned the industry upside down and brought high levels of uncertainty. And now, music streaming services such as Spotify and Pandora have added doubt to the equation.

If change is predictable, is that considered dynamic? No. Think of department stores that typically make one-quarter to one-third of their sales in November and December. The drop-off from December to January is significant. But because the change is predictable, the environment isn't considered dynamic. When we talk about degree of change, we mean change that's unpredictable. If change can be accurately anticipated, it's not an uncertainty for managers.

The other dimension of uncertainty describes the degree of **environmental complexity**, which looks at the number of components in an organization's environment and the extent of the knowledge that the organization has about those components. An organization with fewer competitors, customers, suppliers, government agencies, and so forth faces a less complex and uncertain environment. Organizations deal with environmental complexity in various ways. For example, many restaurants have simplified their use of suppliers by taking advantage of the "farm to table" trend and growing some of their own food.

Complexity is also measured in terms of the knowledge an organization needs about its environment. For instance, managers at Amazon keep an inventory of very different products from food to clothes, and therefore they need to know a lot about each of their suppliers. Further, because Amazon not only sells but also has distribution centers in many states, managers need to understand business laws in each state. On the other hand, a small food market that only sells local produce has a minimal need for sophisticated knowledge about its suppliers.

How does the concept of environmental uncertainty influence managers? Looking again at Exhibit 4-2, each of the four cells represents different combinations of degree of complexity and degree of change. Cell 1 (stable and simple environment) represents the lowest level of environmental uncertainty and cell 4 (dynamic and complex environment), the highest. Not surprisingly, managers have the greatest influence on organizational outcomes in cell 1 and the least in cell 4. Because uncertainty poses a threat to an organization's effectiveness, managers try to minimize it.⁵ Given a choice, managers would prefer to operate in the least uncertain environments.

The environment can also be analyzed at two levels. The next sections look at those two levels: the *general* environment and the *specific* one.

Monitoring the General Environment

When considering the external environment, businesses must be aware of both the general and specific environment. The **general environment** includes everything outside the organization. As shown in **Exhibit 4-3**, it includes a number of different components. The *economic* component encompasses factors such as interest rates, inflation, changes in disposable income, stock market fluctuations, and business cycle stages. The *demographic* component is concerned with trends in population characteristics such as age, race, gender, education level, geographic location, income, and

environmental complexity

The number of components in an organization's environment and the extent of the organization's knowledge about those components



Restaurants benefit from growing their own food through both attracting customers with the "farm to table" appeal and decreasing their reliance on suppliers.

Source: CandyRetriever/Shutterstock

general environment

Everything outside the organization



Exhibit 4-3
Components of the General Environment

family composition. The *political/legal* component looks at federal, state, and local laws as well as global laws and the laws of other countries. It also includes a country's political conditions and stability. The *sociocultural* component is concerned with societal and cultural factors such as values, attitudes, trends, traditions, lifestyles, beliefs, tastes, and patterns of behavior. The *technological* component is concerned with scientific or industrial innovations. The *global* component encompasses those issues associated with globalization and a world economy.

The general environment encompasses conditions that *may* affect the organization but whose relevance isn't clear. The strength of the US dollar against the pound and yen, for instance, is likely to be an environmental force for companies like Apple and Boeing, who sell in Great Britain and Japan. But the strength of the dollar isn't likely to have much impact on companies whose customers and suppliers are all within the United States.

The Specific Environment

The bulk of management's attention is usually given to the organization's **specific environment**. This is the part of the environment that is directly relevant to the achievement of an organization's goals. It consists of the crucial constituencies or stakeholders that can positively or negatively influence an organization's effectiveness. The specific environment for most organizations includes one or more of the following: suppliers, customers, competitors, government agencies, investors, and special-interest groups. Let's briefly elaborate on each and why it's important.

specific environment
The part of the environment consisting of crucial constituencies or stakeholders that can positively or negatively influence an organization's effectiveness

SUPPLIERS Suppliers include any entity that provides the organization with labor, materials, and equipment. For pizza restaurants, it would include those sources that provide flour, tomatoes, meats, vegetables, and sodas. It would also probably include banks, insurers, and maybe labor unions. In contrast, for hospitals, suppliers include medical equipment distributors, drug companies, medical and nursing schools, and insurance companies.

Why are suppliers important? Management seeks to ensure a steady flow of needed inputs at the lowest price possible. Because these inputs represent uncertainties—that is, their unavailability or delay can significantly reduce the organization's effectiveness—management typically goes to great efforts to ensure a steady, reliable flow.

CUSTOMERS Organizations exist to meet the needs of customers. It's the customer or client who absorbs the organization's output. This is true even for governmental organizations. They exist to provide services, and we are reminded, especially at election time, that we indicate by the way we vote how satisfied we actually are as customers.

Customers obviously represent potential uncertainty to an organization because customers can be fickle. Big-brand consumer goods companies like Campbell Soup, Kraft Heinz, PepsiCo, and Procter & Gamble, for instance, are all suffering from a change in consumer buying preferences focused on price over brand loyalty. Private-label store-brand products at retailers like Walmart, Family Dollar, Costco, and Aldi have taken a lot of big brand-name business by offering similar products to the big brands but at significantly lower prices.



Walmart's private-label store brand of oatmeal has taken sales from major oatmeal brands like PepsiCo's Quaker Oats.

Source: Sheila Fitzgerald/Shutterstock

COMPETITORS All organizations, even monopolies, have one or more competitors. The US Postal Service has a monopoly on mail service, but it competes against FedEx, United Parcel Service, and other forms of communications, such as the telephone, email, text messaging, and even social media messaging. Nike dominates the athletic shoe business but still competes against Adidas, Puma, Asics, and Under Armour, among others. Coca-Cola competes against Pepsi and other soft drink companies as well as firms that sell bottled water and energy drinks. Not-for-profit organizations like the Charlotte Symphony Orchestra and the Girl Scouts also compete for dollars, volunteers, and customers.

Managers can ill afford to ignore the competition. When they do, they pay dearly. Up until the early 1980s, the three major TV broadcasting networks—ABC, CBS, and NBC—virtually controlled what you watched on television and essentially only had to worry about each other. Today, their market share and profits have been aggressively eaten away first by cable networks and now by Netflix, Hulu, and other streaming services. This illustrates that competitors—in terms of pricing, services offered, accessibility, new products developed, and the like—represent an important environmental force that management must monitor and to which it must be prepared to respond.

GOVERNMENT Federal, state, and local governments influence what organizations can and cannot do. Some federal legislation has had significant implications. For example, the Americans with Disabilities Act of 1990 was designed to make jobs and public facilities more accessible to people with disabilities. This, in turn, required companies to alter hiring practices and resulted in facility-layout changes. The federal government, of course, isn't the only source of legal regulations that govern organizations. State and local government regulations also extend and modify many federal standards. For instance, 23 states raised their minimum wage rates in 2022, significantly impacting companies who hire entry-level workers.⁶

Organizations spend a great deal of time and money to meet government regulations. But the effects of these regulations go beyond time and money. They also reduce managerial discretion. They limit the choices available to managers.

INVESTORS Public companies are under the scrutiny of stockholders as well as potential investors because organizational decisions should enhance shareholder value. Although historically this has meant prioritizing profitability, many companies are engaging an environmental, social, and governance (ESG) strategy to address the concerns of diverse shareholders. An ESG strategy measures and quantifies a company's commitment to environmental sustainability, social responsibility, and good corporate governance. However, companies need to do more than just check the boxes of engaging in these behaviors in order to make the kind of impact that attracts investors. For example, IKEA, which is known for its inexpensive furniture that customers

often discard quickly, is responding to ESG demands by developing new products that can be easily reused or refurbished, extending their life span.⁷

SPECIAL INTEREST GROUPS Managers must recognize the special interest groups that attempt to influence the actions of organizations. These groups typically represent an organized attempt for change, such as the Coalition to Stop Gun Violence, whose work to promote gun safety impacts gun manufacturers. Another example is climate change protesters, such as Fossil Free London, who blocked the entrance of the International Energy Conference in the UK, where leaders from the energy industry were meeting, prompting the CEO of BP Oil to comment on the company's role in transitioning to new energy sources.⁸

Managing the Environment

As we've seen, organizations are not self-contained or self-sufficient. They interact with and are influenced by their environment. (Exhibit 4-4 summarizes that environment.) Organizations depend on their environment as a source of inputs and as a recipient of its outputs. Organizations must also abide by the laws and regulations and respond to groups that challenge the organization's actions. However, although the environment constrains managers, it certainly doesn't completely tie their hands.⁹

What can management do to lessen these constraints and gain some control over their environment? They can identify key external constituencies and build a relationship with them. It makes sense, for instance, for Lockheed to hire former high-ranking military officers to lobby the Pentagon for defense contracts. The management at Kraft Heinz can respond to lower-priced store brands by engaging in advertising that builds customer loyalty for products like its ketchup and Cheez Whiz. And Apple can increase the likelihood that the supply of memory modules for its iPhones isn't disrupted by building business relationships with multiple suppliers.

Managers can also look for insights from the environment to help them set their strategy. If managers scan their environment for insights on potential shifts, they can better navigate the challenges that those shifts can cause. Managers who invest time and resources to identify potential external threats and opportunities will be better prepared to respond. By scanning the environment broadly and conducting research on signals, they can act decisively. For instance, if a company that makes chocolate is paying attention to the effect climate change is having on cocoa-growing regions, it can better prepare for potential future supply shortages.¹⁰

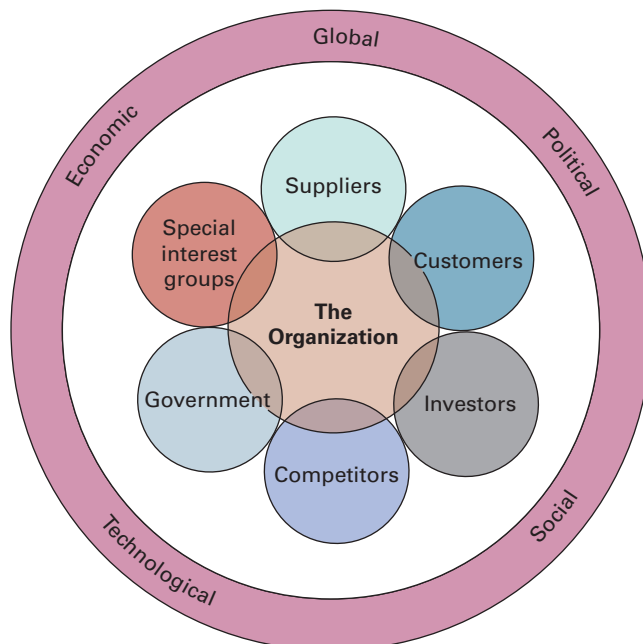


Exhibit 4-4
The Organization and Its Environment

ORGANIZATIONAL CULTURE: Guiding Employee Behavior

LO4.3 Discuss the characteristics and importance of organizational culture.

Each of us has a unique personality—traits and characteristics that influence the way we act and interact with others. When we describe someone as warm, open, relaxed, shy, or aggressive, we're describing personality traits. An organization, too, has a personality, which we call its *culture*. And that culture influences the way employees act and interact with others.

What Is Organizational Culture?

Managers at HubSpot, a cloud-based customer relationship management (CRM) platform, know that an effective workplace culture inspires employees. Recognized as one of *Fortune's* Great Places to Work, HubSpot also receives consistently positive ratings on websites like Glassdoor that ask employees directly about their work environment. Employees describe the workplace as autonomous, transparent, and flexible. The company culture creates an environment where growth-minded people can succeed. They value good judgment and prioritize solving customer problems over everything else. HubSpot claims to work as hard on developing its culture as it does on developing its product, understanding that its culture drives employee behavior.¹¹

Organizational culture has been described as the shared values, principles, traditions, and ways of doing things that influence the way organizational members act and that distinguish the organization from other organiza-

tions. In most organizations, these shared values and practices have evolved over time and determine, to a large extent, how “things are done around here.”¹²

Our definition of culture implies three things. First, culture is a *perception*. It's not something that can be physically touched or seen, but employees perceive it on the basis of what they experience within the organization. Second, organizational culture is *descriptive*. It's concerned with how members perceive the culture and describe it, not with whether they like it. Finally, even though individuals may have different backgrounds or work at different organizational levels, they tend to describe the organization's culture in similar terms. That's the *shared* aspect of culture.

Research indicates six dimensions that appear to capture the essence of an organization's culture:¹³

1. **Adaptability:** The degree to which employees are encouraged to be innovative and flexible and to take risks and experiment
2. **Attention to detail:** The degree to which employees are expected to exhibit precision, analysis, and focus on details
3. **Outcome orientation:** The degree to which management emphasizes results rather than the techniques and processes used to achieve them
4. **People orientation:** The degree to which management decisions consider the effect of outcomes on people within and outside the organization
5. **Team orientation:** The degree to which collaboration is encouraged and work activities are organized around teams rather than individuals
6. **Integrity:** The degree to which people exhibit honesty and high ethical principles in their work

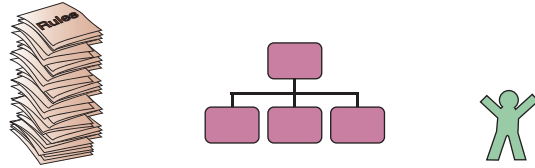
Each of the six dimensions range from low to high, meaning it's not very typical of the culture (low) or is very typical of the culture (high). Describing an organization using these six dimensions gives a composite picture of the organization's culture. **Exhibit 4-5** describes how the dimensions can create significantly different cultures.



HubSpot maintains a slide deck to help employees learn about company culture. The slide deck expands on the basic tenets of the company's Culture Code and is updated often to reflect the evolving culture of the company. *Source: Courtesy of HubSpot, Inc.*

organizational culture

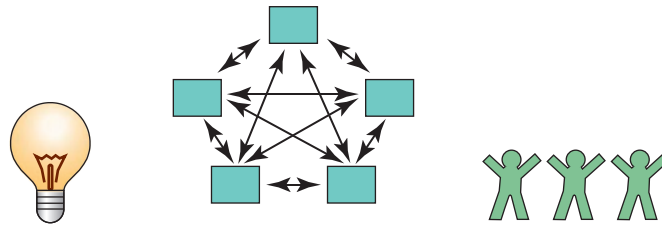
The shared values, principles, traditions, and ways of doing things that influence the way organizational members act and that distinguish the organization from other organizations

Organization A

This organization is a manufacturing firm. Managers are expected to fully document all decisions, and “good managers” are those who can provide detailed data to support their recommendations. Creative decisions that incur significant change or risk are not encouraged. Because managers of failed projects are openly criticized and penalized, managers try not to implement ideas that deviate much from the status quo. One lower-level manager quoted an often-used phrase in the company: “If it ain’t broke, don’t fix it.”

There are extensive rules and regulations in this firm that employees are required to follow. Managers supervise employees closely to ensure there are no deviations. Management is concerned with high productivity, regardless of the impact on employee morale or turnover.

Work activities are designed around individuals. There are distinct departments and lines of authority, and employees are expected to minimize formal contact with other employees outside their functional area or line of command. Performance evaluations and rewards emphasize individual effort, although seniority tends to be the primary factor in the determination of pay raises and promotions. Evaluations also focus on results, and management recognizes that ends can sometimes justify means.

Organization B

This organization is also a manufacturing firm. Here, however, management encourages and rewards risk-taking and change. Decisions based on intuition are valued as much as those that are well rationalized. Management prides itself on its history of experimenting with new technologies and its success in regularly introducing innovative products. Managers or employees who have a good idea are encouraged to “run with it,” and failures are treated as “learning experiences.” The company prides itself on being market driven and rapidly responsive to the changing needs of its customers.

There are few rules and regulations for employees to follow, and supervision is loose because management believes its employees are hardworking, trustworthy, and will act with high moral standards. Management is concerned with high productivity but believes this comes through treating its people right. The company is proud of its reputation as a good place to work.

Job activities are designed around work teams, and team members are encouraged to interact with people across functions and authority levels. Employees talk positively about the competition between teams. Individuals and teams have goals, and bonuses are based on achievement of outcomes. Employees are given considerable autonomy in choosing the means by which the goals are attained.

Strong Cultures

All organizations have cultures, but not all cultures equally influence employees’ behaviors and actions. **Strong cultures**—those in which the key values are intensely held and widely shared—have a greater influence on employees than weaker cultures. (Exhibit 4-6 contrasts strong and weak cultures.) The more employees accept the

Exhibit 4-5**Contrasting Organizational Cultures****strong cultures**

Organizational cultures in which the key values are intensely held and widely shared

Exhibit 4-6**Strong Versus Weak Cultures**

Strong Cultures	Weak Cultures
Values widely shared	Values limited to a few people—usually top management
Culture conveys consistent messages about what's important	Culture sends contradictory messages about what's important
Most employees can tell stories about company history or heroes	Employees have little knowledge of company history or heroes
Employees strongly identify with culture	Employees have little identification with culture
Strong connection between shared values and behaviors	Little connection between shared values and behaviors



Apple's strong culture of product innovation and customer-responsive service reflects the core values of its visionary cofounder, Steve Jobs. Jobs instilled these core values in all employees, from top executives to sales associates, such as the Genius Bar employee shown here training a customer at the Apple Store in Manhattan.
Source: B. O'Kane/Alamy Stock Photo

organization's key values and the greater their commitment to those values, the stronger the culture.

Most organizations have moderate to strong cultures; that is, there is relatively high agreement on what's important, what defines "good" employee behavior, what it takes to get ahead, and so forth. The stronger a culture becomes, the more it affects the way managers carry out their jobs.¹⁴

Research suggests that strong cultures are associated with high organizational performance.¹⁵ When values are clear and widely accepted, employees know what they're supposed to do and what's expected of them, so they can act quickly to take care of problems. On the other hand, a strong culture can also prevent employees from trying new approaches, especially when conditions change rapidly.¹⁶

Where Culture Comes From and How It Continues

Exhibit 4-7 illustrates how an organization's culture is established and maintained. The original source of the culture usually reflects the vision of the founders. Company founders are not constrained by previous customs or approaches and can establish the early culture by articulating a vision of what they want the organization to be. Also, the small size of most new organizations makes it easier to instill that vision in all organizational members.

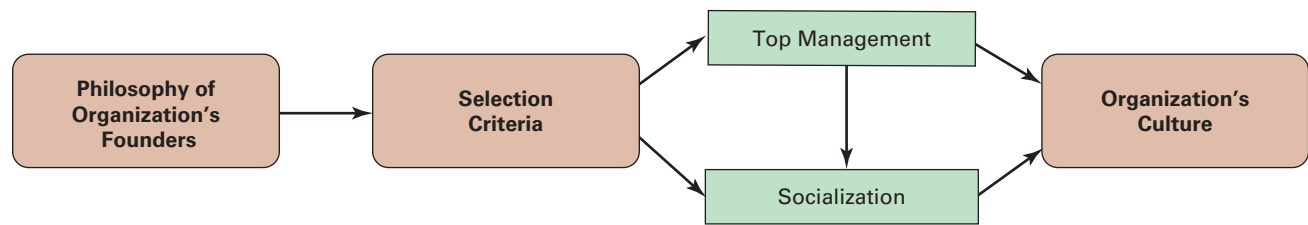
As a company grows, managers may need to evolve the culture in a way that aligns employee behavior with the company's strategy and growth objectives. For example, Netflix recently added a section to its culture statement about "Artistic Expression" that emphasizes a commitment to allowing audience members to make their own choices, noting that an employee may have to work on content that might not align with their own personal values. Essentially, Netflix is evolving its culture to reflect demands from its diverse audience—asking employees not to bring their personal views to work in support of its customer-centric culture.¹⁷

Company leadership at HubSpot has also worked to evolve the culture as the company grows. It first codified its culture into a Culture Code supported by a slide deck that current and new employees can reference to learn about the culture. Leadership reviews and updates the slide deck as the company adds employees and practices change.

Once the culture is in place, however, certain organizational practices help maintain it. The selection process is one of these. The explicit goal of the selection process is to

Exhibit 4-7

Establishing and Maintaining Culture



identify and hire individuals with the knowledge, skills, and abilities to perform successfully. The final decision, however, includes a judgment call: How well will the individual fit into the organization? In essence, the organization seeks to identify individuals whose values are consistent with at least a good portion of the organization's.¹⁸ The selection process also provides information to applicants. Those job candidates who perceive a conflict between their values and those of the organization can self-select themselves out of the applicant pool.¹⁹ Selection thus becomes a two-way street, allowing both the organization and job candidates to avoid a mismatch and sustain the organization's culture by weeding out those who might undermine or attack its core values.

The actions of top managers also have a major impact on the organization's culture.²⁰ Through words and actions, senior executives establish norms that filter through the organization about, for instance, whether risk-taking is desirable; how much freedom managers give employees; appropriate dress; and what actions earn pay raises, promotions, and other rewards.

Finally, organizations help employees adapt to the culture through **socialization**, a process that helps new employees learn the organization's way of doing things.²¹ Popular socialization processes include apprenticeships, internships, formal orientation programs, appointing mentors to guide and advise new entrants, training programs, rotating assignments, and assigning new entrants a high-performing employee to shadow and learn from.

socialization

A process that helps new employees learn the organization's way of doing things

How Culture Is Sustained

Every organization has a culture, whether the company has intentionally developed it or not, and employees “learn” an organization's culture when they are hired. After hire, effective workplace cultures are nurtured and reinforced for employees in several ways. HubSpot, Netflix, and other organizations that make intentional efforts to build their culture often sustain culture with explicit statements and a written Culture Code. However, culture is reinforced in all organizations in several ways, including stories, rituals, material artifacts and symbols, and language.

STORIES Organizational “stories” typically contain a narrative of significant events or people, including such things as the organization's founders, rule breaking, reactions to past mistakes, and so forth.²² At 3M Company, the product innovation stories are legendary. There's the story about the 3M scientist who spilled chemicals on her tennis shoe and came up with Scotchgard. Then there's the story about Art Fry, a 3M researcher who wanted a better way to mark the pages of his church hymnal and invented the Post-It Note. At Nike, a number of senior executives spend much of their time serving as corporate storytellers. For instance, they often tell how cofounder (and Oregon track coach) Bill Bowerman went to his workshop and poured rubber into his wife's waffle iron to create the sole of a lighter, faster running shoe. The message: Nike values innovation. To help employees learn the culture, organizational stories like these anchor the present in the past, provide explanations and legitimacy for current practices, exemplify what is important to the organization, and provide compelling pictures of an organization's goals.

RITUALS Rituals are repetitive sequences of activities that express and reinforce the key values and goals of the organization.²³ Fraternities and sororities are famous for putting pledges through initiation rituals to develop camaraderie and discipline.

Military boot camps are designed to do the same thing. In the corporate world, many firms develop rituals that are a rite of passage for new employees. Eyewear company Warby Parker, whose name is derived from characters in a Jack Kerouac book, provides every new hire the novel *Dharma Bums* by Kerouac. Reading the novel that inspired hippie counterculture in the 1960s is a ritual that helps new hires immerse themselves in Warby Parker's innovative workplace culture.²⁴

MATERIAL ARTIFACTS AND SYMBOLS When you walk into different businesses, do you get a “feel” for what type of work environment it is—uptight, casual, fun, serious, and so forth? These reactions demonstrate the power of material symbols or artifacts in creating an organization's personality.²⁵ The layout of an organization's facilities, the size of offices, the elegance of furnishings, what pictures or personal objects are displayed on desks, how employees dress, the types of automobiles provided to top executives, the availability of corporate aircraft, and perks offered are examples of material symbols. For instance, a number of companies are known for

IT'S YOUR CAREER

Reading an Organization's Culture: Find One That Is a Right Fit for You

Organizational cultures differ, and so do individuals. Choosing an organization where you'll be comfortable and that values what you bring to the job is often the difference between you being a “fast tracker” and a disappointment—both to you and your employer. Being able to “read” an organization's culture should help you find one that's right for you. By matching your personal preferences to an organization's culture, you are more likely to find satisfaction in your work, are less likely to leave, and have a greater probability of receiving positive performance evaluations. Here's a list of things you can do to “read” culture:

- **Do background work.** Check out the organization's website. What impression do you get from it? Are the organization's values listed? Mission statement? Then look for current news items, especially for evidence of high turnover or recent management shake-ups. Look for clues in stories told in annual reports and other organizational literature. Get the names of former employees if you can, and talk with them. You might also talk with members of professional trade associations to which the organization's employees belong.
- **Observe the physical surroundings or general work environment.** When you interview, pay attention to logos, signs, posters, pictures, photos, style of dress, length of hair, degree of openness

between offices, and office furnishings and arrangements. What does the office layout look like? What activities are encouraged or discouraged by the physical layout? What do these things say about what the organization's values? Could you see yourself working there—and enjoying it? If you will work remotely for the company, learn about how employees interact with each other. Do they use a specific software platform? How often do they speak with coworkers? Is video conferencing the norm?

- **How would you characterize the people you meet?** Are they formal? Casual? Serious? Jovial? Open? Restrained in providing information? What stories are repeated? Are jokes/anecdotes used in conversation? How are employees addressed? What do job titles say about the organization? Does the organization's hierarchy appear to be strict or loose? What do these things say about what the organization's values?
- **Look at the organization's HR manual (if available).** Are there formal policies, rules, and regulations? How detailed are they? What do they cover? Could you see yourself working within these parameters?
- **Ask questions of the people you meet.** For instance: What's the background of current senior managers? Were they promoted from within or hired from outside? What does the organization do to get new employees up and running? How is job success defined/determined? What rituals are important, and what events get commemorated? Why? Ask them to describe a decision that didn't work out well and what the consequences were for that decision maker. Or have them describe a crisis or critical event that occurred recently in the organization and how top management responded.

the perks they provide employees. Google's bocce courts, FactSet's cupcake trucks, Autodesk's bring-your-dog-to-work days, and REI's free equipment rentals all say something about what it's like to work at these firms and the importance they place on employee satisfaction. These material symbols convey to employees who is important, what is important, and the kinds of behavior that are expected and appropriate.

LANGUAGE Many organizations and subunits within organizations use language as a way to identify and unite members of a culture. By learning this language, members attest to their acceptance of the culture and their willingness to help preserve it.²⁶ Over time, organizations develop unique terms to describe equipment, locations, key personnel, suppliers, customers, processes, or products related to their business. Although new employees are frequently overwhelmed with acronyms and jargon, after a short period of time these terms become a natural part of their language. And once learned, this language acts as a common denominator that bonds members. Walmart offers an example. "Action Alley" refers to the wider aisles that receive the most foot traffic. "The Cross" is the cross-section of tile and cement that separates all apparel departments. And the "Bowling Alley" is the section at the front of stores that is before the cash registers. Anyone working in a Walmart store for more than a week knows this terminology.

WORKPLACE CONFIDENTIAL Adjusting to a New Job or Work Team

Almost all of us have made transitions in our lives. Maybe your parents moved and you had to make new friends and adjust to a new school. Or you joined a new church, social club, or sports team. As a result, you'd think that most of us would be pretty confident and successful in making the transition into a new job. This is often not the case, however, especially for younger employees.

For our discussion, we'll focus on the outsider-to-insider transition and both external (between organizations) and internal (between horizontal departments or vertical promotions) adjustments.

The importance of this issue is underlined by research that tells us that the typical individual changes jobs 10.2 times over 20 years—so you need to be prepared to do a lot of adjusting to new work situations.

One of your goals in any new job situation should be to make the adjustment successful. What does that entail? You've made a successful transition if, after six months in your new position, you can say that you feel comfortable, confident, and accepted by your peers. And the evidence tells us that this is most likely to occur where you know what is required to function in your job, you have confidence that you have the knowledge and skills to perform it, and you know what the job demands are in terms of relationships with others. Moreover, successful adjustment should result in satisfaction with your job and a minimal degree of anxiety and stress.

Successful adjustment should begin by assessing the new situation. Assuming you have concluded that the job is a good fit for you, you need to determine the following: What's

the history of the organization or work unit? Which individuals are held in high esteem, and what factors have led to their influence? And what does the culture value? Learning to read the organization's culture (see the earlier "It's Your Career" box) can provide you with answers to many of these questions.

Organizations have a variety of socialization options that they use to shape employees and help them adjust to the organization. Let's briefly review some options and consider their impact on you:

- **Formal vs. informal:** Specific orientation and training programs are examples of formal socialization. The informal variety puts new employees directly into the job.
- **Individual vs. collective:** When you're grouped with others and processed through an identical set of experiences, it's collective. Most small organizations socialize new members individually.
- **Fixed vs. variable:** A fixed schedule establishes standardized time targets for transition, such as a six-month probationary period or a rotational training program. Variable schedules have no advance notice of transitions; for instance, you'll be promoted when you're "ready."
- **Serial vs. random:** In serial socialization, you'll have a role model who will train and encourage you. Apprenticeship and mentoring programs are examples. In random socialization, you're left on your own to figure things out.

As you move into your new job, be aware that the socialization programs, or lack of such programs, you'll be exposed

(continued)

to will have a significant influence on your adjustment. For instance, if you see yourself as a conformist and want a job that fits you, choose a job that relies on institutional socialization—one that is formal, collective, fixed, serial, and shapes you through divestiture rites. In contrast, if you see yourself as a “wave-maker” who likes to develop your own approaches to problems, choose a job that focuses on individualized socialization—one that is informal, individual, variable, and random and affirms your uniqueness through investiture.

The evidence indicates most people end up more satisfied with, and committed to, their job when they go through institutional socialization. This is largely because its structured learning helps reduce the uncertainty inherent in a new situation and smooths the transition into the new job.

An additional insight on new-job adjustment is the value of organizational insiders as an important resource for information. Colleagues, supervisors, and mentors are more useful as sources for accurate information about your job and the organization than formal orientation programs

or organizational literature. People give you a better and more accurate reading of “the ropes to skip and the ropes to know.”

Finally, don't forget the power of first impressions. A positive first impression on your boss and new colleagues can both speed up and smooth your transition. Think about the image you want to convey, and make sure your clothes, posture, attitude, and speech fit that image.

So what are the specific implications of all this? How can you use this information to increase the probability that you'll have a successful adjustment in a new job? The answer is to focus on those things you can control. First, to summarize, choose a job where the socialization process matches up well with your personality. And, based on the evidence, choosing a job with institutionalized socialization will reduce uncertainty, lessen stress, and facilitate adjustment. Second, use insiders to provide background information and to reduce surprises. Last, start off on the right foot by making a good first impression. If colleagues like and respect you, they are more likely to share with you key insights into the organization's values and culture.²⁷

Remote Work and Culture

Much of what we know about workplace culture was learned by studying traditional workplace environments, that is, workplaces where people all work together, in person. And although many companies will always operate fully in person—for example, a construction company—clearly the future for many companies includes at least some remote or hybrid workers.²⁸ In fact, many companies today work entirely remotely. Can you build a strong organizational culture in a remote work environment? The answer is yes, but it requires intentionality.

Most managers focus on building culture based on physical proximity. As we discussed previously, workers typically learn about culture from observations and interactions with others, as well as from the physical workspace. However, what workers experience in these interactions that helps them learn culture is an emotional connection with others and with the organization. Emotion is our way of sensing or reacting to others or situations, and although we don't need physical interaction to experience emotions, we do need interaction.

Often remote workers have little or no interaction with others, which makes it difficult to build a culture. So managers must be intentional about connecting workers to the company. They should focus on creating more meaningful interactions and helping workers see the connection between their work and the mission of the organization.²⁹ For example, a manager could start a virtual meeting by asking everyone to talk about what they are working on, making sure to connect each person's work to a bigger goal for the department or the company. A company also should understand that the technology that workers use matters. For example, if team collaboration is important to the culture, the technology platform should make it easy to connect and work with others.

Beyond ensuring meaningful interactions, building culture with remote workers requires managers to be more explicit in articulating cultural values and helping employees see when their behaviors align with the culture. Having a written Culture Code like HubSpot is a start. But managers can also point out when workers are living those values expected in their culture. Calling out behaviors that align with the culture helps employees visualize the culture. For example, if team problem-solving is a cultural value, a manager could make sure to publicly acknowledge when a team effectively solved a problem by working together. Managers must be even more diligent when addressing behaviors by remote workers that conflict with cultural expectations.³⁰ For example, if relationship building

is important to a culture and this is supported by having videos on during virtual meetings, a manager may need to address an employee who refuses to turn on their camera.

How Culture Affects Managers

At Zappos's quarterly meetings, managers are asked, "What would you do to change the Zappos shoe box?" They are challenged to come up with ideas, with cash prizes to grease their creative juices. In contrast, for managers at many other companies, quarterly meetings mean a lot of listening to presentations. Zappos also doesn't have a dress code. Having visible tattoos or body piercings is perfectly acceptable.³¹

As we've learned, all employees of organizations—including managers—are influenced by the organization's culture. That influence—in shaping how decisions are made, what kind of behaviors to exhibit, the proper office attire, and the like—doesn't have to be written down. In fact, it rarely is. But through their selection criteria, socialization processes, artifacts, rituals, and jargon, organizations convey to managers a number of things. One of those things is the right way to make decisions: whether risk-taking is rewarded, whether to be an individual hero or a team player, or which decision style is preferred.

Successful managers quickly learn what to do and not do in their organization. You won't, for instance, find the following values written down, but each comes from a real organization:

- Look busy, even if you're not.
- If you take risks and fail around here, you'll pay dearly for it.
- Before you make a decision, run it by your boss so that they are never surprised.
- We make our product only as good as the competition forces us to.
- What made us successful in the past will make us successful in the future.
- If you want to get to the top here, you have to be a team player.

The link between values such as these and managerial behavior is fairly straightforward. If an organization's culture supports the belief that profits can be increased by cost cutting and that the company's best interests are served by achieving slow but

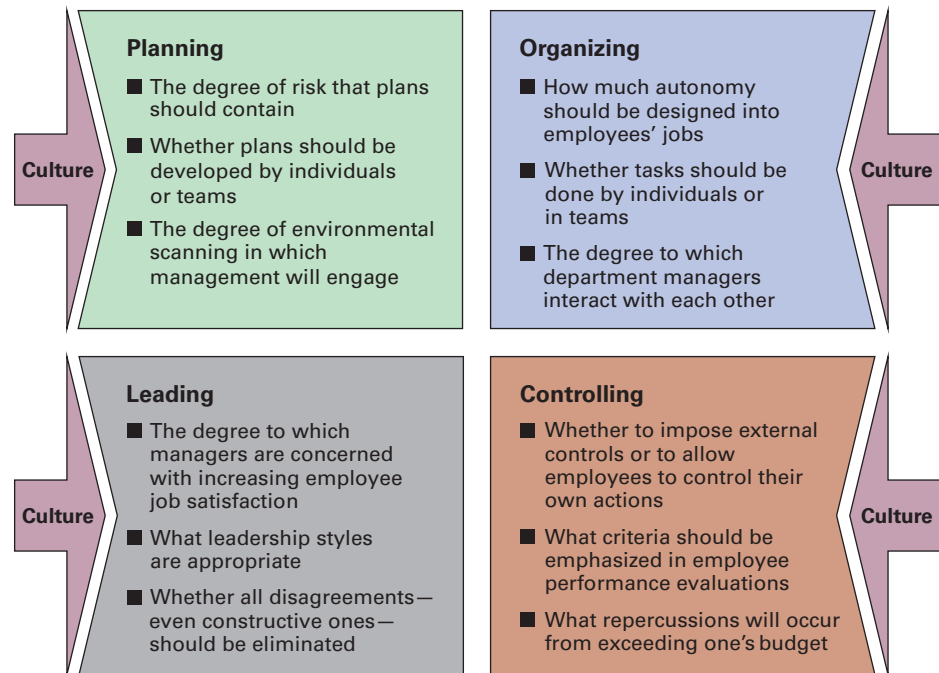


Casual dress and a relaxed atmosphere are evident at Zappos's corporate headquarters in downtown Las Vegas.

Source: James Leynse/Corbis/Getty Images

Exhibit 4-8

Types of Managerial Decisions Affected by Culture



steady increases in quarterly earnings, managers are unlikely to pursue programs that are innovative, risky, long-term, or expansionary. In an organization whose culture conveys a basic distrust of employees, managers are more likely to use an authoritarian leadership style than a democratic one.

As shown in **Exhibit 4-8**, a manager's decisions are influenced by the culture in which they operate. An organization's culture, especially a strong one, shapes and constrains the way managers plan, organize, lead, and control.

Chapter 4

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO4.1 CONTRAST the actions of managers according to the omnipotent and symbolic views.

According to the omnipotent view, managers are directly responsible for an organization's success or failure. The symbolic view argues that much of an organization's success or failure is due to external forces outside managers' control. The two constraints on managers' discretion are the organization's culture (internal) and the environment (external). Managers aren't totally constrained by these two factors because they can and do influence their culture and environment.

LO4.2 DESCRIBE the constraints and challenges facing managers in today's external environment.

The external environment includes those factors and forces outside the organization that affect its performance. The main components of an organization's general environment include economic, demographic, political/legal, sociocultural, technological, and global factors. An organization's specific environment is directly relevant to achieving goals and can include suppliers, customers, competitors, government

agencies, investors, and special-interest groups. Managers face constraints and challenges from these components because of the impact they have on jobs and employment, environmental uncertainty, and stakeholder relationships.

LO4.3 DISCUSS the characteristics and importance of organizational culture.

The six dimensions of culture are adaptability, attention to detail, outcome orientation, people orientation, team orientation, and integrity. A culture is maintained by employee selection practices, norms created by senior executives, and socialization processes. Also, culture is transmitted to employees through stories, rituals, material symbols, and language. In organizations with strong cultures, employees are more loyal and performance tends to be higher. The stronger a culture becomes, the more it affects the way managers do their job. A company needs to take an intentional approach to building culture with remote workers.

REVIEW AND DISCUSSION QUESTIONS

- 4-1. Describe the two views on how much impact managers have on an organization's success or failure.
- 4-2. "Be aware of your environment." What do you think this statement means for an organization? What are the implications for managing the external environment?
- 4-3. Refer to Exhibit 4-5. How would a first-line manager's job differ in these two organizations? How about a top-level manager's job?
- 4-4. Describe your ideal organizational culture, using the six dimensions of organizational culture. What constraints would this culture put on organizational managers' behavior? How? Does it constrain employees' behavior? How?
- 4-5. Can offering remote work to employees weaken an organization's culture? Explain.
- 4-6. Discuss the impact of a strong culture on organizations and managers.
- 4-7. What are the ways an organization sustains its culture?

PREPARING FOR: My Career

ETHICS DILEMMA

In many ways, technology has made all of us more productive; however, ethical issues do arise in how and when technology is used. Take competitive amateur and professional sports as an example. All kinds of technologically advanced sports equipment (swimsuits, golf clubs, ski suits, etc.) have been developed that can sometimes give competitors/players an edge over their opponents. Access to technology is expensive, meaning technology use in sports is not equally available to everyone.³²

- 4-8. Do you think the use of technology in sports is based on the desire to gain an advantage or the fear of competing at a disadvantage?³³ Is this an ethical concern for the use of technology?
- 4-9. What if your school (or country) were competing for a championship and couldn't afford to outfit athletes in such equipment, and it affected their ability to compete? Would that make a difference?
- 4-10. Given the degree of complexity and change technology has brought to amateur and professional sports, what can regulators (i.e., management) do to gain some control over their environment?

SKILL EXERCISE Developing Your Environmental Scanning Skill

About the Skill

Anticipating and interpreting changes that take place in the environment is an important skill managers need. Information that comes from scanning the environment

can be used in making decisions and taking action. And managers at all levels of an organization need to know how to scan the environment for important information and trends.

Steps in Practicing the Skill

To be more effective at scanning the environment use the following suggestions:

- **Decide which type of environmental information is important to your work.** Perhaps you need to know changes in customers' needs and desires, or perhaps you need to know what your competitors are doing. Once you know the type of information you'd like to have, you can look at the best ways to get that information.
- **Regularly read and monitor pertinent information.** There is no scarcity of information to scan, but what you need to do is read pertinent information sources. Learn which information sources are pertinent and focus on those that provide you with important information.
- **Incorporate the information you get from your environmental scanning into your decisions and actions.** Unless you use the information you're getting, you're wasting your time getting it. Also, the more you use information from your environmental scanning, the more

likely it is that you'll want to continue to invest time and other resources in gathering it.

- **Regularly review your environmental scanning activities.** If you're spending too much time getting information you can't use, or if you're not using the pertinent information you've gathered, you need to make some adjustments.
- **Encourage your associates and colleagues to be alert to information that is important.** Your colleagues and employees can be your additional "eyes and ears." Emphasize to them the importance of gathering and sharing information that may affect your work unit's performance.

Practicing the Skill

Identify several different sources of business information and start practicing regularly collecting information from those sources. Subscribe to a news feed or follow a news organization on Twitter. Incorporate checking the external environment somewhere in your daily routine.

WORKING TOGETHER Team Exercise

Almost a third of employees who leave their companies within the first 90 days say they didn't fit into the company's culture.³⁴ This suggests that learning about a company's culture before you accept a job could save you a considerable amount of grief. To increase the chances that you'll fit with the culture of the company you next work for, form groups of three or four and share the characteristics of an organizational culture each group member wants (and doesn't want) in an employer.

Compare your lists for common factors. Now choose one of the group members' lists and, as a group, discuss: What could you do when visiting a company for an interview to find out whether it has the characteristics on the list? What questions could be asked during the interview to find out if the company has a strong or weak culture? What clues could be looked for when walking around the company to understand what the culture is like? Be ready to share your analysis with the class.

MY TURN TO BE A MANAGER

- Find current examples in any popular business periodical of both the omnipotent and symbolic views of management. Write a paper describing what you found and how your examples represent these views of management.
- Consider a business that you frequent (for example, a restaurant or coffee shop) and review the six aspects of the external environment discussed in the text. Create a list of factors in the external environment that could affect the management of the business you selected.
- Choose an organization you are familiar with or would like to know more about. Create a table identifying potential stakeholders of this organization. Then indicate what particular interests or concerns these stakeholders might have.
- Activist investors and special interest groups try to pressure top management at companies to make significant changes to their policies. How have executives at companies like

Coca-Cola, Disney, Exxon, and Meta made changes in response to investors' or special interest groups' demands? Give some examples and indicate whether you agree or disagree with the changes. Was there any evidence of greenwashing at the company(ies) you researched?

- If you belong to a student organization, evaluate its culture by answering the following: How would you describe the culture? How do new members learn the culture? How is the culture maintained? If you don't belong to a student organization, talk to another student who does and evaluate it using the same questions.
- Research remote work and work nomads. In a short paper, discuss the positive and negative impacts these ways of working have on an organization with a strong culture. Would the effects be the same for an organization with a weak culture? Explain whether maintaining an organization's culture should be different if remote workers and work nomads are used.

CASE APPLICATION 1**Environmental Uncertainty at HBO**

HBO is the oldest and second-largest pay television network in the United States. Since the early 1990s, it has developed award-winning original programming. HBO shows like *House of the Dragon*, *Succession*, *White Lotus*, and *Westworld* have won Emmy and Golden Globe awards. HBO includes seven 24-hour channels as well as the streaming service Max. As of 2023, it had about 140 million subscribers worldwide.³⁵

That all sounds like HBO is doing well, right? Looking more deeply, though, a lot is happening in HBO's environment.

In the United States, a little over 75 million customers pay for subscription cable and satellite TV services. However, cable and satellite TV subscriptions in 2023 were at their lowest since 1992. In the first quarter of 2023, 2.3 million cable, satellite, and internet TV subscribers in total were lost to "cord-cutting," where customers cancel cable and satellite paid TV subscriptions in favor of streaming services. Analysts expect cord-cutting to continue, and only 50 to 60 million US homes will keep paid TV services in the future.

Meanwhile, HBO has Max, a streaming service like Netflix, Disney+, Hulu, and Apple TV+, but although the number of subscribers worldwide increases yearly, so do the number of competitors. Max subscribers in 2023 were estimated at just over 81 million, whereas Netflix and Amazon Prime had more than 200 million subscribers. Subscribers also often move from one service to another as the streaming market grows. Between June 2020 and June 2022, 20 percent of subscribers to premium services like Max and Netflix canceled three or more of their subscriptions to streaming services.

HBO, officially part of Warner Bros. Discovery Inc., has found it challenging to meet the expectations of streaming customers. It has a reputation for having a glitch-prone streaming service, which crashed for millions of viewers trying to watch the *House of the Dragon* premiere, a prequel to its *Game of Thrones* series. Warner Bros. Discovery recently relaunched the Max app to offer a family-friendly streaming service that includes HBO programming along with content from Discovery+ like TLC, HGTV, and Food Network. The combined services offer viewers an expanded library of less glitchy content and faster loading times. Meanwhile, competing with streaming services won't be easy for HBO. Netflix spent \$6 billion in 2021 to create original content, which is at least three times the amount of Amazon's and Apple's streaming services. Clearly, for HBO, competing in the future will be different than it used to be.³⁶

DISCUSSION QUESTIONS

- 4-11. Which of the cells in Exhibit 4-2 applies most clearly to the environmental uncertainty faced by HBO?
- 4-12. Using Exhibit 4-4, what components of HBO's external environment and specific environment are having an impact on the company? Why?
- 4-13. What, if anything, can HBO do to manage its environment and reduce its uncertainty exposure?
- 4-14. How might HBO's organizational culture change as a result of the changes described in this case?

CASE APPLICATION 2

Organizational Culture at Vice Media

Vice Media—a multimedia conglomerate—built its organizational culture around some features that were attractive to its young employees. A media company on the edge of digital content, the company provided more opportunities to people in their 20s than other companies in the same industry. Vice's cofounder, Shane Smith, had the appealing pitch to employees to “come with me and change the world.”³⁷ It started as a free magazine but then became the 10th-highest-valued private company in the United States. At its height, it had 3,000 employees, a cable network, many websites, two HBO shows, an ad agency, a film studio, a record label, and even a bar in London. And it was full of energetic, young employees.

There was another side to the culture at Vice, however. Sometimes the company was less than honest with clients as it grew. For instance, when a meeting with Intel was on the calendar, Smith convinced the architecture company next door to move out to make the office look larger. The day that Intel visited, Vice employees were asked to bring friends to work with laptops and everyone was told to act more professional than usual. The company was also known to allow unprofessional behavior as the norm. In fact, they asked employees to sign a “Non-Traditional Workplace Agreement,” which asked employees to agree that they did not find the workplace environment to be offensive or disturbing.

Departing employees described Vice Media as a creative environment that provided professional growth but also included low pay and overwork. A senior manager was once quoted saying that the company had a “22 Rule” hiring strategy: “Hire 22-year-olds, pay them \$22,000, and work them 22 hours a day.” All the while, Vice Media, aka the “Bad Place Where Millennials Want to Work,” was valued at \$5.7 billion. Smith told employees often that most of them had stock options and would be rich soon. But the stock options and high pay never panned out.

Change in the culture at Vice Media was reportedly underway when the *New York Times* reported multiple confidential settlements with employees for gender pay inequities as well as misconduct. Company founders wrote a letter to employees apologizing for the company's culture and promising change. In a 2019 settlement, the company agreed to pay the 675 female employees an average payout of \$1,600 plus lawyer fees or a total of \$1.875 million to resolve a class action lawsuit accusing Vice of pay discrimination. However, the promises for change were not enough, and the company filed for bankruptcy in 2023.³⁸

DISCUSSION QUESTIONS

- 4-15. Which of the six organizational culture dimensions apply most clearly to Vice Media's culture?
- 4-16. Do you think that a new CEO could have turned around the culture at Vice Media?
- 4-17. If you had the opportunity to be the CEO at Vice Media, what actions would you take to improve the culture?

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Chapter 5

Diversity, Equity, and Inclusion

Learning Objectives

- 5.1 Define** workplace diversity, equity, and inclusion and explain why managing them is so important.
- 5.2 Describe** the changing makeup of workplaces in the United States and around the world.
- 5.3 Explain** the different types of diversity found in workplaces.
- 5.4 Discuss** the challenges managers face in managing diversity, equity, and inclusion.
- 5.5 Describe** various workplace diversity, equity, and inclusion initiatives.



Molly Q. Ford, VP of Talent Brand and Marketing for Salesforce, works to promote Salesforce as a great place to work. Ford was the founder of the Office of Equality at Salesforce and continues to dedicate time to mentoring others.

Source: Marla Aufmuth/Getty Images for Watermark Conference for Women 2018

In 2012, Marc Benioff, CEO of tech giant Salesforce, looked around a meeting room of his leadership team and realized there were no women present. In fact, as he reflected, he realized that most of his meetings lacked diversity. He asked for the data and confirmed that women made up only 29 percent of the company's workforce and only 14 percent of management. That year Benioff committed to working on ensuring the company's workforce reflects the diversity of the communities the company serves. He started with requiring all meetings include at least 30 percent women. In 2015, the company was the first US firm to voluntarily conduct a pay equality audit, resulting in \$3 million in pay adjustments. In 2020, the company started the Racial Equality and Justice Task Force to drive systematic change within the organization. It established goals and metrics and created a dashboard on its public-facing website to track in real time representation, hires, attrition, and promotions by race and gender. And Salesforce is making progress—in fact, the company hit its top goal of 50 percent of employees from underrepresented populations in 2022, a year earlier than its goal deadline.¹

Although Salesforce still has some work to do to meet all its diversity goals, the company has invested intentional efforts and resources around its diversity, equity, and inclusion (DEI) strategies. In this chapter we will explore what DEI is, why it is important for a successful business, and strategies companies can use in their DEI work.

Management Myth: Diversity is about having hiring quotas.

Management Reality: Diversity, equity, and inclusion create a strategic opportunity for organizations to improve the bottom line.

DIVERSITY, EQUITY, AND INCLUSION in the Workplace

LO5.1 Define workplace diversity, equity, and inclusion and explain why managing them is so important.

As we will explore in this chapter, organizations that have a diverse workforce benefit from having more engaged and innovative workers, better financial performance, and decreased attrition. And as we highlighted in **Chapter 1**, a strategic focus on diversity, equity, and inclusion is needed to assure the well-being of workers.²

What Are Diversity, Equity, and Inclusion in the Workplace?

Diversity, equity, and inclusion are workplace values that are grouped together because they are interconnected. An organization must have strategies to address all three of these values to truly impact opportunities for employees from diverse backgrounds.

DIVERSITY With its basis in civil rights legislation and social justice, the word *diversity* often invokes a variety of attitudes and emotional responses in people. Diversity has traditionally been considered a term used by human resources departments that is associated with fair hiring practices, discrimination, and inequality. But diversity today is so much more.³ **Exhibit 5-1** illustrates a historical overview of how the concept and meaning of workforce diversity has evolved.

Exhibit 5-1

Timeline of the Evolution of Workforce Diversity

1960s to 1970s	Focus on complying with laws and regulations: Title VII of Civil Rights Act; Equal Employment Opportunity Commission; affirmative-action policies and programs.
Early 1980s	Focus on assimilating people of color and women into corporate setting: Corporate programs developed to help improve self-confidence and qualifications of diverse individuals so they can “fit in.”
Late 1980s	Concept of workforce diversity expanded from compliance to an issue of business survival: Publication of <i>Workforce 2000</i> opened business leaders’ eyes about the future composition of the workforce—that is, more diverse; first use of term <i>workforce diversity</i> .
1990s to 2000	Companies ramp up diversity hiring practices: Consumer brands began realizing the value of a diverse workforce that mirrors customers. With the passage of the Americans with Disabilities Act, the definition of diversity continued to evolve. As companies worked to manage a diverse workforce, academic research started to explore inclusion.
2000 to 2015	Focus on inclusion: Organizational efforts focused on advancing the diverse workforce, working to eliminate barriers to promotions, and creating more inclusive work environments.
2015 to 2020	Focus on equity: Spurred by movements for gender-based equal pay, equity is added as a focus for companies.
2020 forward	Increased commitment and complexity: Social pressures lead to a growth in workplace DEI initiatives. The Supreme Court adds legal protections for LGBTQ+ workers, but then rolls back Affirmative Action in higher education, highlighting the explicit tie of DEI efforts to government and increasing the politicization of DEI initiatives.

Sources: Based on Ernst & Young, “The New Global Mindset: Driving Innovation Through Diversity,” January 27, 2010; S. Williams, “Evolution of Diversity in the Workforce,” LinkedIn, February 24, 2020, <https://www.linkedin.com/pulse/evolution-diversity-workplace-stacey-williams/>; T. Agovino, “The Evolution of HR and DE&I,” *Society for Human Resource Management*, June 5, 2023, <https://www.shrm.org/hr-today/news/hr-magazine/summer-2023/pages/shrm-75th-dei.aspx>; and S. Walters, “The Politicization of Diversity, Equity, and Inclusion,” *Penn Political Review*, June 24, 2022, <https://pennpoliticalreview.org/2022/06/the-politicization-of-diversity-and-inclusion/>.

We define **workforce diversity** as the ways in which people in an organization are different from and similar to one another. Notice that our definition focuses not only on the differences but also the similarities of employees. This recognizes that managers and organizations should view employees as having qualities in common as well as differences that separate them. It doesn't mean that those differences are any less important, but that our focus is on finding ways for managers to develop strong relationships with and engage their entire workforce.

One final point: The demographic characteristics that we tend to think of when we think of diversity—age, race, gender, ethnicity, and so on—are just the tip of the iceberg. These demographic differences reflect **surface-level diversity**, which includes easily perceived differences that may trigger certain stereotypes but don't necessarily reflect the ways people think or feel. Such surface-level differences in characteristics can affect the way people perceive others, especially when it comes to assumptions or stereotyping.

As people get to know one another, these surface-level differences become less important and **deep-level diversity**—differences in values, personality, and work preferences—becomes more important. These deep-level differences can affect the way people view organizational work and rewards, communicate, react to leaders, negotiate, and generally behave at work. As organizations seek to improve workplace diversity, the focus is on developing appreciation and acceptance at a deep level.

EQUITY Norms, policies, and practices are needed to ensure that a person's identity does not predict their success in an organization. A focus on **equity** means fair treatment for all people. Equity differs from equality in that equality means we treat everyone the same. Equity means that we adjust treatment, taking into consideration each person's unique circumstances so that the outcomes or opportunities are equal, without giving anyone an unfair advantage. Creating equity may also require removing obstacles that create barriers. For instance, a company's management training program that requires a mentor to nominate participants creates a barrier for underrepresented people that do not have access to a mentor.⁴

INCLUSION As explained by Verna Myers, the former chief diversity officer at Netflix, "Diversity is being invited to the party, inclusion is being asked to dance."⁵ Although many organizations are able to create a diverse workplace environment and address equity obstacles to ensure all employees have access to opportunities, **inclusion** is about creating a welcoming, affirming, and respectful workplace. Work to make a company more inclusive includes actions such as improving employee onboarding and providing communication paths for all employees to voice their concerns or share opportunities to become more inclusive.⁶

Benefits of a Diverse, Equitable, and Inclusive Workplace

It isn't hard to build a case for organizations to develop and introduce diversity programs. The benefits fall into three main categories: people management, organizational performance, and strategic advantage. (See **Exhibit 5-2**.)

PEOPLE MANAGEMENT When all is said and done, diversity *is*, after all, about people, both inside and outside the organization. The people management benefits that organizations get because of their workforce diversity efforts revolve around attracting and retaining a talented workforce. Organizations rely on capable employees with the right skills, abilities, and experiences to achieve their goals.

Positive and explicit workforce diversity efforts can help organizations draw from a larger applicant pool and utilize the best of the talents those individuals can bring to the workplace. In addition, as organizations rely more on employee teams, those work teams with diverse backgrounds often bring different and unique perspectives to discussions, which can result in more creative ideas and solutions.

workforce diversity

The ways in which people in an organization are different from and similar to one another

surface-level diversity

Easily perceived differences that may trigger certain stereotypes, but that do not necessarily reflect the ways people think or feel

deep-level diversity

Differences in values, personality, and work preferences

equity

Approach to addressing unique circumstances to create equal outcomes or opportunities

inclusion

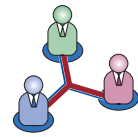
Creating a welcoming, affirming, and respectful workplace

Exhibit 5-2

Benefits of Workforce Diversity

People Management

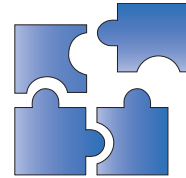
- Better use of employee talent
- Increased creativity in team problem-solving
- Ability to attract and retain employees of diverse backgrounds

**Organizational Performance**

- Reduced costs associated with high turnover, absenteeism, and lawsuits
- Enhanced problem-solving ability
- Improved system flexibility

**Strategic Advantage**

- Increased understanding of the marketplace, which improves ability to better market to diverse consumers
- Potential to improve sales growth and increase market share
- Potential source of competitive advantage because of improved innovation efforts
- Viewed as moral and ethical; the "right" thing to do



Sources: Based on G. Robinson and K. Dechant, "Building a Business Case for Diversity," *Academy of Management Executive* (August 1997): 21–31; O. C. Richard, "Racial Diversity, Business Strategy, and Firm Performance: A Resource-Based View," *Academy of Management Journal* (April 2000): 164–177; J. A. Gonzalez and A. S. DeNisi, "Cross-Level Effects of Demography and Diversity Climate on Organizational Attachment and Firm Effectiveness," *Journal of Organizational Behavior* (January 2009): 21–40; and M.-E. Roberge and R. van Dick, "Recognizing the Benefits of Diversity: When and How Does Diversity Increase Group Performance," *Human Resource Management Review* (December 2010): 295–308.

ORGANIZATIONAL PERFORMANCE The performance benefits that organizations get from workforce diversity include cost savings and improvements in organizational functioning. The cost savings can be significant when organizations that cultivate a diverse workforce reduce employee turnover, absenteeism, and exposure to lawsuits. For instance, a \$3.2 million verdict was recently awarded to an ex-employee of Tesla for racial discrimination.⁷ Fox News similarly settled a recent racial and gender discrimination suit for \$10 million.⁸ UPS paid out \$2 million after being sued for disability discrimination.⁹ And Darden Restaurants recently paid nearly \$3 million to settle a suit claiming the company's hiring practices discriminated against older applicants.¹⁰ The US Equal Employment Opportunity Commission (EEOC) reported that 73,485 workplace discrimination claims were filed in 2022. The monetary relief obtained for victims totaled \$381.2 million.¹¹ Workforce diversity efforts can reduce the risk of such lawsuits.

Further, organizational performance can be *enhanced* through workforce diversity because of improved problem-solving abilities and system flexibility. An organization with a diverse workforce can tap into the variety of skills and abilities represented, and just the fact that its workforce is diverse requires that processes and procedures be more accommodative and inclusive. Research confirms that diverse leadership teams make better decisions, generate higher sales, and produce better financial returns.¹²

STRATEGIC ADVANTAGE Organizations also benefit strategically from a diverse workforce when they extract the best talent, performance, market share, and suppliers from a diverse country and world. A distinct strategic benefit is that with a diverse workforce, organizations can better anticipate and respond to changing consumer needs. Employees from diverse backgrounds bring a variety of points of view and approaches to opportunities, which can improve how the organization markets to a variety of consumers. For instance, Hispanic people currently make up 19 percent of the US population and account for almost half of US population growth.¹³ And as the Hispanic population has grown, so have organizational efforts to market products



TIAA CEO Thasunda Brown Duckett believes having diversity, equity, and inclusion as the cornerstone of company culture is best for the long-term health of the business. The financial services company's DEI efforts have been recognized with a third place ranking on *Forbes*'s list of America's Top Companies for Diversity and eighth place on Fair360's Top 50 Companies for Workplace Fairness in 2023. Source: Jeenah Moon/Bloomberg via Getty Images

and services to that demographic group. Having Hispanic employees can be a fertile source of insights for reaching this market. Food service companies, retailers, financial services companies, and automobile manufacturers are just a few of the industries that have seen sales and market share increases because firms paid attention to the needs of diverse consumers using information from employees.

A diverse workforce also can be a powerful source of competitive advantage, primarily because innovation thrives in such an environment. A report by Ernst & Young stated that “cultural diversity offers the flexibility and creativity we need to re-create the global economy for the twenty-first century.”¹⁴ Tapping into differing voices and viewpoints can be a powerful factor in steering innovation. Companies that seek to lead their industries need to find ways to “stir the pot”—to generate the lively debate that can create those new ideas. And research shows that diverse viewpoints can do that. “Diversity powers innovation, helping businesses generate new products and services.”¹⁵

Finally, from an ethical perspective, a commitment to workforce diversity can be said to be the right thing to do. Businesses have an ethical imperative to build relationships that value and enable all employees to be successful. Managers need to view workforce diversity as a way to bring different voices to the table and to build an environment based on trusting relationships.

THE CHANGING **Workplace**

LO5.2 Describe the changing makeup of workplaces in the United States and around the world.

Although we see more women and people of color in organizations, they continue to be underrepresented at the top of organizations.¹⁶ Change is happening, but it has been slow. The past 40 years have seen a transition from a white male managerial workforce to one that is more gender balanced and multiethnic. Yet we still have a long way to go—especially in the upper management ranks—for the workforce to reflect changes in the overall population. In this section, we want to look at some of these changes. Let's first look at the changing characteristics of the US population and then at global diversity trends.

Characteristics of the US Population

The United States is increasingly becoming more racially and ethnically diverse with many people with different national origins, languages, religions, and cultures.¹⁷

WORKPLACE CONFIDENTIAL Working in a Diverse Environment

This chapter looks at diversity from the standpoint of management, specifically: What can *management* do to create a workplace that welcomes and appreciates differences? But this chapter doesn't offer *you* direct guidance on how to support coworker diversity. Although management and the organization are largely responsible for fostering an inclusive culture that values diversity, you play a vital part.

Let's begin with the realization that many individuals have difficulty accepting others who are different from themselves. Human nature is such that we tend to be attracted to and feel more comfortable with people who are like us. It's not by chance, for example, that new immigrants gravitate to communities where there is a sizeable population of people from their country of origin. But "embracing differences" has become an unquestioned goal in most advanced economies and a mantra within organizations. It's increasingly difficult to survive in today's workplace if you can't accept differences and function effectively with a diverse workforce.

Research tells us that we all have biases. Demographics mostly reflect surface-level diversity and can lead you to perceive others through stereotypes and assumptions. In contrast, when you get to know others, you become less concerned about demographic differences if you can see yourself sharing more important, deeper-level characteristics.

So what can you do to more effectively embrace coworker diversity? At the surface level, start by confronting your biases and assumptions about others. You can't deal with your prejudices unless you recognize them. Then consider the positives of diversity. As we have noted in this chapter, a diverse workforce has numerous pluses. You need

to recognize, accept, and value the unique contributions of those who are different from you in terms of appearance, culture, skills, experiences, and abilities.

At the deep level, the good news is that as we get to know people, most of us look beyond the surface to find common bonds. Specifically, the evidence shows that the longer individuals work together, the less the effects of surface diversity. So your first reaction might be to assume you have nothing in common with a colleague who is 30 years older, or raised in a different country, or whose first language is different from yours. But start with the basics. You're both working for the same employer. That alone suggests a common bond. Both of you saw something in your employing organization that drew you to it. Then, if you're having trouble dealing with someone's differences, look beyond the surface and try to get to know the individual's personality, interests, and beliefs. You're likely to be pleasantly surprised. You might initially think someone isn't like you or won't understand you, but as you dig deeper and spend more time with the person, you'll often find common bonds.

In addition to working one-on-one with a diverse set of coworkers, you'll likely have to deal with diversity within work teams. Occasionally, diversity within teams can create problems known as "faultlines." Faultlines are subgroups that develop naturally within teams, typically along various demographic lines. The behavior of the team leader and the way in which they structure the leadership role is essential for promoting communication and cohesiveness across the subgroups and for rallying the membership to meet a common cause.¹⁸

The previous statistics are just the tip of the iceberg. The United States is an increasingly diverse society, and that diversity will continue to reshape the makeup of the workforce. Let's look at some of the most dramatic of these changes.

- **Total population of the United States:** The total population is projected to increase to 373 million by the year 2053, up from 336 million in 2023, and this growth will be driven primarily by immigration.¹⁹
- **Racial/ethnic groups:** In addition to total population changes, the components of that population are projected to change as well. **Exhibit 5-3** provides the projected population breakdown. As the projections show, the main changes will be in the percentages of the Hispanic and white populations.
- **An aging population:** As a nation, the US population is aging. People under 40 made up 60 percent of the workforce in the 1980s. Today that number has dropped to 45 percent. Baby boomer parents had fewer children than their parents did, and that trend has continued in the generations that followed.²⁰ By 2050, one in every five persons will be age 65 or over. The "oldest" of this group—those age 80 and over—will be the most populous age group, comprising 8 percent of the entire US population. "Aging will continue to be one of the most important defining characteristics of the population."²¹

Such population trends will have a major impact on US workplaces. What workplace changes might we see?

	2022	2060
Foreign-born	13.6%	19%
Racial/Ethnic Groups		
White*	58.9%	44.3%
Hispanic or Latino	19.1%	27.5%
Black*	13.6%	15%
Asian*	6.3%	9.1%
American Indian/Alaska Native	1.3%	1.4%
Two or more races	3%	6.2%

* Non-Hispanic

Source: www.census.gov

Exhibit 5-3 Changing Population Makeup of the United States

To address a shortage of workers in all industries due to the aging workforce's impact on retirements and an increase in need in the healthcare industry to care for aging citizens, the nation will need to come to agreement on immigration because younger immigrants can fill in the needed workforce.²² Further, to better accommodate the increasingly more diverse workforce, companies will need to focus more on employee needs and become more flexible. For example, companies will need to continue to offer the flexible work options that emerged during the COVID-19 pandemic and provide more resources to train workers instead of relying on experienced workers when hiring.²³

Businesses will need to accommodate and embrace these workforce changes. Interestingly, although America historically has been known as a “melting pot,” where people of different nationalities, religions, races, and ethnicities have blended together to become one, current attitudes and practices emphasize recognition and celebration of differences. Organizations need to recognize that they can't expect employees to assimilate into the organization by adopting uniform attitudes and values. Instead, there needs to be acknowledgment and appreciation for the differences that people bring to the workplace. Later in this chapter, we'll discuss initiatives that organizations can implement to foster this appreciation for differences.

What About Global Workforce Changes?

Some significant worldwide population trends also are likely to affect global workforces. According to United Nations forecasts, “The world is in the midst of an epochal demographic shift that will reshape societies, economies, and markets over the next century.”²⁴ Let's look at two of these trends.²⁵

- **Total world population:** The total world population reached over 8 billion people in 2022. Although the population is forecasted to reach 9.7 billion by 2050, it will take 15 years to reach 9 billion in 2037, a sign that population growth is slowing. The main reason for this plateau is the decline in birth rates as nations advance economically. However, in countries that are less developed and have less access to contraception, such as Niger and Somalia, birth rates are likely to remain high.²⁶ One of the benefits is that many of these countries are likely to experience a rising proportion of young people entering the workforce, which should drive productivity and economic growth.
- **An aging population:** The world's older population continues to grow at an unprecedented rate. Life expectancy in 2019 was 72.8 years old, and this is expected to jump to 77.2 years by 2050.²⁷

An aging world population will bring about a lot of changes. Young workers will be in short supply, and advanced nations will be reliant on immigrants from developing countries to fill job openings. And employers may also need to find ways to retain workers beyond the traditional retirement age. The implication for societies and businesses are profound—from changing family structures to shifting patterns of work

and retirement to emerging economic challenges based on increasing demands on social entitlement programs, dwindling labor supply, and declining total global savings rates. Such demographic shifts will reshape the global workforce and organizational workplaces.

TYPES of Workplace Diversity

LO5.3 Explain the different types of diversity found in workplaces.

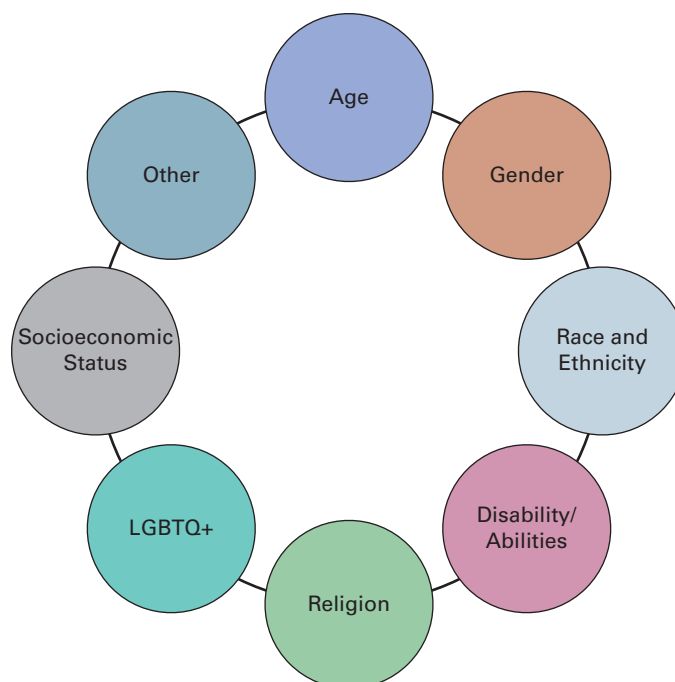
What types of dissimilarities—that is, diversity—do we find in the workplace? **Exhibit 5-4** shows several types of workplace diversity. Although these broad areas capture important dimensions of workplace diversity, there are other types of diversity that may exist in any organization. For example, organizations have employees with differing educational backgrounds, from different geographical areas, with different parental or marital status, and so forth. As organizations develop their approach to DEI, they should consider the makeup of their own workforce. Further, it is important to consider that employees come to the workplace with more than one identity. For instance, a young, Black male experiences the workplace differently than an older, Asian female.

Age

The negative stereotypes of older workers—poor mental functioning, lower job performance, resistant to change—have undoubtedly discouraged many employers from hiring and retaining people over 50. These stereotypes arguably underlie many claims of job discrimination. Although both Title VII of the Civil Rights Act of 1964 and the Age Discrimination in Employment Act of 1967 prohibit age discrimination, employees' claims of age-based job discrimination have remained steady.²⁸

Contrary to the stereotypes, the evidence indicates that increasing diversity by hiring and retaining older workers makes good business sense.²⁹ They bring experience, skills, and continuity to the workplace. Keeping older workers also provides other workers access to key institutional knowledge and history. Moreover, as implied in our previous

Exhibit 5-4
Types of Diversity Found in Workplaces



discussion of declining birth rates and potential upcoming labor shortages, holding on to aging baby boomers may be critical if organizations are to keep key job positions filled.

A few specifics can illuminate the value of older workers and demonstrate many of the fallacies of age stereotypes. For instance, older workers are more stable. They stay put.³⁰ So management needs to spend less time and money on recruiting new employees. Older workers have lower rates of avoidable absences than their younger colleagues.³¹ And maybe most important, studies have shown that there is virtually no relationship between age and job performance;³² that is, there is no significant decline in performance with age. Any drop-off in physical or mental acuity appears to be more than offset by experience. These factors make a strong case for organizations to hire older workers and to implement diversity initiatives like flexible hours and skill-updating programs that will attract and keep them. As a case in point, executives at global bank Barclays believe that hiring older workers makes good business sense. To help find and select seniors, it launched an internship program for individuals age 50 or older.³³

There is also a flip side to the older worker stereotype: the negative stereotype of younger workers, specifically Gen Z (generally those born between 1997 and 2012), as only caring about work–life boundaries and rejecting the hustle required to climb the career ladder. The reality is, however, that although these younger workers may want more control over their schedules, they worry about financial security and are willing to put in the effort to get ahead.³⁴

Managers need to ensure that they take into account differing norms between generations. Effectively managing an organization’s diverse age groups can lead to their working well with each other, learning from each other, and taking advantage of the different perspectives and experiences that each has to offer.

Gender

Look around a college campus. If it’s typical, the majority of students are women.³⁵ And that fact has fed into the workforce. In 1950, less than 30 percent of the workforce was female. It’s currently 47 percent. Women also now hold more than half of professional or management jobs.³⁶

In spite of the progress that has been made, the workplace is still far from being gender-neutral, and women are now demanding more from the workplace. A recent study found that women are now switching jobs faster, in search of opportunities as the career ladder remains difficult to climb within some organizations. For example, only one in four C-suite executives are women, and for every 100 men who are promoted to management, only 87 women are promoted.³⁷

Started by activist Tarana Burke in 2006, the #MeToo movement accelerated in 2017 when actress Alyssa Milano urged women to share their stories of harassment and assault. Millions did so, and starting with film producer Harvey Weinstein, a flood of accusations brought to light abuses of power by dozens of prominent men, including *Today* co-host Matt Lauer, TV journalists Bill O’Reilly and Charlie Rose, Pixar head John Lasseter, and casino magnate Steve Wynn.³⁸ The movement additionally revealed organizational cultures, like Fox News, that were hostile to women.³⁹ And investigations into Silicon Valley tech firms such as Uber, Tesla, Squarespace, and Tinder found a “boy’s club” environment more suited to a fraternity house than a business organization.⁴⁰

Although there continue to be gender inequities in the workplace, thanks to the exposure that was created by “me too,” workers today are more confident that people who commit workplace harassment or assault will be held accountable.⁴¹ And we can expect organizational cultures that continue to be hostile, especially toward women, to attract unfavorable media attention and face serious legal consequences.



Older employees can be valued at an organization, as demonstrated by the Fire Department Museum in Stendal, Germany. Gunter Hornke, 87 years old, is the oldest member of the team and is happy to keep active and share his experience with others. Source: Zentralbild/dpa/Alamy Stock Photo

race

Physical characteristics, such as bone structure, skin color, or eye color

ethnicity

The social and culture factors—including nationality, regional culture, and ancestry—that define the groups a person belongs to

Race and Ethnicity

We define **race** as physical characteristics, such as bone structure, skin color, or eye color. **Ethnicity** is the social and cultural factors—including nationality, regional culture, and ancestry—that define the groups a person belongs to. Typically, we associate race with biology and ethnicity with culture, but there is a history of self-identifying for both classifications. Laws against race and ethnic discrimination are in effect in many countries, including Australia, the United Kingdom, and the United States.⁴²

As we saw earlier in Exhibit 5-3, the racial and ethnic diversity of the US population is increasing at an exponential rate. We're also seeing this same effect in the composition of the workforce. However, a diverse workforce does not equate to an inclusive and equitable workforce. In fact, more than 40 percent of the discrimination complaints filed with the EEOC in 2022 were related to race and ethnicity.⁴³

Some industries differ significantly in terms of racial makeup. For instance, US advertising and media organizations suffer from a lack of racial diversity in their management ranks even though their client base is increasingly ethnically diverse.⁴⁴ In contrast, among technology firms in Silicon Valley, Asians are significantly overrepresented relative to their percentage of the US population.⁴⁵

Disabilities

One in four adults in the United States have some form of disability.⁴⁶ In 1990, the Americans with Disabilities Act (ADA) became law, providing better access to the workplace for people with disabilities. The ADA prohibits discrimination against an individual who has a disability or is “regarded as” having a disability and requires employers to make reasonable accommodations so their workplaces are accessible to people with physical or mental disabilities and enable them to effectively perform their jobs. With the law's enactment, individuals with disabilities became a more representative and integral part of the US workforce.

What defines a disability? The EEOC defines a person with a disability as someone who has any physical or mental impairment that substantially limits one or more major life activities.⁴⁷ Examples would include missing limbs, seizure disorder, Down syndrome, autism, deafness, schizophrenia, alcoholism, diabetes, depression, and chronic back pain.

A recent report indicated that only 4 percent of companies prioritize disability as part of their company's DEI initiative.⁴⁸ Even after more than 30 years of the ADA, organizations and managers still have fears about employing workers with a disability. A survey by the US Department of Labor looked at these unfounded fears.⁴⁹ **Exhibit 5-5** describes some of those fears as well as the reality—that is, what it's really like. These fears undoubtedly lead to some employers discriminating against people with disabilities in the hiring process.

Overall, people with disabilities are highly rated by employers for traits such as dependability and conscientiousness.⁵⁰ But not to be overlooked, in some jobs people with disabilities bring talents that actually give them an edge. For instance, ambient noise can be distracting in jobs that require intense concentration. This suggests, all other things being equal, that those with a hearing impairment would have an advantage in doing jobs that require high concentration, such as computer programmer or radiologist. Similarly, workers with autism are sought out at companies like JPMorgan Chase, Microsoft, IBM, and SAP for software testing and cybersecurity. One executive at



Madison's Café employee Dan Patstone figures out change from a gift certificate with a little help from co-owner Nicole Grant McCoomb during lunch hour. The café's mission is to provide opportunities to people with intellectual and developmental disabilities.

Source: Deb Cram/Portsmouth Herald/AP Images

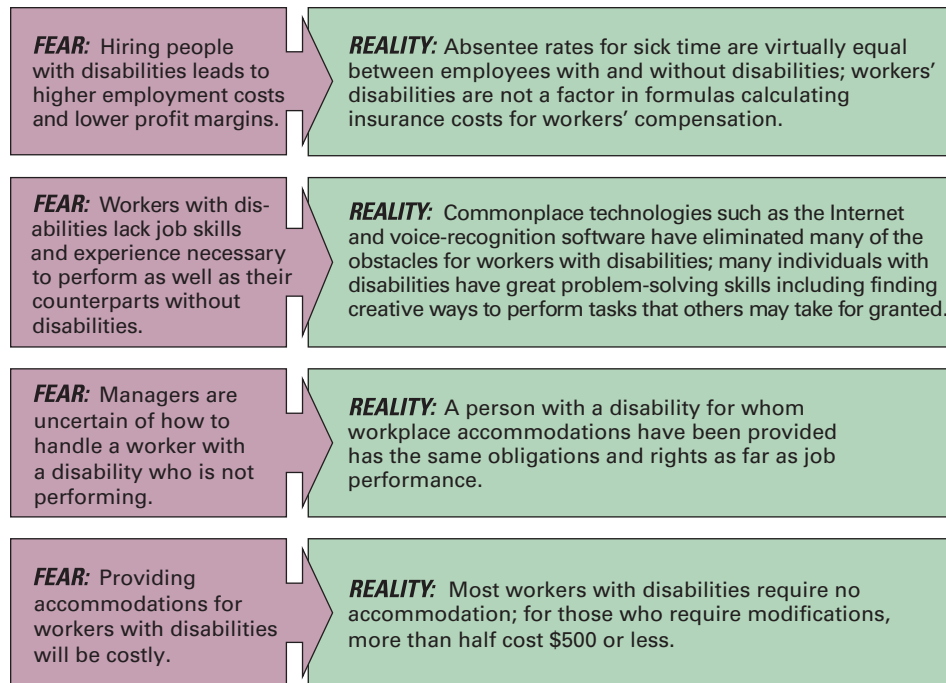


Exhibit 5-5

Employers' Fears About Workers with Disabilities

Sources: Based on R. Braum, "Disabled Workers: Employer Fears Are Groundless," *Bloomberg Businessweek*, October 2, 2009; and "Survey of Employer Perspectives on the Employment of People with Disabilities," US Department of Labor/Office of Disability Employment Policy, November 2008.

Chase, where more than 70 employees with autism had been hired in the previous three years, commented, "Our autistic employees achieve, on average, 48 percent to 140 percent more work than their typical colleagues. ... They are highly focused and less distracted by social interactions."⁵¹

Religion

The composition of religions represented in the workplace is changing. In 2020, 64 percent of Americans identified as Christian and 6 percent identified as another religion such as Buddhism, Judaism, or Islam. The remaining 30 percent of the population is unaffiliated with a religion. The unaffiliated, sometimes referred to as "nones," is projected to grow as those identifying as Christian decline. In fact, the "nones" may surpass Christians by 2070 if current trends continue.⁵² The changing beliefs in society will likely impact the workplace.

At a minimum, organizations must comply with Title VII of the Civil Rights Act, which prohibits discrimination on the basis of religion and also requires employers to provide accommodations for religious practices. For example, Muslims may request flexibility in dress code to cover their hair or grow a beard and time and space to perform daily prayers.⁵³ Under the law, companies must provide these accommodations unless it causes an undue hardship for the employer.

Although the law requires some accommodations, identifying opportunities to provide them more easily can benefit all workers. For example, offering flexible holidays, recognizing dietary restrictions in the company dining room, and providing space for prayers or other religious observances are practices that can support religious beliefs without individual employees needing to request accommodations.⁵⁴

Research suggests that honoring religious diversity in the workplace can lead to improved employee engagement. By viewing religious diversity as an asset, organizations can create a more inclusive workplace. Religious literacy can also help a company's bottom line. For example, an employee at Nike helped develop a line of modest swimwear after noticing Muslim women sitting on the shore during a beach vacation.

LGBTQ+: Sexual Orientation and Gender Identity

The acronym LGBTQ+ stands for lesbian, gay, bisexual, transgender, and queer with a “+” to recognize the limitless sexual orientations and gender identities that exist. Approximately 7.1 percent of American adults identify themselves as LGBTQ+. And among Americans born between 1997 and 2003, the number is 21 percent.⁵⁵

In 2020, the Supreme Court in the United States delivered a historic decision extending protections against discrimination provided by Title VII of the Civil Rights Act to gay, lesbian, and transgender employees.⁵⁶ Europeans have had this protection since 2000, when the Employment Equality Directive required all European Union member states to introduce legislation making it unlawful to discriminate on the grounds of sexual orientation.⁵⁷

Research has shown mostly positive impacts of organizational programs to support LGBTQ+ employees. Firms with supportive practices and policies experience greater profitability, improved overall firm performance, and increased innovation. However, where there is divisive public support of the LGBTQ+ community, such practices may negatively influence consumer purchase decisions.⁵⁸ For example, in 2023 Target pulled Pride merchandise from its stores after employees faced harassment and other safety concerns following calls to boycott Target for selling the merchandise.⁵⁹

Companies can support their LGBTQ+ employees by creating a supportive work climate and encouraging inclusive behavior by coworkers.⁶⁰ This can be accomplished by providing employees education on LGBTQ+ inclusive practices, such as how to use inclusive language along with emphasizing the importance of respect in the workplace. Furniture retailer IKEA started a tradition of celebrating International Day Against Homophobia, Biphobia, and

Transphobia as a way to demonstrate support for people of all gender identities and sexual orientations.⁶¹



Employees from Google in Austin participated in the Austin Pride parade in 2022.
Source: ZUMA Press, Inc./Alamy Stock Photo

Socioeconomic Status

Some individuals in an organization may not have access to the same resources as others to advance their careers, and this access is often determined by socioeconomic status. A combination of social and economic factors such as amount and kind of education attained, type and prestige of occupation, income level, and place of residency determine one's position on a society's socioeconomic scale.⁶²

Research suggests that workers who come from lower-class social origins are 32 percent less likely to make it to the manager level in a company, which is unfortunate because workers from disadvantaged backgrounds are often more likely to succeed in leadership positions. A study of military leaders, for example, found that those from lower social-class origins are less self-centered, setting them up to be better leaders.⁶³

How can organizations build inclusive practices to address socioeconomic differences? First, management must add goals to their DEI strategy to address supporting employees from diverse socioeconomic backgrounds. Further, hiring managers should make sure they do not require advanced education if it is not really needed. Demanding unessential educational credentials disadvantages those from a lower socioeconomic background. Finally, companies should create opportunities for promotion to management from the hourly worker ranks. For example, 75 percent of Walmart store managers were promoted from hourly workers. Walmart provides hourly workers training in leadership and management to help them move forward.⁶⁴

CHALLENGES in Managing Diversity

LO5.4 Discuss the challenges managers face in managing diversity, equity, and inclusion.

Despite the benefits that we know workforce diversity brings to organizations, managers still face challenges in creating accommodating and safe work environments for all of their employees. In this section, we're going to look at three of those challenges: personal bias, the glass ceiling, and pay inequity.

Personal Bias

Working mothers. Professional athletes. Conservatives. Liberals. Immigrants. What impressions come to mind when you read these words? Based on your background and experiences, you probably have pretty specific ideas and things you would say, maybe even to the point of characteristics you think that all professional athletes or all immigrants share. Each of us has biases—often hidden from others.⁶⁵ Employees can and do bring such generalizations about various groups of people with them into the workplace. These ideas can lead to prejudice, discrimination, and stereotypes. And research is pointing to a troubling fact—eliminating bias is a lot more difficult than previously thought.⁶⁶

Bias is a tendency or preference toward a particular perspective or ideology. It's generally seen as a “one-sided” perspective. Our personal biases cause us to have preconceived opinions about people or things. Such preconceived opinions can create all kinds of inaccurate judgments and attitudes. And research suggests we may not always be aware of our biases. Although there is not an agreed-upon clear definition, the term **unconscious bias** generally refers to deeply engrained beliefs about others that you are not aware of but that influence your attitudes and behaviors.⁶⁷

One outcome of our personal biases can be **prejudice**, a preconceived belief, opinion, or judgment toward a person or a group of people. Our prejudice can be based on all the types of diversity we discussed: race, gender, ethnicity, age, disability, religion, sexual orientation, or even other personal characteristics.

A major factor in prejudice is **stereotyping**, which is judging a person on the basis of one's perception of a group to which they belong. For instance, “married persons are more stable employees than single persons” is an example of stereotyping. Although some stereotypes are accurate, they are often wrong and distort our judgment.

Both prejudice and stereotyping can lead to someone treating others who are members of a particular group unequally. That's what we call **discrimination**, which is when people act out their prejudicial attitudes toward people who are the targets of their prejudice. You'll find in **Exhibit 5-6** definitions and examples of different types of discrimination. Although many of these actions are prohibited by law, you can still see them in workplaces. As discrimination has increasingly come under both legal scrutiny and social disapproval, most overt forms have faded, which may have resulted in an increase in more covert forms like incivility or exclusion.

Discrimination, whether intentional or not, can lead to serious negative consequences for employers. But it's not just the potential financial consequences organizations face for discriminatory actions. It's the reduced employee productivity, negative and disruptive interpersonal conflicts, increased employee turnover, and overall negative climate that should be of concern to managers.

Glass Ceiling

Fact: In the United States, there are more college-educated women in the workforce than men.⁶⁸ And like their male counterparts, women have entered the business world with an eye toward moving up the corporate ladder. Yet the number of women who make it to the top levels of the companies they work for is noticeably low. For

bias

A tendency or preference toward a particular perspective or ideology

unconscious bias

Deeply engrained beliefs about others that one is not aware of but that influence attitudes and behaviors

prejudice

A preconceived belief, opinion, or judgment toward a person or a group of people

stereotyping

Judging a person based on a perception of a group to which that person belongs

discrimination

When someone acts out their prejudicial attitudes toward people who are the targets of their prejudice

Exhibit 5-6

Forms of Discrimination

Type of Discrimination	Definition	Examples from Organizations
Discriminatory policies or practices	Actions taken by representatives of the organization that deny equal opportunity to perform or unequal rewards for performance	Older workers may be targeted for layoffs because they are highly paid and have lucrative benefits.
Sexual harassment	Unwanted sexual advances and other verbal or physical conduct of a sexual nature that create a hostile or offensive work environment	Salespeople at one company went on company-paid visits to strip clubs and fostered pervasive sexual rumors.
Intimidation	Overt threats or bullying directed at members of specific groups of employees	Black employees at some companies have found nooses hanging over their workstations.
Mockery and insults	Jokes or negative stereotypes; sometimes the result of jokes taken too far	Arab Americans have been asked at work whether they were members of terrorist organizations.
Exclusion	Exclusion of certain people from job opportunities, social events, discussions, or informal mentoring; can occur unintentionally	Many women in finance claim they are assigned to marginal job roles or are given light workloads that don't lead to promotion.
Incivility	Disrespectful treatment, including behaving in an aggressive manner, interrupting the person, or ignoring their opinions	Female team members are frequently cut off in meetings.

Source: S. Robbins and T. Judge, *Organizational Behavior*, 18th ed. (New York: Pearson, 2019), 49.

instance, in 2023, women held just 8.2 percent of CEO positions in S&P 500 companies.⁶⁹ Importantly, the evidence clearly indicates women's performance on the job and in managerial positions is equally as effective as men's.⁷⁰ If women can handle senior management jobs as well as men, is something else going on? A strong case can be made that the something else is a glass ceiling.

A **glass ceiling** is a metaphor used to describe an invisible barrier that limits the level to which a woman or a member of another demographic group can advance within the hierarchy of an organization. The idea of a *ceiling* means something is blocking upward movement, and the idea of *glass* is that whatever's blocking the way isn't immediately apparent. Although the term is typically used to address limits that women face, gay men and Black men also report similar barriers in their careers.⁷¹

Research on the glass ceiling has looked at identifying the organizational practices and interpersonal biases that have specifically blocked women's advancement. Findings from those studies have offered a number of potential factors: failure to build networks, lack of high-profile opportunities, lack of effective mentoring, sex stereotyping, associating masculine traits with leader effectiveness, and placing home life and family above career.⁷²

Whatever is believed to be the reason, decision makers in organizations—particularly senior executives and boards of directors—need to shatter the glass ceiling. And their motivation shouldn't be merely because "it's the right thing to do." It makes good business sense. According to Credit Suisse Research, companies with 50 percent women in senior operating roles show a 19 percent higher return on equity, on average. And a study by a major consulting firm found that companies with gender diversity on their executive teams were 21 percent more likely to have above-average profitability.⁷³

glass ceiling

The invisible barrier that limits the level to which women and other demographic groups can advance within an organization

Pay Inequities

No contemporary discussion of diversity would be complete without addressing the issue of pay inequity between men and women. The topic gets a lot of attention.⁷⁴ Is it a fact or is it a myth? And if it's true, is it due to discrimination or something else?

First, US law explicitly makes pay inequality illegal. The Equal Pay Act of 1963 made it a legal federal requirement that pay scales for identical work be the same regardless of whether the employee doing the job is a man or a woman. Nevertheless, almost all studies show a disparity between men and women doing the same job.

Going back to 1980, the research showed that women made only 64 percent of what men earned in comparable jobs. By 2022, women made 82 percent of what men earned, just slightly up from 80 percent 20 years earlier in 2002.⁷⁵ For young women, the gap has narrowed more over time. In 1980, women ages 25 to 34 earned 33 cents less than their male counterparts, compared with 9 cents in 2022.⁷⁶

There has been no shortage of analysis trying to explain this gap. Although women tend to be more concentrated in industries and occupations that are lower-paying, occupational choice does not fully account for the pay gap. Men and women are also paid differently within most occupations. For example, the widest pay gap exists in high-paying occupations such as finance managers and securities and commodities professionals.⁷⁷

Although discussions around pay inequities often focus on the gender pay gap, it is important to note that pay disparities exist between races as well. For example, Black employees are paid 76 cents for every dollar paid to whites, and Hispanic employees are paid 73 cents.⁷⁸

One proposed strategy to address pay inequities is pay transparency. As we share in **Chapter 11**, many states are passing pay transparency laws requiring employers to disclose salary ranges for jobs. Evidence suggests that pay transparency does help to close the pay gap.⁷⁹ For instance, pay transparency helped level the playing field for the US professional soccer teams. After winning the World Cup in 2015, the women's soccer team was paid \$2 million, whereas the men's team was paid \$8 million even though they only made it to the top 16 in the tournament. The women's team filed a complaint with the EEOC, and in 2022 finally came to an agreement with the US Soccer Federation. The agreement provides the same pay structure for appearances, tournament victories, and sharing of World Cup prize money.⁸⁰



Workers and community leaders gather at City Hall in New York City on the 16th annual Equal Pay Day in 2022 to rally against pay disparity.
Source: Richard Levine/Alamy Stock Photo

WORKPLACE Diversity, Equity, and Inclusion Initiatives

LO5.5 Describe various workplace diversity, equity, and inclusion initiatives.

DEI initiatives at Progressive Insurance are true to the company's name—forward-thinking and in forward motion. The company strives for diversity in the composition of its work teams, employee practices that are equitable, and an inclusive workplace culture. For example, the company facilitates programs for work teams where they hold discussions around biases and stereotypes and how to make their work environment more inclusive. The company also holds an annual Inclusion Week during which employees can participate in webinars, listen to podcasts, and take part in group activities. They offer nine employee resource groups that allow employees to build community and raise concerns, and they set goals and metrics that allow them to track their progress.⁸¹ In fact, Progressive's DEI efforts have earned the company the number-one spot on the Top 50 Companies for Diversity list for 2023.⁸²

As the Progressive example shows, some businesses *are* effectively managing diversity. In this section, we look at several workplace DEI initiatives.

Top Management Commitment to DEI

Top management commitment is an important—if not *the most* important—factor in achieving a diverse workforce. It all starts at the top. If management isn't "all in," the goal is likely to receive only lip service. But when top management makes it a priority and designs reward systems to reflect it, employees throughout the organization will take notice. Further, the behavior of individual leaders can impact the overall inclusiveness of a company. Leaders that model inclusive behaviors are more likely to build inclusive organizations.⁸³

Top management needs to make sure that diversity and inclusion are part of the organization's purpose, goals, and strategies. Diversity needs to be integrated into every aspect of the business—from the workforce, customers, and suppliers to products, services, and the communities served. Policies and procedures must be in place to ensure that grievances and concerns are addressed immediately. Finally, the organizational culture needs to be one where diversity and inclusion are valued, including ensuring individual performance is measured and rewarded on diversity accomplishments. Although top management can state their commitment to DEI, fully integrating DEI into a company takes time. **Exhibit 5-7** outlines five stages of DEI strategy. By understanding what stage a company is in, management can focus DEI energies effectively.⁸⁴

Mentoring

One of the consequences of having few women and people of color in top corporate leadership positions is that women and people of color in lower-level positions lack someone to turn to for support or advice. That's where a mentoring program can be beneficial. **Mentoring** is a process whereby an experienced (typically senior) organizational member (a mentor) provides advice and guidance to a less-experienced member (a protégé). Mentors usually provide two unique forms of mentoring functions: career development and social support⁸⁵ (see **Exhibit 5-8**).

DEI Training

It's not an exaggeration to state that US organizations spend billions of dollars a year on diversity training.⁸⁶ That's a lot of money and begs three questions: What is this training composed of? Is the training effective? And if it does work, what conditions favor this success?

mentoring

A process whereby an experienced (typically senior) organizational member (a mentor) provides advice and guidance to a less-experienced member (a protégé)

Exhibit 5-7
Stages of DEI Strategy

Stage	What's Happening	What Leaders Should Do Next
Awareness	Something triggers a statement of commitment to DEI, such as a lawsuit or external pressure.	Understand current internal environment and set goals for future.
Compliance	Meet industry and government requirements for diversity, such as complying with equal employment opportunity laws.	Set goals beyond compliance and identify how DEI can help company meet other goals.
Tactical	Fully engaged in executing DEI initiatives but lack strategic approach.	Start defining DEI strategy and start connecting top-level leaders and grassroots supporters of efforts.
Integrated	DEI becomes part of everything a company does.	Determine what systems and structures are needed to sustain DEI work over the long-term.
Sustainable	DEI efforts are deeply embedded, and leaders have a mindset of continuous improvement.	Remember the work is never done and remain vigilant in commitment.

Source: E. F. Washington, "DEI Maturity, How to Move from Promises to Results," *Harvard Business Review* (November–December 2022): 92–99.

Learning from **FAILURE** Denny's Answer to Its Diversity Problem

It came to a head with a single incident. In April 1993, six Black Secret Service agents assigned to President Bill Clinton went into a Denny's restaurant in Annapolis, Maryland. They waited nearly an hour for breakfast. Meanwhile, as they were ignored, a group of white colleagues sitting at a nearby table were warmly received, had their orders quickly taken, and were enjoying seconds. The Black agents went public with their experience in a lawsuit. The reaction was devastating for Denny's reputation. And unfortunately, it was not a unique incident. This would become the third discrimination suit against the company in a year. Clearly, Denny's restaurants were hostile to people of color. However, this event in Annapolis would be the tipping point. Denny's culture had to change. And it did.

There was a major shake-up among the company's top executives. New people were brought in, and within 3 years the number of minorities in key management positions went from zero to 11 percent. In the same time period, the number of Black franchisees went from one to 65.

Additionally, numerous policies and practices changed. The company created a team to oversee its diversity programs. All employees were required to attend workshops on racial sensitivity; diversity was made a performance criterion for all restaurant and regional managers; and random checks were made at restaurants to make sure all customers and employees were being treated properly.

Three decades later, Denny's still talks about the shake-up that the lawsuits created in the company, noting that the company believes it is important to talk about this shameful part of its history openly and honestly. Aspiring to be "Today's Diner for Today's America," management has made DEI a central focus. The company targets diverse representation at all levels of the organization. Two-thirds of the company's employees represent multicultural groups, and now 55 percent of the company's board are people of color and 44 percent are women. Company managers know they still have work to do, with only 15 percent of the company's officer-level positions occupied by people of color.⁸⁷

Career Development Functions

- Lobbies to get the protégé challenging and visible assignments
- Coaches the protégé to help develop their skills and achieve work objectives
- Provides exposure to influential individuals within the organization
- Advises the protégé on the organization's politics
- Protects the protégé from possible risks to their reputation
- Sponsors the protégé by nominating them for potential advances or promotions
- Acts as a sounding board for ideas the protégé might be hesitant to share with a direct supervisor

Social Support Functions

- Counsels the protégé to bolster their self-confidence
- Shares personal experiences with the protégé
- Provides friendship and acceptance
- Acts as a role model

A good mentoring program should be aimed at all employees with high potential to move up the organization's career ladder. But in terms of improving diversity, mentors who are women or people of color are often best equipped to offer advice to others like themselves. And protégés are more likely to relate to someone who they see as similar to themselves; mentors often see in their protégés the challenges they once faced earlier in their careers.

Diversity training ideally should focus on knowledge, attitudes, and behavior. Programs typically include a review of diversity issues and the value of diversity, followed by exercises to help individuals become aware of their own cultural values and unconscious biases, to experience what it feels like to be discriminated against, and to practice appropriate responses in interactions with diverse groups of people. Many emerging training programs also include an emphasis on the importance of individual

Exhibit 5-8 Functions of a Mentor

actions to support inclusiveness in the workplace. For example, the grocery chain Aldi recently implemented allyship training for managers that is targeted at empowering managers to advocate for colleagues from underrepresented backgrounds.⁸⁸

Diversity training is more effective if it results in long-term behavioral change. Research suggests that after diversity training, people remember the new knowledge; but their beliefs and behaviors tend to revert back, over time, to how they were before the training.⁸⁹ However, more long-term change can occur if the training uses a more scientific approach to behavior change that empowers employees to take action. For example, one approach is bias habit-breaking training that helps participants see biases and stereotypes as “habits of the mind” and teaches participants how to overcome these biases by “breaking the habit.”⁹⁰

Further, the change from training is more likely to last if it's reinforced by other diversity-related initiatives such as top-management commitment, targeted recruitment practices, diversity task forces, and a formal mentoring program.⁹¹ Additional research suggests that diversity training is likely to *fail* when it's mandatory rather than voluntary, when it's justified on legal grounds, and when it's provided specifically to managers as opposed to all employees.⁹²

employee resource group (ERG)

A voluntary, employee-led subgroup within an organization that shares distinctive qualities, interests, or goals

Employee Resource Groups

In the 1960s, Xerox Corporation's Rochester, New York, headquarters launched a Black Caucus Group. This was an early example of an **employee resource group (ERG)**. An ERG (also frequently called an *affinity group*) is a voluntary, employee-led subgroup within an organization that shares distinctive qualities, interests, or goals. Although membership is totally voluntary, and initiated by employees, ERGs are typically sponsored by a senior executive who is connected to the group's focus and who ensures that the ERG's goals and concerns are heard by senior-level decision makers.

Approximately 90 percent of *Fortune* 500 companies now have ERGs, and they've become an important structural device for supporting diversity.⁹³ For instance, the financial services and insurance giant Prudential has ERGs for military veterans, LGBTQ+ employees, Black employees, Hispanic employees, and Asian/Pacific Islander employees.⁹⁴

ERGs have multiple purposes. They are a sounding board for common concerns and they also help attract and recruit diverse talent, increase employee engagement, and even run mentorship programs. The NETWORK ERG at AT&T, as an example, has a goal to promote the Black experience at the company and has over 11,000 members. AT&T reports an 86 percent Black employee retention rate since starting the ERG in 1969.⁹⁵

An interesting finding about ERGs is that not all employees find the concept appealing. Interest appears to be related to age. A recent study found that almost half of workers under the age of 34 were interested in ERGs. This may be due to their general strong group orientation. In contrast, less than 20 percent of workers in the 55–64 age bracket showed similar interest.⁹⁶

Measuring and Reporting on DEI Initiatives

As we learned in the chapter opening, Salesforce has made progress on its DEI efforts by setting goals and tracking metrics. In addition to using metrics to manage progress toward DEI goals, many organizations use metrics to communicate their work to stakeholders. In **Chapter 4**, we introduced environmental, social, and governance (ESG) reporting as a strategy to track a company's sustainable business practices and communicate activities to stakeholders. Many companies include DEI reporting as part of their *social* metrics because DEI initiatives should positively impact the



The Individuals with Disabilities Employee Resource Group is one of several employee resource groups at the Norfolk Naval Shipyard in Virginia.

Source: Operation 2022/Alamy Stock Photo

well-being of employees as well as other company stakeholders.⁹⁷ International snack company Mondelez discloses metrics such as annual compensation for women in leadership and Black representation in management in their ESG reporting to increase transparency. The company believes the tracking and reporting help it monitor its culture and holds the company accountable to live its stated values.⁹⁸

ARTIFICIAL INTELLIGENCE (AI) DEI efforts are tied to human resource management functions such as hiring, talent development, promotions, and compensation. As such, AI can help companies analyze data to uncover and diagnose problems such as pay inequities or barriers to promotions. Essentially, AI can help management with real-time insights on DEI priorities.⁹⁹ Although it is relatively easy to quantify diversity representation such as the ratio of women to men in management, understanding inclusion and how people are treated in an organization is difficult to quantify or track. This is where AI can be helpful to look for patterns in the data. Think of AI as an X-ray for human interactions, uncovering biases in behavior and determining how people from underrepresented groups are treated in the workplace.¹⁰⁰ For example, many companies are concerned about remote workers feeling isolated, particularly those from underrepresented groups. AI tools can examine the engagement of workers to determine if they are at a higher risk for feeling isolated. The AI tool could look for patterns related to engaging with coworkers and others to identify employees who are disconnected and prompt managers to take action to address inclusion.¹⁰¹

Chapter 5

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO5.1 DEFINE workplace diversity, equity, and inclusion and explain why managing them is so important.

Workplace diversity is the ways in which people in an organization are different from and similar to one another. Equity is about creating norms, policies, and practices to ensure that a person's identity does not predict their success in an organization. Inclusion is creating a welcoming, affirming, and respectful workplace. Managing workforce diversity is important for three reasons: (1) people management benefits—better use of employee talent, increased quality of team problem-solving efforts, and ability to attract and retain a variety of employees; (2) organizational performance benefits—reduced costs, enhanced problem-solving ability, and improved system flexibility; and (3) strategic benefits—increased understanding of a diverse marketplace, potential to improve sales and market share, and competitive advantage.

LO5.2 DESCRIBE the changing makeup of workplaces in the United States and around the world.

The main changes in the workplace in the United States include the total increase in the population; the changing components of the population, especially in relation to racial/ethnic groups; and an aging population. The most important changes in the global population include the total world population and the aging of that population.

LO5.3 EXPLAIN the different types of diversity found in workplaces.

The different types of diversity found in workplaces include age (older workers and younger workers), gender (male and female), race and ethnicity (racial and ethnic classifications), disability/abilities (people with a disability that limits major life activities),

religion (religious beliefs and religious practices), and sexual orientation and gender identity (gay, lesbian, bisexual, and transgender).

LO5.4 DISCUSS the challenges managers face in managing diversity, equity, and inclusion.

The three main challenges managers face are personal bias, the glass ceiling, and pay inequity. Bias is a tendency or preference toward a particular perspective or ideology. Our biases can lead to prejudice, which is a preconceived belief, opinion, or judgment toward a person or a group of people; stereotyping, which is judging a person on the basis of one's perception of a group to which they belong; and discrimination, which is when someone acts out prejudicial attitudes toward people who are the targets of that person's prejudice. The glass ceiling refers to the invisible barrier that separates women and people of color from top management positions. Pay inequities refer to unfair pay differences based on gender or race. Gender differences in pay have been found to be based on discrimination, the kind of job, and a desire for flexibility.

LO5.5 DESCRIBE various workplace diversity, equity, and inclusion initiatives.

Workplace diversity management initiatives include top-management commitment to diversity; mentoring, which is a process whereby an experienced organizational member provides advice and guidance to a less-experienced member; DEI training; and employee resource groups, which are groups made up of employees connected by some common dimension of diversity. Companies also measure and report on DEI activities.

REVIEW AND DISCUSSION QUESTIONS

- | | |
|--|---|
| <p>5-1. Using workplace examples, contrast diversity, equity, and inclusion.</p> <p>5-2. Distinguish between surface-level diversity and deep-level diversity. Why is it important to understand the difference between the two?</p> <p>5-3. What are the major trends in the changing populations of the United States and the world?</p> <p>5-4. Which two types of diversity found in the workplace are most relevant in careers associated with your major? Explain.</p> | <p>5-5. Which of the five stages of diversity, equity, and inclusion is most difficult for managers to accomplish in most companies? Which should be the easiest?</p> <p>5-6. Explain how the glass ceiling and pay inequity are outcomes of discriminatory behaviors in the workplace. Why are exclusion and incivility on the list of discriminatory behaviors?</p> <p>5-7. How do mentoring and diversity training support a company's diversity, equity, and inclusion efforts?</p> <p>5-8. Describe an employee resource group and why it is helpful to organizations and employees.</p> |
|--|---|

PREPARING FOR: My Career

ETHICS DILEMMA

The Americans with Disabilities Act prohibits employment discrimination against qualified individuals with disabilities. Yet the unemployment rate for adults with disabilities is consistently higher than for adults without a disability. Often this occurs because people without disabilities tend to view the negative effects of disabilities as much worse

than they are.¹⁰² With technology, many jobs can be accommodated for people with disabilities. But making other accommodations throughout an organization can be daunting enough for employers to not want to hire an applicant with a disability. For instance, some very large employers have vast parking lots or multiple buildings

separated by a distance greater than a city block. These employers utilize shuttle buses to ferry employees from parking lots to the building where they work and from one building to another. Adding a wheelchair lift to a shuttle bus to allow a person with a wheelchair to be transported around the company can be perceived as a rarely needed and overly expensive extra feature to add when a person without a disability is purchasing the shuttle bus.

- 5-9. Do large companies have an ethical responsibility to refit shuttle buses or purchase new buses to

accommodate workers with physical disabilities? Explain. Do schools and universities where future workers are trained have the same or different ethical responsibilities?

- 5-10. What ethical issues might arise in a workplace accommodating jobs for workers with deafness, blindness, or other physical disabilities but not accommodating workers with chronic illnesses like diabetes, Crohn's disease, and long COVID? As a manager, how might you handle such issues?

SKILLS EXERCISE Developing Your Valuing Diversity Skill

About the Skill

Motivating and managing people who appear on the surface to be similar to us can be challenging—but understanding and managing people who appear dissimilar from us and from others in the work group can be tougher. Add in the different career and life stages of the people in the work group and deep-level diversity differences, and managing gets even tougher.¹⁰³ The obstacles making it so challenging include issues such as communicating effectively with diverse group employees; creating career-development programs that fit the skills, needs, and values of employees at different career stages and backgrounds; helping a diverse team overcome dysfunctional relationship conflict instead of collaborating on improving work processes or team goals; and learning which rewards are valued and motivating to which person.

Steps in Practicing the Skill

- **Acknowledge that people are different.** Successfully valuing diversity starts with each individual accepting the principle of diversity. Accepting that people are different does not preclude managers from being equitable and inclusive, but a rigid philosophy of treating everyone the same might.¹⁰⁴
- **Recruit broadly.** When there are job openings, work to get a diverse applicant pool. Although referrals from current employees can be a good source of applicants, that source tends to produce candidates similar to the present workforce.
- **Select fairly.** Make sure the selection process does not discriminate. One suggestion is to use job-specific tests rather than general aptitude or knowledge tests. Such tests measure specific skills related to the work to be done, not subjective characteristics.
- **Provide orientation, training, and mentors for all new employees.** Making the transition from outsider to insider can be particularly difficult for a new employee. New employees who feel unsupported or whose expectations about the workplace are dramatically different from how it actually is have low organizational commitment

and a higher likelihood of quitting. Provide support either through an employee resource group or through a mentoring arrangement.

- **Work through the five stages of DEI strategy.** A manager not only personally needs to work through the five stages but also needs to encourage all their employees to do so. Many employees and organizations are working to better their stances and metrics related to diversity, equity, and inclusion. As a manager, show a commitment to DEI in observable ways. By understanding what stage the company is in, a manager can align their management focus on the appropriate DEI energies effectively.
- **Strive to be flexible.** Part of diversity management is recognizing that different groups have different needs and values. Be flexible in accommodating employee requests.
- **Seek to motivate individually.** Motivating employees is an important skill for any manager; motivating a diverse workforce has its own unique challenges. Managers must strive to be in tune with employees' backgrounds, cultures, and values.
- **Embrace employee differences.** Encourage individuals to embrace and value diverse views. Create traditions and ceremonies that promote diversity of thought. Celebrate diversity by accentuating how new ideas, perspectives, and experiences are vital attributes of an interesting life. However, be prepared to quell mistrust, miscommunication, lack of cohesiveness, attitudinal differences, and negative stereotypes.

Practicing the Skill

Read through the following scenario. Write down some notes about how you would handle the situation described. Be sure to refer to the eight behaviors described above.

Scenario

You have recently taken over the management of a popular restaurant and have been assigned to implement an entirely new menu for the owner. Read through the descriptions of the following cooking staff who are on your team. Consider the steps you can take to ensure that your team successfully

works together. What employee issues might you face when getting the team to adopt the new menu? How can you ensure your team works together successfully and benefits from the team's diversity? Make some notes describing how you will manage your new team.

- **Lester.** Lester is 64 years old, a former culinary specialist in the Navy for 20 years, and has been with the restaurant for more than 15 years. His two children are married, and he is a grandparent of three grandchildren. He lives in a condo with his wife, who does volunteer work and is a strict vegan. Lester is healthy and likes to stay active, both physically and mentally.
- **Sanjyot.** Sanjyot is a 30-year-old who joined the restaurant after she came to the United States from Indonesia 10 years ago. She completed high school after moving to the United States and has begun to attend classes at a local culinary school. Sanjyot is a single parent with two children under the age of 8. Sanjyot is

hearing impaired, and she and her children are gluten intolerant.

- **Yuri.** Yuri is a recent immigrant from Ukraine and is new to the restaurant. He is 42 and understands English, but his ability to speak clearly in the workplace is still developing. He is unmarried, an avid hunter who eats what he kills, and has no children but feels obligated to send much of his paycheck to relatives back in his home country. As a result, he is willing to work extra hours to increase his pay.
- **Naomi.** Naomi joined the restaurant two years ago when she graduated from one of the best culinary institutes in the state. She is recently married and is very involved in the local community, volunteering with several local nonprofit organizations servicing people suffering from food insecurity. She grew up in a nearby farming community and has a farmer's market side hustle with her aging parents, who are huge advocates of the food-to-table movement.

WORKING TOGETHER Team Exercise

One of the best ways to better understand and improve your interactions with people who are different from yourself is to imagine how a person may be treated differently by others when they are in roles different from their persona. Roles often have unwritten rules dictating how people should behave in a particular job, the type of person that should be in that job, and how a person in that role should be treated. When people look very different from what they assume the role normally requires, it is perceived as a violation. People treat them dramatically differently than they would a person perceived to be appropriate for the role.

Take a few minutes to write a few sentences that describe challenges that a person in a role reversal situa-

tion might face in the workplace—for example, a retiree taking a job as an intern, a male bodybuilder taking a job as a kindergarten teacher, a fashion designer working as a brake repair technician, a professional dancer working as a welder, and the like. How might these experiences be amplified if the person was not only in a role reversal situation but also a person of color or LGBTQ+? Then, in groups of three or four students, take turns sharing the sentences you each wrote and brainstorm about what managers and coworkers could do to improve the interactions between people in the situation. What topic, skill, or ability must be focused on if training is needed? What else besides training could be done?

MY TURN TO BE A MANAGER

- Describe your experiences working, learning, or playing sports or music with people from backgrounds different from your own. What challenges have you faced? What have you learned that will help you understand a diverse workplace's unique set of needs and challenges?
- Go to Fair360 (www.fair360.com) and find the latest list of Top 50 Companies for Diversity or its Hall of Fame List. Select three companies from this list. Describe and evaluate what the selected companies are doing right as far as workplace diversity, equity, and inclusion is concerned.
- Think of times when you may have been treated unfairly because of stereotypical thinking. What stereotypes were being used? How did you respond to the treatment?
- The Job Accommodation Network is a free resource for employers to identify ways to provide work accommodations to allow disabled workers to be productive and hold a wider variety of jobs. Visit www.askjan.org and search the accommodation database to find examples of accommodations for specific disabilities.
- Assume you are designing a mentoring program for an organization. Conduct some research on mentoring programs that currently exist in different organizations and identify characteristics of an effective mentoring program.
- What can you do as a manager to clarify that there is no conflict between promoting diversity and rewarding merit?

- Take pictures that tell a story or convey a message of inclusion and community. Create a presentation explaining the photos selected. Bring your computer or device to class and share your presentation in small groups during class. Questions to guide the group discussion might include: 1) What inspired you to take this picture? 2) What is being communicated in this picture? 3) How does the photo connect to expectations for feelings of inclusion and community? 4) How does the picture demonstrate possibility and acceptance of expressions of inclusion at work?¹⁰⁵
- How would you define the socioeconomic status of the average student in your class 10 years from now? Will the average person be in the middle class and saving for retirement? How much will they have in a savings account? Will they rely on walking or public transportation to go places? Will they have to miss an important holiday, birthday, or family event because they are working? Will they hire someone to do the tasks they do not want to do (e.g., housework, yardwork, car maintenance, etc.) on a regular basis? If they have children, will they wear clothes handed down from a sibling or other family member? Write down your answers and thoughts. Discuss them in a group during class. Be prepared to share your answer in class and discuss what this might mean regarding the diversity within the average student's community or workplace 10 years in the future.
- Being a new parent can be a difficult adjustment for anyone to make. However, managing a new parent and welcoming them back to work presents interesting challenges in the workplace. Research how employers and managers can provide a supportive environment to welcome new moms and dads back into the work world. Specifically suggest how this can be done in an equitable way for other workers who are single, experienced parents, or empty nesters. Summarize your findings and thoughts in a short paper.
- Headlines in the news about business failures related to diversity, equity, and inclusion report poor management as the most frequent culprit. Some consider managers' power and influence and their biases and distance from the work being done to be a recipe for disaster. So should companies just fire all the managers? Will a self-managed and empowered workforce create more diverse, inclusive, and equitable workplaces? Write your thoughts in a short paper and present them in small groups during class.
- The Society for Human Resource Managers (SHRM) has podcasts about diversity, equity, and inclusion in the workplace. Some feature interviews, tips for human resource managers, or insights valuable to anyone in the workplace. Go to SHRM Podcasts (<https://www.shrm.org/hr-today/news/pages/podcasts.aspx>) and listen to two or three podcasts. Write a summary of what you heard and present it to the class.

CASE APPLICATION 1

Gusto: Making a Difference in Gender Diversity

If you were the only female engineer at a start-up in San Francisco, you could work hard and hope more women are hired. Or you could do what Julie Lee did at the software company Gusto. She asked to meet with the company's cofounder and chief technology officer, Edward Kim. Kim was "extraordinarily receptive" to Lee's explanation that she loved her work but struggled being the only woman on an 18-person engineering team.¹⁰⁶ Kim saw solving this problem as an opportunity and as a source for a competitive advantage.

Gusto developed a plan to get more women engineers to apply for the company's job openings. The company changed phrases like "Ninja rock star coder" in some of its job descriptions because they were unnecessary and masculine.¹⁰⁷ Lee also recruited women applicants by sending emails inviting them to have an initial talk with her about working at Gusto. Lee wrote a blog post that publicized Gusto's goal of hiring more women engineers. Her involvement was a way to signal to other women that Gusto was a place where women engineers want to work.¹⁰⁸

Gusto also made gender diversity a priority in other parts of the company, including hiring on the executive team and beefing up benefits for working parents. In six months, Gusto exceeded its gender diversity hiring goals. Its work was not over, however. Gusto now sends a monthly workforce representation report to all employees as it focuses on hiring, progression, retention, and engagement of all employees. Its diversity, equity, and inclusion initiative is called RISE (Representation, Inclusion, Social impact, and Equity). Employees and managers are encouraged to talk about DEI, do the work of DEI, and recognize that DEI is a journey, not just one step.

Bernard Coleman, Gusto's head of employee engagement, said, "I've been trying to get people to think about it more holistically as opposed to work from the D to the I to the E—how you order the letters is up to you, but it's all of that."

Gusto has given people cultural signals and indicators to let them know the company is dedicated to diversity and inclusion. Employee resource groups at Gusto represent the needs of different constituencies within the company. A resource group member can talk with job candidates and have honest conversations about Gusto's core values. "People might want to say, 'All right, I know I'm going to be on X or Y team, what's it like to be a Black person at Gusto, or a veteran at Gusto, or a woman at Gusto?' Coleman said."¹⁰⁹

DISCUSSION QUESTIONS

- 5-11. What DEI stage does Gusto seem to be in? What is happening, and what should leaders do next?
- 5-12. Even though Julie Lee was helpful to Gusto's gender diversity efforts, what demands does this case illustrate are involved in being the only woman?
- 5-13. Now that Gusto has hired more women engineers, what should it do to ensure they do not leave the company?
- 5-14. Is Gusto on the right path to improve its workforce's diversity? Explain.

CASE APPLICATION 2

Bring in Diversity . . . and Then What?

All employees want to feel like they belong at a company and have a future there.¹¹⁰ One action companies can take is to ensure that employees can openly talk about diversity. "You can be diverse and hire a lot of people, but you are not inclusive if people don't feel like they can talk about the tough issues like race at work that affect their lives," said Julie Sweet, the chair and CEO of the professional services firm Accenture. Many companies prioritize both diversity and inclusion. They want to make sure that everyone in the company—regardless of race, gender, personality, or any other source of difference—feels like they are included in the company. However, when companies seem to focus on certain employees, other employees can feel excluded. Research shows that the more that inclusion efforts are framed as benefiting all employees, the less resistance is found to such efforts.¹¹¹

Accenture implemented an inclusion initiative framed for all employees.¹¹² It began as an internal video entitled "Inclusion Starts with I" that was shown to its "next generation leaders" in a leadership development program. The video shows different employees holding up signs with examples of how bias—and a lack of inclusion—can occur in unexpected ways. The video included a wide variety of employees, such as employees without children, transgender individuals, women of color, employees with disabilities, and single parents. The video explains that it takes just one person to make a difference in creating inclusion at work. Those who watched the video tended to have an emotional response, which led to many important discussions about inclusion. Ultimately, the video was shared more broadly within and outside of company walls.

This openness to discussion and focus on inclusion only happens in organizations if it starts at the top. Accenture has been recognized for its DEI efforts, highlighting its diversity and inclusion practices such as flexible work options, pay equity, and increased accessibility support for employees with disabilities.¹¹³ However, it also makes sure that the entire organization understands its commitment to DEI by tracking and reporting on its DEI efforts and diversity representation across the company. Most importantly, the company's commitment to representation is reflected in its

board of directors, which includes 50 percent representation of people of diverse racial and ethnic backgrounds and 50 percent women, including the chair, Julie Sweet.¹¹⁴ Compared to the average board composition at S&P 500 companies where 78 percent of board members are white and 68 percent are men, Accenture's board is leading the organization by example.¹¹⁵

DISCUSSION QUESTIONS

- 5-15. The benefits of diversity do not happen automatically just because employers hire diverse employees. Companies need to do so much more after they attract diverse talent to come to work for them. What actions has Accenture taken to be more inclusive?
- 5-16. What are some of the ways that companies can increase the chances that employees from diverse backgrounds want to keep working for them?
- 5-17. Why is it important for top leadership to be representative of the rest of the organization from a diversity perspective?

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Chapter 6

Managing in a Global Environment

Learning Objectives

- 6.1** *Define* globalization, nationalism, and parochialism; and contrast ethnocentric, polycentric, and geocentric attitudes.
- 6.2** *Describe* the history of globalization.
- 6.3** *Summarize* the case for and against globalization.
- 6.4** *Explain* the different types of international organizations.
- 6.5** *Describe* the structures and techniques organizations use as they go international.
- 6.6** *Explain* the relevance of the political/legal, economic, and cultural environments to global business.

German-based car manufacturer Volkswagen spent decades as a global company. Betting on an international strategy for growth, the second largest automaker in the world relied on parts supplied from around the world to build its vehicles. The company's supply chain strategy focused on finding competitive pricing through a small number of international suppliers. But then the COVID-19 pandemic and the war in Ukraine disrupted supply chains and left Volkswagen without needed parts, resulting in a reduced ability to build vehicles. This disruption led to a rethinking of the company's global supply chain strategy. Instead of focusing on competitive pricing, Volkswagen is instead prioritizing uninterrupted delivery of parts when selecting suppliers, and in some cases pursuing more than one source for components.

Management Myth: Globalization is only important for really big companies, so I probably don't need to worry about it.

Management Reality: Any business must understand the context of international business and the impact of globalization.

CLARIFYING Terminology

LO6.1 Define globalization, nationalism, and parochialism; and contrast ethnocentric, polycentric, and geocentric attitudes.

To fully understand the history of globalization and where we are today, we need to agree on a common vocabulary. Let's look at some key terms related to the globalization movement.

There's no better place to start than the term **globalization** itself. What does it actually mean? Globalization refers to a process by which organizations develop influence or operations across international borders. Its distinct features are that it assumes open borders between countries and free trade. That means, for instance, that governments implement minimal trade tariffs on goods entering one country from another. When fully operating, globalization would allow for the free movement of people, goods, investments, and information technology across borders.

A counterpoint to globalization is **nationalism**. It refers to patriotic ideals and policies that glorify a country's values. It advocates for independence from other countries and places a country's people and businesses first. Globalization and nationalism represent two distinct and contrary views toward relationships with other countries. Extreme nationalism rejects one country depending on another. Whereas globalization requires governments to work together in an interdependent network of relationships, nationalism builds walls. Nationalistic policies typically include a broad range of tariffs to protect a country's businesses and workers from foreign competition.

Countries pursuing nationalistic policies often have a population that suffers from **parochialism**—viewing the world solely through one's own eyes and perspectives. People with a parochial attitude do not recognize that others have different ways of living and working. They ignore others' values and customs and rigidly apply an attitude of "ours is better than theirs" to foreign cultures. Parochial views act as a severe restriction on implementing globalization.

Managers have been found to basically have one of three attitudes that shape their acceptance of or resistance to globalization and their style of management. These are ethnocentric, polycentric, and geocentric.

An **ethnocentric attitude** is the parochial belief that the best work approaches and practices are those of the *home* country (the country in which a company's headquarters are located). Managers with an ethnocentric attitude believe that people in foreign countries don't have the needed skills, expertise, knowledge, or experience to make business decisions as well as people in the home country do. They don't trust foreign employees with key decisions or technology.

A **polycentric attitude** is the view that employees in the *host* country (the foreign country in which the organization is doing business) know the best work approaches and practices for running their business. Managers with this attitude view every foreign operation as different and hard to understand. Thus, they're likely to let employees in those locations figure out how best to do things.

The final type of global attitude managers might have is a **geocentric attitude**, a *world-oriented* view that focuses on using the best approaches and people from around the globe. Managers with this type of attitude have a global view and look for the best approaches and people regardless of origin. A geocentric attitude requires eliminating parochial attitudes and developing an understanding of cross-cultural differences. This is the type of attitude typically sought by international companies in their selection of global managers.

globalization

A process by which organizations develop influence or operations across international borders

nationalism

Patriotic ideals and policies that glorify a country's values

parochialism

Viewing the world solely through your own perspectives, leading to an inability to recognize differences between people

ethnocentric attitude

The parochial belief that the best work approaches and practices are those of the home country

polycentric attitude

The view that the managers in the host country know the best work approaches and practices for running their business

geocentric attitude

A world-oriented view that focuses on using the best approaches and people from around the globe

A BRIEF History of Globalization

LO6.2 Describe the history of globalization.

Globalization has gone in and out of favor for centuries. For instance, globalization was much in fashion during the nineteenth century. Industrialization fostered low-cost manufacturing, and economies of scale encouraged reaching out to global markets. Great Britain was a global economic superpower with colonies throughout the world. France, meanwhile, was imposing colonial rule over most of Africa. After World War I, however, there was a return to protectionist policies; these held until the mid-1940s and the end of World War II.

So began a long period of growing globalization. The Bretton Woods Conference in 1944 produced an agreement that established a set of rules for commercial and financial relations among the United States, Canada, Western Europe, Australia, and Japan.

It was the first example of a negotiated monetary order that would govern financial relations between independent countries. It opened the door to an ongoing set of agreements, institutions, and events that shaped global trade. Here are some highlights:

International Monetary Fund (IMF)

An organization of 190 countries that provides temporary loans to its members, facilitates international trade, and seeks to promote economic growth and reduce poverty

THE INTERNATIONAL MONETARY FUND (IMF) (ESTABLISHED IN 1945)

The **IMF** is an organization made up of 190 countries. It provides temporary loans to its members, facilitates international trade, and seeks to promote economic growth and reduce poverty around the world. Member countries contribute funds to a pool from which countries experiencing balance of payment problems can borrow. It has been a recent source of stability when countries like Greece, Portugal, and Cyprus faced financial crises.

World Bank

A financial institution that provides assistance to countries around the world

THE WORLD BANK (1945)

The **World Bank** is an international financial institution that provides financial and technical assistance to countries around the world with the goal of promoting sustainable economic growth, reducing poverty, and improving living standards.

General Agreement on Tariffs and Trade (GATT)

An agreement between countries that seeks to reduce or eliminate tariffs and other trade barriers

GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) (1948)

GATT is an agreement between countries that seeks to substantially reduce or eliminate tariffs and other trade barriers. It was superseded in 1995 by the World Trade Organization.

Organisation for Economic Co-operation and Development (OECD)

An international economic organization that helps its 38 member countries achieve sustainable economic growth and employment

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) (1961)

Composed of 38 developed countries, the **OECD** was created to stimulate economic growth and world trade. Its main functions include seeking answers to common problems, identifying good practices, and coordinating domestic and international economic policies.

Association of Southeast Asian Nations (ASEAN)

A trading alliance of 10 Southeast Asian nations

ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN) (1967)

ASEAN is composed of 10 Southeast Asian countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar, and Vietnam. Its principal goals include accelerating economic growth, regional stability, and providing a mechanism for member countries to resolve differences.

World Economic Forum

Annual meeting that brings together several thousand of the world's leaders to find solutions to economic, social, and political problems

WORLD ECONOMIC FORUM (1974)

The **World Economic Forum** is a Swiss nonprofit foundation, best known for its annual meeting in Davos, Switzerland. Sometimes seen as arrogant and elitist, this meeting brings together several thousand of the world's leaders in business, government, economics, and journalism to find solutions to the economic, social, and political factors that shape and disrupt the world.

THE FALL OF THE SOVIET UNION (1991)

In December 1991, the Soviet Union was officially dissolved. Self-governing independence was granted to former Soviet republics, and the Commonwealth of Independent States was created. This commonwealth is now composed of nine member states: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, and Uzbekistan. Members of the commonwealth coordinate trade, finance, lawmaking, and security.

MERCOSUR TRADE AGREEMENT (1991)

This trade bloc includes the member countries Argentina, Brazil, Paraguay, and Uruguay. Venezuela joined in 2012 but was suspended in 2016 for failing to comply with the bloc's democratic principles. Bolivia, Chile, Colombia, Ecuador, Guyana, Peru, and Suriname are associate members, receiving tariff reductions when trading with the full members, but they do not enjoy full voting rights or free access to members' markets. Although the agreement has impacted the region, there have been challenges in recent years, including political tensions and disagreements over agricultural policies.¹

THE EUROPEAN UNION (EU) (1992) The **EU** started as an economic and political partnership of 28 democratic European countries. By combining forces, these countries sought to better compete against the United States and Japan. Before the EU, each country had border controls, taxes, and subsidies; nationalistic policies; and protected industries. These barriers to travel, employment, investment, and trade had prevented European companies from developing economic efficiencies. There are currently 27 countries in the EU.

European Union (EU)

A union of 27 European nations created as a unified economic and trade entity

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA) (1994) **NAFTA** sought to eliminate barriers to free trade among the United States, Canada, and Mexico, plus strengthen the economic power of the three countries. This has since been revised (see below).

North American Free Trade Agreement (NAFTA)

An agreement among the Mexican, Canadian, and US governments in which barriers to trade were eliminated

WORLD TRADE ORGANIZATION (WTO) (1995) The **WTO** is the only *global* organization that deals with trade rules among nations. It replaced the GATT. The WTO regulates trade in goods, services, and intellectual property for 164 member countries. It provides a framework of rules for negotiating trade agreements and for resolving trade disputes.

World Trade Organization (WTO)

A global organization of 164 countries that deals with the rules of trade among nations

SHANGHAI COOPERATION ORGANIZATION (2003) The **Shanghai Cooperation Organization** is an eight-nation cooperative made up of China, India, Pakistan, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. It was primarily created to provide security in the region by safeguarding the members' independence, sovereignty, territorial integrity, and social stability. Representing nearly half the world's population, its members have also pledged to cooperate on free trade.

Shanghai Cooperation Organization

An eight-nation cooperative made up of China, India, Pakistan, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan

MADE IN CHINA 2025 (2015) The Chinese government launched a state-led industrial policy, called "Made in China 2025," in 2015 to make China dominant in global high-tech manufacturing. It was designed to use government subsidies, state-owned enterprises, and the acquisition of intellectual properties to catch up with, and then surpass, Western technological prowess in advanced industries. Among those industries targeted were electric cars, next-generation IT and telecommunications, and advanced robotics and artificial intelligence (AI). Additionally, the policy had the goal of increasing Chinese-domestic content of core materials used in manufacturing to 70 percent by 2025.



The World Trade Organization represents 164 countries.

Source: Michal Baranski/123RF

TPP

A trade agreement among 12 nations, including the United States, Canada, Mexico, and Japan

United States–Mexico–Canada Agreement (USMCA)

An update on the original NAFTA agreement between the United States, Mexico, and Canada

TRANS-PACIFIC PARTNERSHIP (TPP) (2016) The **TPP** was a trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States. It was designed to lower trade barriers and reduce the member countries' dependence on Chinese trade. It was never fully implemented after the United States withdrew its support.

NAFTA 2.0 OR USMCA (2020) The **United States–Mexico–Canada Agreement (USMCA)** modified the original NAFTA agreement. Its provisions included giving the United States increased access to Canada's dairy markets, establishing new labor requirements for Mexico, increasing environmental regulations, and updating intellectual property and data trade protections. Negotiating this agreement was part of the Trump administration's goal to enhance and protect US jobs.

COVID-19 PANDEMIC (2020) The worldwide pandemic highlighted several vulnerabilities of globalization. The public health crisis caused disruption to supply chains and trade. It also led to travel restrictions and temporary border closures, significantly impacting international trade and mobility.

TRADE AND COOPERATION AGREEMENT (2021) Citizens of the United Kingdom voted in June 2016 to remove themselves from the European Union (EU). Referred to as "Brexit," it was a response to a feeling that the United Kingdom's needs and interests had been shifted to the greater EU. The Trade and Cooperation Agreement (TCA) governs the trade relationship between the United Kingdom and EU and covers a wide range of issues including eliminating tariffs on trade.

AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA) (2021) Creating the largest free trade area in the world, AfCFTA includes 54 countries. The agreement allows tariff-free trade across the continent, boosting intra-African trade and leading to local business growth and job creation as well as more opportunities for foreign investment and international trade.

THE CASE **For and Against Globalization**

LO6.3 Summarize the case for and against globalization.

As you've seen, the period from the mid-1940s to the early 2000s was generally one of pro-globalization. There was general consensus among economists that open borders and free trade would benefit all countries—the rich, the poor, the developed, and the developing. However, over the last decade we've seen some of the downsides of globalization.

The Win-Win Argument

The "every country wins" argument was largely based on the **law of comparative advantage**—that a country should produce goods or services for which it has the lowest opportunity costs. By specializing in the products or services for which it has the lowest cost of production, a country is best able to compete in global markets.

Economists were in near-total agreement that globalization would unleash an economic "tide" that would raise all boats.² It would boost every nation's economy, increase wages, and result in lower-priced goods for all consumers. Importantly, it would be a major force for reducing poverty within low-income countries.

Evidence of globalization's benefits abounded in the 1990s and early 2000s. Goods and capital were moving unfettered across borders. Improvements in communications and shipping technology made global outsourcing more feasible. And as countries with emerging economies prospered and moved millions of people into the middle class, new markets opened up for rich countries. Hundreds of

law of comparative advantage

The economic proposition that a country should produce goods or service for which it has the lowest opportunity costs

millions of people worldwide were enjoying a significant increase in their standards of living. Meanwhile, consumers in low-income countries benefited with lower prices.

By the early 2000s, any critics of globalization had essentially been silenced. Politicians and the media had joined the economists' pro-globalization bandwagon. Except for the occasional challenge—for instance, in 1999, anti-trade unionists and environmentalists protested and succeeded in shutting down the WTO meeting in Seattle—the globalization movement seemed unstoppable. Almost no one saw the coming backlash.

The Downside of Globalization

Things started to change around 2015.³ Critics began arguing that globalization was the major reason that the middle class in North America and Europe was suffering from wage stagnation. They also charged that global companies were shipping production (and jobs) from countries with high labor costs to countries where low wages prevailed. Further, globalization's free movement of labor was keeping wages down in countries like the United States and the United Kingdom by allowing an inflow of immigrants. At the extreme, these factors have been used to argue that globalization and capitalism together have worked to enhance inequality in much of the Western countries.

In 2016, voters in Great Britain chose to exit the European Union—essentially saying that it didn't work in Britain's favor. A few months later, Donald Trump won the US presidency on his “America First” platform. Around the same time, the United States rejected the Trans-Pacific Partnership; Italy began turning away African immigrants; and Trump sought to renegotiate NAFTA and impose tariffs on numerous imported products. In a little over 24 months, globalization had lost much of its charisma. It was now being called out as the primary cause of every nation's problems, and nationalism, protectionist policies, and increased border controls were the proposed solution. For many, protectionism is being seen as the solution to problems as varied as unemployment, terrorism, stagnant economies, and trade imbalances.

The critics of globalization have considerable evidence to support their case. For example, the COVID-19 pandemic highlighted the risks of relying on production and supplies from other countries. Early in the pandemic, the United States struggled to secure supplies such as surgical masks and ventilators, highlighting the risks of the complex international supply chain many countries depend on.⁴

And contrary to the “win-win” thesis, certain countries, communities, and job groups *are* adversely affected by free markets and open borders. Inequality in developed countries has increased. The middle class has been squeezed as the bulk of globalization's benefits have gone to large global corporations and the power elite. As many US politicians proclaimed, little of the benefit has flowed to “hard-working Americans.”

Linked to the inequality argument has been the immigration issue. Anti-immigration sentiment has grown in places as varied as the United States, Spain, Italy, Hungary, the Czech Republic, and Australia. Critics of open borders claim that immigrants are taking jobs, holding down wages, a threat to security, and resistant to fitting in.

Voters appear to be frustrated and are taking their frustration out at the polls. Political candidates who advocate populist agendas, including nationalistic policies, have begun winning elections. A growing portion of people in high-income countries have lost faith in institutions, particularly government.⁵



Many Americans feel that they're at a disadvantage due to open border policies. They feel that they're losing jobs and are facing security threats. This has led to demonstrations against immigration.
Source: Spencer Grant/Alamy Stock Photo

Globalization Today

The voices of nationalism and protectionism are the loudest they've been in 80 years. The pendulum has swung away from unbridled belief in globalism. In fact, even though Trump lost the 2020 presidential election, the Biden administration has continued similar trade policies, prioritizing protecting the rights of US workers over those of exporters or consumers.⁶

Although globalization is far from dead, it is changing. Just like Volkswagen, which you read about at the beginning of this chapter, many multinational companies who have historically pursued inexpensive and efficient supply chains have shifted strategies regarding suppliers to reduce risk and prioritize reliability and diversification. Politicians who set trade policies are working to balance economic growth with lower inflation. As a result, although globalization will still exist, policies such as those protecting workers in the United States will continue.⁷

Other arguments against globalization have proved untrue. For example, the evidence is overwhelming that free trade is *not* the cause of unemployment. The actual culprit is technology. Research has shown, for instance, that just 13 percent of manufacturing job losses in the United States from 2000 to 2010 was due to trade; the rest was caused by enhanced productivity attributable to automation.⁸ And although this research is looking back in time, experts suggest the trend of losing jobs to technology will continue, especially as we see rapid advancements in artificial intelligence (AI) capabilities. In fact, by the mid-2030s up to a third of jobs could be automated.⁹

While the future state of globalization is still being shaped, most people believe that the benefits of globalization exceed its costs. In fact, global coordination will be needed to address the challenges of future pandemics, climate change, emerging technologies, and other uncertainties that will impact economies around the world.¹⁰

What Does This Mean for Managers?

With globalization apparently here to stay, managers and aspiring managers need to ensure they have the attitudes and skills that global management requires.

Managers need to continue to develop a geocentric attitude and build their cross-cultural sensibilities. They have to be comfortable working with people from other cultures. And they have to be flexible—open to accepting differences in languages, personalities, motivation, work habits, and management styles.

Ambitious managers need to gain international experience by working with global firms and seeking out foreign assignments. For those who want to move up in global companies, spending time in multiple foreign locales will be a must.

Although it's not uncommon for Europeans to speak three or four languages, most Americans speak only English. This puts Americans at a distinct disadvantage in global organizations. Regardless of where you're from, those who only speak a single language can increase their likelihood for success by developing a second or third language.¹¹ The ability to speak Russian, Mandarin, Spanish, or German, for instance, is likely to open up doors for decades to come.

Finally, for managers of small businesses and those with entrepreneurial interests, it's important to gain an understanding of global markets and learn how to take their business international. In the following sections, we discuss the different forms that global organizations take and various options for turning a national organization into an international one.

DIFFERENT TYPES of International Organizations

LO6.4 Explain the different types of international organizations.

Companies doing business globally aren't new. DuPont started doing business in China in 1863. H. J. Heinz Company was manufacturing food products in the United Kingdom in 1905. Ford Motor Company set up its first overseas sales branch in France in 1908. By the 1920s, other companies, including Fiat, Unilever, and Royal

Dutch Shell, had gone international. But it wasn't until the mid-1960s that international companies became quite common. Today, many companies engage in some degree of international business. However, there's not a generally accepted approach to describe the different types of international companies; different authors call them different things. We use the terms *multinational*, *multidomestic*, *global*, and *transnational*. A **multinational corporation (MNC)** is any type of international company that maintains operations in multiple countries.

One type of MNC is a **multidomestic corporation**, which decentralizes management and other decisions to the local country. This type of globalization reflects the polycentric attitude. A multidomestic corporation doesn't attempt to replicate its domestic successes by managing foreign operations from its home country. Instead, local employees typically are hired to manage the business, and marketing strategies are tailored to that country's unique characteristics. For example, Switzerland-based Nestlé is a multidomestic corporation. With operations in almost every country on the globe, its managers match the company's products to its consumers. In parts of Europe, Nestlé sells products that are not available in the United States or Latin America. Another example is Frito-Lay, a division of PepsiCo, which markets a Dorito chip in the British market that differs in both taste and texture from the US and Canadian version.

Another type of MNC is a **global company**, which centralizes its management and other decisions in the home country. This approach to globalization reflects the ethnocentric attitude. Global companies treat the world market as an integrated whole and focus on the need for global efficiency and cost savings. Although these companies may have considerable global holdings, management decisions with company-wide implications are made from headquarters in the home country. Some examples of global companies include Sony, Samsung, Deutsche Bank AG, Marriott International, and Merrill Lynch.

Other companies use an arrangement that eliminates artificial geographical barriers. This type of MNC is often called a **transnational or borderless organization** and reflects a geocentric attitude. A likely long-term impact of the COVID-19 pandemic is the growth of borderless organizations. As remote work has grown in popularity, many companies have found benefits in tapping into a remote and geographically dispersed workforce. Companies have more flexibility to respond to short-term downturns or growth through the flexibility of using remote contract workers. Relying on remote workers from around the world also allows companies to have a broader talent pool as they search for specific skills and talents. And organizations with many remote workers save money by not having to pay for buildings, rents, and physical infrastructure. Information technology workers in particular are found more easily by opening up geographic limitations. In fact, a recent Gartner study found that 58 percent of organizations have at least some technology workers in a remote borderless arrangement.¹²

HOW Organizations Go International

LO6.5 Describe the structures and techniques organizations use as they go international.

When organizations do go international, they often use different approaches. (See **Exhibit 6-1**.) Managers who want to get into a global market with minimal investment may start with **global sourcing** (also called global outsourcing), which is purchasing materials or labor from around the world wherever it is cheapest. The goal: take advantage of lower costs in order to be more competitive. For instance, many US companies outsource IT functions such as website development or system maintenance

multinational corporation (MNC)

A broad term that refers to any and all types of international companies that maintain operations in multiple countries

multidomestic corporation

An MNC that decentralizes management and other decisions to the local country



Samsung is a multinational corporation headquartered in South Korea with manufacturing facilities and sales teams located around the world.

Source: Chris Willson/Alamy Stock Photo

global company

An MNC that centralizes management and other decisions in the home country

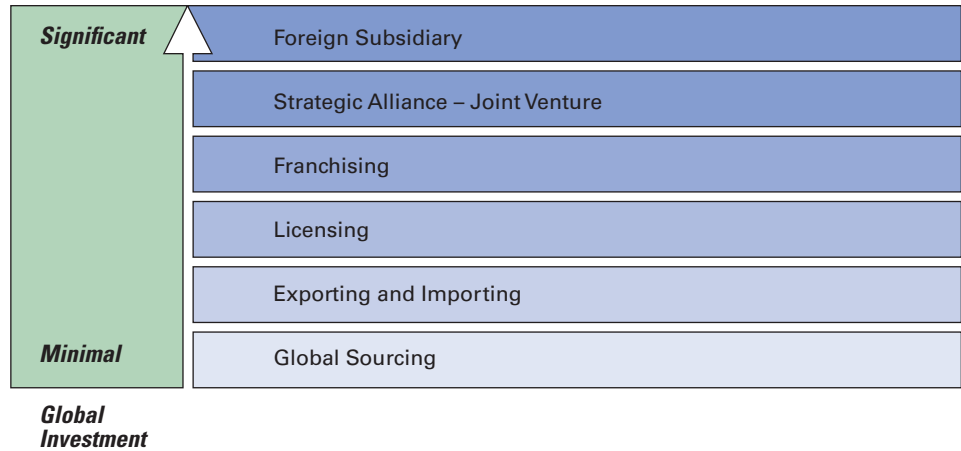
transnational or borderless organization

An MNC in which artificial geographical barriers are eliminated

global sourcing

Purchasing materials or labor from around the world wherever it is cheapest

Exhibit 6-1
How Organizations Go Global



- exporting**
Making products domestically and selling them abroad
- importing**
Acquiring products made abroad and selling them domestically
- licensing**
An organization gives another organization the right to make or sell its products using its technology or product specifications

internationally. Although global sourcing may be the first step in going international for many organizations, they often continue to use this approach because of the competitive advantages it offers. Each successive stage of going international beyond global sourcing, however, requires more investment and thus entails more risk for the organization.

The next step in going international may involve **exporting** the organization's products to other countries—that is, making products domestically and selling them abroad. In addition, an organization might do **importing**, which involves acquiring products made abroad and selling them domestically. Both usually entail minimal investment and risk, which is why many small businesses often use these approaches to doing business globally.

Managers also might use **licensing** or **franchising**, which are similar approaches involving one organization giving another organization the right to use its brand name, technology, or product specifications in return for a lump-sum payment or a fee usually based on sales. The only difference is that licensing is primarily used by manufacturing organizations that make or sell another company's products, and franchising is primarily used by service organizations that want to use another company's name and operating methods. For example, Chicago consumers can enjoy Guatemalan Pollo Campero fried chicken, South Koreans can indulge in Dunkin' Donuts coffee, and Hong Kong residents can dine on Shakey's Pizza—all because of *franchises* in these countries. On the other hand, Anheuser-Busch InBev has *licensed* the right to brew and market its Budweiser beer to brewers such as Kirin in Japan and Crown Beers in India.

When an organization has been doing business internationally for a while and has gained experience in international markets, managers may decide to make more of a direct foreign investment. One way to increase investment is through a **strategic alliance**, which is a partnership between an organization and a foreign-company partner or partners in which both share resources and knowledge in developing new products or building production facilities. For example, German camera company Leica teamed up with Italian luxury fashion brand Moncler to create a limited-edition fashion camera. A specific type of strategic alliance in which the partners form a separate, independent organization for some business purpose is called a **joint venture**. For example, German-based Adidas entered a joint venture with the California-based sustainable footwear company Allbirds to create sustainable sneakers using recycled materials.¹³

Finally, managers may choose to directly invest in a foreign country by setting up a **foreign subsidiary** as a separate and independent facility or office. This subsidiary can be managed as a multidomestic organization (local control) or as a global organization (centralized control). This arrangement involves the greatest commitment of resources and poses the greatest amount of risk. For instance, United Plastics Group of Houston, Texas, built two injection-molding facilities in Suzhou, China, to fulfill its mission of being a global supplier to its global accounts.



Japanese consumers can enjoy their favorite McDonald's menu items locally because the McDonald's brand is licensed in Japan, among many US companies featured abroad.
Source: Iain Masterton/Alamy Stock Photo

- franchising**
An organization gives another organization the right to use its name and operating methods
- strategic alliance**
A partnership between an organization and foreign company partner(s) in which both share resources and knowledge in developing new products or building production facilities

by a central government. The US economy is free market, based on capitalism. This economic system relies on market forces in which supply and demand for products, services, and labor determine monetary value. In contrast, China's political and economic systems are tightly intertwined. It's essentially a socialist republic ruled by the Communist Party and draws on the principle of community ownership; that is, all property, businesses, and natural resources are community owned, but these items are controlled by the single political party (Communist Party). In China, the government provides basic necessities based on need. In recent decades, China's economy has become more diverse. While maintaining communist control, economic growth has been fueled by market forces and capitalism. As a result, a growing segment of the population has gained considerable wealth and is adopting lifestyles similar to those in the United States.

Why do global managers need to know about a country's economic system? Because it, too, has the potential to constrain decisions. Other economic issues managers need to understand include currency exchange rates, inflation rates, and tax policies.

A multinational's profits can vary dramatically, depending on the strength of its home currency and the currencies of the countries in which it operates. For instance, a rise in the value of the yen against the dollar reduces the profits of a company like KFC when it converts yen into dollars.

Inflation means that prices for products and services are increasing, but it also affects interest rates, exchange rates, the cost of living, and the general confidence in a country's political and economic system. Country inflation rates can, and do, vary widely. In 2023, for instance, the inflation rate in the United States was 6 percent, while in Argentina it was at 102 percent!¹⁸ Managers need to monitor inflation trends so they can anticipate possible changes in a country's monetary policies and make good business decisions regarding purchasing and pricing.

Finally, tax policies in countries where multinationals operate can be a major economic concern. For instance, the 2017 change in US tax law that significantly reduced the tax rate on profits held overseas by American firms attempted to encourage many multinationals to bring back those funds to the United States.

The Cultural Environment

Imagine the challenges facing a German executive with Siemens who is transferred to a company facility in Japan. She's likely to be in for a bit of a shock.¹⁹ For instance, her communication style is probably very different from that of her Japanese counterparts. She's used to being direct and saying what she thinks. In contrast, the Japanese tend to be subtle. They're likely to find the German executive style to be rude or abrasive. Similarly, Japanese executives are unlikely to appreciate the German executive leaving every workday at 5 p.m. But that's what she did in Germany, where everyone goes home around that time to have dinner with their families. Japanese executives typically stay until 8 or 9 p.m. and then frequently go out with coworkers afterward to socialize.

As we described in the previous chapter, *organizations* have different cultures. But so, too, do *countries*. **National culture** includes the values and attitudes shared by individuals from a specific country that shape their behavior and their beliefs about what is important.²⁰ National culture is steeped in a country's history, and it's based on a society's social traditions, political and economic philosophy, and legal system.

Which is more important to a manager—national culture or organizational culture? For example, is an IBM facility in Germany more likely to reflect German culture or IBM's corporate culture? Research indicates that national culture has a greater effect on employees than their organization's culture.²¹ German employees at an IBM facility in Munich will be influenced more by German culture than by IBM's culture.

Legal, political, and economic differences among countries are fairly obvious. The Japanese manager who works in the United States or his or her US counterpart who works in Japan can get information about laws or tax policies without too much

national culture

The values and attitudes shared by individuals from a specific country that shape their behavior and beliefs about what is important

effort. Getting information about cultural differences isn't quite that easy! The primary reason? It's difficult for natives to explain their country's unique cultural characteristics to someone else. For instance, how would you describe US culture? In other words, what are Americans like? How might your description differ from your classmates'? Could it be possible that you all are correct?

IT'S YOUR CAREER

Developing Your Global Perspective—Working with People from Other Cultures

A key to success in management and in your career is becoming comfortable with cultural differences. Becoming culturally competent is a process. It takes time, and you'll make mistakes. But it's a skill you'll want to develop.

- Nearly 70 percent of executives and management professionals say that developing global competencies is very important or extremely important to the future success of their companies.²²
- The five most important attitudes, knowledge, skills, and abilities for effective global leadership are:
 - Multicultural sensitivity/awareness
 - Effective communication
 - Strategic thinking
 - Leadership; influencing others
 - Respect for differences²³

You can be certain that during your career you will work with individuals who were born in a different country than you were. Their first language is likely to be different from yours. And they will probably exhibit habits and customs that differ significantly from those familiar to you. You may find it hard to understand some of those people's behaviors, and you may find your differences make it difficult to communicate and work together. But this is today's reality. It's important for you to develop your global perspective—especially your cultural intelligence.

So what can you do to increase your ability to work with people from different cultures?²⁴

1. ***Become aware of your own level of openness to and confidence in cross-cultural experiences.*** Some people just aren't as open to and comfortable

with new and different experiences as others are. For instance, do you try new foods with unfamiliar or exotic ingredients? Are you comfortable with class project teams that have individuals from other countries? Do you dread having to communicate with individuals who don't speak your native language? If you're one of those who isn't comfortable with new and different experiences, try to overcome your fear and reluctance by starting small. Practice listening closely to those who struggle with your language. Maybe try a new and unusual menu item or get to know individuals in your classes who are from other cultures. Your goal should be expanding your comfort zone.

2. ***Assume differences until similarity is proven.*** Most of us have a tendency to assume people are like us until proven otherwise. Try to think the reverse. Assume that individuals from different cultures will interpret communication or behaviors differently. Carefully observe how individuals from other cultures relate to each other and how those interactions differ from how people within your culture relate.

3. ***Emphasize description rather than interpretation or evaluation.*** Delay making judgments until you have observed and interpreted the situation from the perspectives of all cultures involved. Description emphasizes observation and being non-judgmental. Some customs may be different from what you're used to, but different doesn't make them wrong or inferior.

4. ***Show empathy.*** Try to put yourself in "others' shoes." When assessing the words, motives, and actions of a person from another culture, try to interpret them from the perspective of that culture rather than your own. If the relationship is important and potentially long-lasting, read up on the individual's culture to learn their customs and practices.

5. ***Treat your initial interpretations as working hypotheses.*** You should treat your first interpretations as working hypotheses rather than facts, and pay careful attention to feedback in order to avoid

(continued)

serious miscommunication. If you're in doubt, don't be afraid to reach out and ask others if your evaluation of a specific behavior is accurate.

6. **Educate yourself on cross-cultural issues and approaches.** Here are three ways to improve your cultural intelligence: First, get international experience through traveling. Invest in short-term study trips abroad. Consider a semester abroad where you can immerse yourself in a

different culture. Second, take the initiative to get to know international students at your school and learn about their countries. Consider attending one or more cultural or multicultural events, which are typically hosted by a single cultural or multicultural student organization. Third, take advantage of online tools to learn more about cross-cultural differences. A good place to begin is reading global news stories.

Global Leadership and Organizational Behavior Effectiveness (GLOBE) program
The research program that studies cross-cultural leadership behaviors

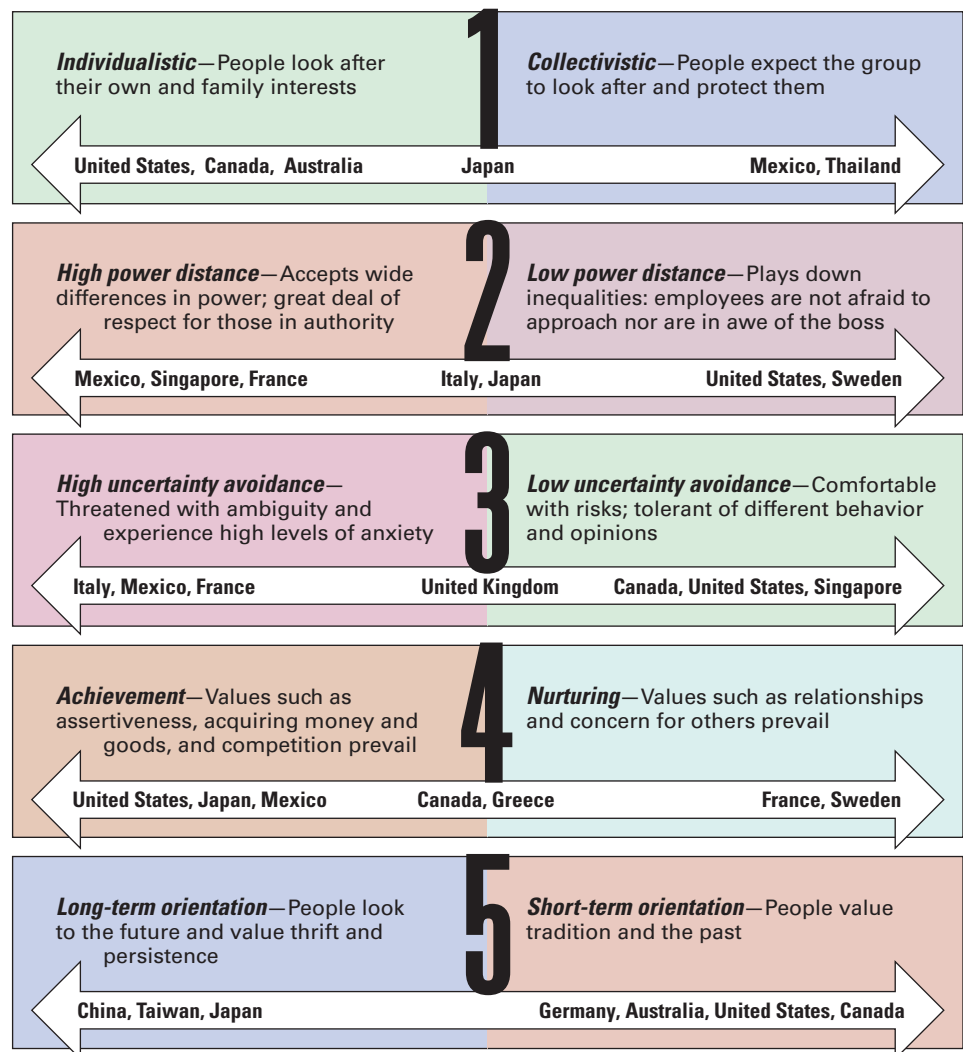
HOFSTEDE'S FRAMEWORK FOR ASSESSING CULTURES Geert Hofstede developed one of the most widely referenced approaches to helping managers better understand differences between national cultures. His research found that countries vary on five dimensions of national culture.²⁵ These dimensions are described in **Exhibit 6-2**, which also shows some of the countries characterized by those dimensions.

THE GLOBE FRAMEWORK FOR ASSESSING CULTURES The **Global Leadership and Organizational Behavior Effectiveness (GLOBE) program** is an ongoing research program that extended Hofstede's work by investigating

Exhibit 6-2

Hofstede's Five Dimensions of National Culture

Source: Based on Geert Hofstede, *Culture's Consequences: International Differences in Work-Related Values*, © Geert Hofstede, 1980 (Newbury Park: SAGE Publications, 1980).



cross-cultural leadership behaviors and giving managers additional information to help them identify and manage cultural differences. Using data from more than 18,000 managers in 62 countries, the GLOBE research team identified nine dimensions on which national cultures differ.²⁶ Two dimensions (power distance and uncertainty avoidance) fit directly with Hofstede's. Four are similar to Hofstede's (assertiveness, which is similar to achievement-nurturing; humane orientation, which is similar to the nurturing dimension; future orientation, which is similar to long-term and short-term orientation; and institutional collectivism, which is similar to individualism-collectivism). The remaining three (gender differentiation, in-group collectivism, and performance orientation) offer additional insights into a country's culture. Here are descriptions of these nine dimensions. For each of these dimensions, we have indicated examples of countries that rated high, moderate, and low.

- **Power distance:** The extent to which a society accepts that power in institutions and organizations is distributed unequally. (*High:* Russia, Spain, and Thailand. *Moderate:* England, France, and Brazil. *Low:* Denmark, the Netherlands, and South Africa.)
- **Uncertainty avoidance:** A society's reliance on social norms and procedures to alleviate the unpredictability of future events. (*High:* Austria, Denmark, and Germany. *Moderate:* Israel, United States, and Mexico. *Low:* Russia, Hungary, and Bolivia.)
- **Assertiveness:** The extent to which a society encourages people to be tough, confrontational, assertive, and competitive rather than modest and tender. (*High:* Spain, United States, and Greece. *Moderate:* Egypt, Ireland, and Philippines. *Low:* Sweden, New Zealand, and Switzerland.)
- **Humane orientation:** The degree to which a society encourages and rewards individuals for being fair, altruistic, generous, caring, and kind to others. (*High:* Indonesia, Egypt, and Malaysia. *Moderate:* Hong Kong, Sweden, and Taiwan. *Low:* Germany, Spain, and France.)
- **Future orientation:** The extent to which a society encourages and rewards future-oriented behaviors such as planning, investing in the future, and delaying gratification. (*High:* Denmark, Canada, and the Netherlands. *Moderate:* Slovenia, Egypt, and Ireland. *Low:* Russia, Argentina, and Poland.)
- **Institutional collectivism:** The degree to which individuals are encouraged by societal institutions to be integrated into groups within organizations and society. (*High:* Greece, Hungary, and Germany. *Moderate:* Hong Kong, United States, and Egypt. *Low:* Denmark, Singapore, and Japan.)
- **Gender differentiation:** The extent to which a society maximizes gender role differences as measured by how much status and decision-making responsibilities women have. (*High:* South Korea, Egypt, and Morocco. *Moderate:* Italy, Brazil, and Argentina. *Low:* Sweden, Denmark, and Slovenia.)
- **In-group collectivism:** The extent to which members of a society take pride in membership in small groups, such as their family and circle of close friends, and the organizations in which they're employed. (*High:* Egypt, China, and Morocco. *Moderate:* Japan, Israel, and Qatar. *Low:* Denmark, Sweden, and New Zealand.)
- **Performance orientation:** The degree to which a society encourages and rewards group members for performance improvement and excellence. (*High:* United States, Taiwan, and New Zealand. *Moderate:* Sweden, Israel, and Spain. *Low:* Russia, Argentina, and Greece.)

The GLOBE studies confirm that Hofstede's dimensions are still valid and extend his research rather than replace it. GLOBE's added dimensions provide an expanded and updated measure of countries' cultural differences. It's likely that cross-cultural studies of human behavior and organizational practices will increasingly use the GLOBE dimensions to assess differences among countries.²⁷

APPLYING CULTURAL GUIDELINES What does all this mean for practicing managers? At a simplistic level, it says, “When in Rome, do as the Romans do.” On an analytical level, Hofstede and the GLOBE studies provide managers with guidance in determining what “the Romans do.” If or when managers are given a foreign assignment or merely have to work with someone from a different culture, these frameworks can alert them to areas where potential problems might surface.

WORKPLACE CONFIDENTIAL Succeeding in a Remote Job

The emergence of remote work means companies no longer need to rely on finding talent in their local geographic area. They can also save money without the need to relocate recruits or provide office space. As an increasing number of companies offer the opportunity to work remotely, you will likely see more remote jobs available, giving you the chance to work from anywhere in the world. In fact, some countries are even offering digital nomad visas to attract remote workers. These special visas allow you to work remotely from within a country, typically for up to a year. Want to spend a year working from a beach in Barbados? You can! But although remote work might sound exciting, it is a challenge.

Before you accept that cool job working for a company on the other side of the country or the globe, you should first ask yourself—is remote work right for me? Although the lure of the flexibility is clear, sometimes the downside of remote work doesn't surface until you are into the job. And if you do accept the job, how can you make sure you succeed working remotely?

So what are the downsides of remote work?

First, it is not easy to work on your own. Working remotely means you need a high level of self-discipline. You can get distracted and lose focus—especially if you are working on the beach! On the flip side, it is also easy to work too much. When the work is always present, it is challenging to find that balance between work and leisure. Finally, remote work can be lonely. Many lifelong friends are made when you are a young professional, and it is a challenge to develop those relationships without the physical proximity.

However, with some intentionality, you can make your remote work experience a success. Here are some tips:

- **Communicate with your colleagues.** It is easy to be forgotten by your boss or others if you aren't physically together. Chat on whatever platform your company is using. Check in and ask questions. If in-person meet-ups are planned, make sure you go. Developing social relationships with your work team not only will help you avoid feeling isolated, but also will help you get ahead in your company by being known by others.
- **Make sure you have the equipment you need.** This is something you can ask before you start the job. Some companies may even provide an allowance to purchase an ergonomic chair or other equipment.
- **If you are working from home, make sure you have a designated workspace.** That will help you transition into work mode, and you can walk away from the space at the end of your workday. But also consider alternate work spots, especially if you need to be creative. Changing scenery is helpful, so scout out a good spot at the library or in a public coworking space.
- **Take care of your health.** Take regular breaks and make sure you stand up and stretch regularly. Make sure you block out breaks on your calendar, so you don't end up in back-to-back meetings.
- **Virtual meetings can cause fatigue.** Consider turning off your self-view on the screen—watching yourself is distracting. Also avoid multitasking during a meeting, like checking email. You will appear disengaged, and you might miss something important.
- **Set your work hours and stick to them.** Avoid checking messages once you stop working for the day. That said, be mindful of the work schedules of colleagues in different time zones. If live meetings are needed, consider shifting your schedule for the day to accommodate.

Remote work can offer you flexibility to hold a job you really want while living anywhere. You can save money by not having to commute, buy lunch, or purchase formal work clothes. But remote work can be a challenge, especially if it is your first job. You need to make an effort to engage socially beyond just getting your work done. Take care of yourself and consider ways to connect with other remote workers. The numbers are growing, and more and more cities are organizing social events to connect remote workers—seek out that community.²⁸

Chapter 6

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO6.1 DEFINE globalization, nationalism, and parochialism; and contrast ethnocentric, polycentric, and geocentric attitudes.

Globalization refers to a process by which organizations develop influence or operations across international borders. Its counterpoint has been nationalism—which refers to patriotic ideals and policies that glorify a country’s values. Parochialism is viewing the world solely through your own eyes and perspectives and not recognizing that others have different ways of living and working. An ethnocentric attitude is the parochial belief that the best work approaches and practices are those of the home country. A polycentric attitude is the view that the managers in the host country know the best work approaches and practices for running their business. And a geocentric attitude is a world-oriented view that focuses on using the best approaches and people from around the globe.

LO6.2 DESCRIBE the history of globalization.

Beginning after World War II, and through to around 2015, globalization was the dominant political and economic perspective. It had become generally accepted that globalization provides benefits for all countries. However, in recent years, globalization has come under attack from nationalism. Nationalism’s focus is on enhancing a country’s specific self-interest. In contrast to globalization’s emphasis on intercountry cooperation, nationalism puts a country’s own people and businesses first. Attacks on globalization have emphasized the loss of jobs to countries with low-cost labor and the need for tariffs and trade agreements that protect domestic jobs.

LO6.3 SUMMARIZE the case for and against globalization.

The case *for* globalization is largely based on the law of comparative advantage. By specializing in the products or services for which it has the lowest cost of production, a country is best able to compete in global markets. Globalization benefits all countries by boosting the economy, increasing wages, and providing lower-cost goods to all consumers. It has been given credit for raising the standard of living for hundreds of millions of people worldwide. In contrast, the case *against* globalization holds it responsible for wage stagnation in North America and Europe, for shipping jobs to low labor-cost countries, for undermining the middle class in Western countries, and for increasing economic inequality.

LO6.4 EXPLAIN the different types of international organizations.

Multinational corporations are international companies that maintain operations in multiple countries. Multidomestic corporations decentralize management and other decisions to the local country. A global company centralizes its management and other decisions in the home country. And transnational organizations eliminate artificial geographical barriers and reflect a geocentric attitude.

LO6.5 DESCRIBE the structures and techniques organizations use as they go international.

A multinational corporation is an international company that maintains operations in multiple countries. A multidomestic organization is an MNC that decentralizes management and other decisions to the local country (the polycentric attitude). A global organization is an MNC that centralizes management and other decisions in the home country (the ethnocentric attitude). A transnational organization (the geocentric attitude) is an MNC that has eliminated artificial geographical barriers and uses the best work practices and approaches from wherever. Global sourcing is purchasing materials or labor from around the world wherever it is cheapest. Exporting is making products domestically and selling them abroad. Importing is acquiring products made abroad and selling them domestically. Licensing is used by manufacturing organizations that make or sell another company's products and use the company's brand name, technology, or product specifications. Franchising is similar but is usually used by service organizations that want to use another company's name and operating methods. A global strategic alliance is a partnership between an organization and foreign company partners in which they share resources and knowledge to develop new products or build facilities. A joint venture is a specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose. A foreign subsidiary is a direct investment in a foreign country that a company creates by establishing a separate and independent facility or office.

LO6.6 EXPLAIN the relevance of the political/legal, economic, and cultural environments to global business.

The laws and political stability of a country are issues in the global political/legal environment with which managers must be familiar. Likewise, managers must be aware of a country's economic issues, such as currency exchange rates, inflation rates, and tax policies. Geert Hofstede identified five dimensions for assessing a country's culture: individualism-collectivism, power distance, uncertainty avoidance, achievement-nurturing, and long-term/short-term orientation. The GLOBE studies identified nine dimensions for assessing country cultures: power distance, uncertainty avoidance, assertiveness, humane orientation, future orientation, institutional collectivism, gender differentiation, in-group collectivism, and performance orientation. The main challenges of doing business globally in today's world include (1) the openness associated with globalization and the significant cultural differences between countries and (2) managing a global workforce, which requires cultural intelligence and a global mind-set.

REVIEW AND DISCUSSION QUESTIONS

- | | |
|--|---|
| <p>6-1. Contrast ethnocentric, polycentric, and geocentric attitudes toward global business.</p> <p>6-2. How have the political and economic agreements between countries impacted the way companies moved products, offered services, or exchanged money since World War I?</p> <p>6-3. What arguments are there for placing limits on globalization?</p> <p>6-4. Contrast multinational, multidomestic, global, and transnational organizations.</p> | <p>6-5. What are the managerial implications of a borderless organization?</p> <p>6-6. Describe the different ways organizations can go international.</p> <p>6-7. How might the cultural differences in the GLOBE dimensions affect how managers (a) use work groups, (b) develop goals/plans, (c) reward outstanding employee performance, and (d) deal with employee conflict?</p> |
|--|---|

PREPARING FOR: My Career

ETHICS DILEMMA

Law enforcement and governments around the world are interested in facial recognition technology. In fact, Amazon was selling facial recognition technology to law enforcement but stopped in 2020. Amazon chose to wait until state or federal laws were passed to guide them on how much access to give law enforcement interested in using the technology to track people, suggesting that Amazon still plans to find ways to profit from selling the technology to law enforcement. The American Civil Liberties Union has voiced significant concerns about governments and law enforcement using this technology because researchers found recognition systems frequently misidentified darker-skinned individuals.²⁹

Privacy concerns are not voiced in China as much as they are in the United States. The Chinese government is a

major investor in facial recognition for citizen surveillance. Industries in China where facial recognition is already being used include financial services (to prevent fraud), ride sharing, and real estate.

- 6-8. In what situations do you think using facial recognition technology violates people's privacy?
- 6-9. Is it ethical to use facial recognition technology if you are doing business in a culture where privacy concerns are not raised as much (like China)? Why or why not?
- 6-10. Is an international organization like the World Trade Organization in the best position to create rules governing what facial recognition technology companies can use?

SKILLS EXERCISE Developing Your Collaboration Skill

About the Skill

Collaboration is the teamwork, synergy, and cooperation used by individuals when they seek a common goal. In many cross-cultural settings, the ability to collaborate is crucial. When all partners must work together to achieve goals, collaboration is critically important to the process. However, cultural differences can often make collaboration a challenge.

Steps in Practicing the Skill

- **Look for common points of interest.** The best way to start working together collaboratively is to seek commonalities that exist among the parties. Common points of interest enable communications to be more effective.
- **Listen to others.** Collaboration is a team effort. Everyone has valid points to offer, and each individual should have an opportunity to express their ideas.
- **Check for understanding.** Make sure you understand what the other person is saying. Use feedback when necessary.
- **Accept diversity.** Not everything in a collaborative effort will "go your way." Be willing to accept different ideas and different ways of doing things. Be open to these ideas and the creativity that surrounds them.

- **Seek additional information.** Ask individuals to provide additional information. Encourage others to talk and more fully explain suggestions. This brainstorming opportunity can assist in finding creative solutions.
- **Don't become defensive.** Collaboration requires open communication. Discussions may focus on things you and others may not be doing or need to do better. Don't take the constructive feedback as personal criticism. Focus on the topic being discussed, not on the person delivering the message. Recognize that you cannot always be right!

Practicing the Skill

Interview individuals from three nationalities different than your own about the challenges of collaborating with individuals from different cultures. What challenges do different cultures create when people are asked to collaborate? How do they recommend dealing with these challenges? What advice do they have for improving your ability to collaborate at work with people from different cultures? Do they think being bilingual and traveling to different countries will improve your ability to collaborate?

WORKING TOGETHER Team Exercise

In many jobs today, you'll work with people from other countries even if your job is in the United States. To better prepare yourself for cultural differences, look at

the GLOBE dimensions and find examples of your home country being different from another country that you know about. In groups of three to four students, discuss

how cross-cultural interactions you have had (or could have) with people from other countries could be interpreted considering differences in GLOBE cultural dimensions. List several ways that interactions with individuals from countries could be made more comfortable for everyone

involved despite the GLOBE cultural differences. Be prepared to share your interpretations of cross-cultural interactions and ways to improve those interactions with the class.

MY TURN TO BE A MANAGER

- Find two current examples of each of the ways that organizations go international. Write a short paper describing what these companies are doing.
- The UK-based company Commisceo Global has several cultural awareness “quizzes” on its website (www.commisceo-global.com/resources/quizzes). Go to the website and try two or three of them. Were you surprised at your score? What does your score tell you about your cultural awareness?
- Interview two or three professors or students at your school who are from other countries. Ask them to describe the business environment in their home country. Write a short paper describing what you found out.
- Sign up for a foreign language course.
- Look at the opportunities available to you to travel to other countries, either on personal trips or on school-sponsored trips. Choose one opportunity and research that country's economic, political/legal, and cultural environments. Write a report summarizing your findings.
- It is important to understand basic etiquette when traveling internationally for business (e.g., how does one greet someone new, and is a handshake appropriate?).
- Identify three countries that you would like to travel to and conduct research to learn about business etiquette for those countries. Summarize your findings.
- Identify a company that operates internationally and has locations in more than two countries. Explore the “Career” page of the company's website. Write a brief report about the career opportunities available at the company and the required qualifications of applicants.
- How could consultants use the GLOBE framework to prepare professionals sent to work in different countries, like Canadian hospital administrators with Doctors Without Borders traveling to Guatemala or Australian project managers with UNICEF sent to work in Egypt? Explain. Will these countries' political/legal and economic environments affect the advice the consultants give these professionals?
- What challenges might confront a Mexican manager transferred to the United States to manage a manufacturing plant in Tucson, Arizona? Will these issues be the same for a US manager transferred to Guadalajara? Explain.

CASE APPLICATION 1

Glencore: Conducting Business in Countries Where Others Might Not

International business sounds fun: experiencing foreign cultures, traveling, and discovering new and different ways of living and working. But what if international business brings you face-to-face with corruption? That's entirely possible, because bribes and other forms of corruption can be acceptable business practices in some countries.³⁰ A big red flag for Americans when conducting international business is that you can't be a part of bribes or corruption without violating the Foreign Corrupt Practices Act (FCPA). The FCPA says anyone with connections to the United States can't engage in corrupt practices.³¹

Doing business in developing countries often comes with the risk of corruption. Glencore, one of the most powerful commodities, mining, and trading empires, found out in July 2018 that it was under investigation for money laundering in violation of FCPA.³² Swiss-based Glencore does business in mineral-rich countries like the Democratic Republic of the Congo, Nigeria, and Venezuela—countries that some firms are unwilling to do business in. These countries provide access to minerals like cobalt, which is used in smartphones, electric vehicle batteries, and other electronic devices. The United States says cobalt is essential for American national security. And Glencore is responsible for a quarter of the world's cobalt production.³³

For Glencore, doing business in resource-rich countries means dealing with companies in international markets. Glencore formed ties with Israeli mining billionaire Dan Gertler in the Congo to gain access to mines. The US Treasury Department imposed sanctions on Gertler in December 2017 for underpricing mining assets that he bought, resulting in a \$1.36 billion revenue loss for the Congolese government. Glencore pleaded guilty to these charges in 2022. Assistant Director Luis Quesada of the FBI's Criminal Investigative Division said, "Glencore engaged in long-running bribery and price manipulation conspiracies, ultimately costing the company over a billion dollars in fines. The FBI and our law enforcement partners will continue to investigate criminal financial activities and work to restore the public's trust in the marketplace."³⁴

DISCUSSION QUESTIONS

- 6-11. How can Glencore be subject to US law when it is based in Switzerland? Was the United States justified in launching this investigation?
- 6-12. Some think Glencore should change its business practices because of this corruption investigation. What if there is no other way to get access to resources without brushing up against corruption?
- 6-13. Can the ends (providing a much-needed mineral like cobalt) ever justify the means (corrupt practices)? If so, when?
- 6-14. What are other examples of international companies that have been linked to corruption? What defense did they use to justify their practices?

CASE APPLICATION 2

Lululemon Power of Three × 2 Growth Strategy

Lululemon, the originator of the athleisure trend, is a publicly traded athletic apparel retailer based in Vancouver, British Columbia. As a yoga apparel company with over 650 stores worldwide, it built a brand with fiercely loyal customers who claim the high-quality products are perfectly designed. Although Lululemon was founded to specialize in women's yoga wear, it has expanded to include other products like accessories, menswear, and the home workout system called MIRROR. Sales and marketing, product development and distribution, management information systems, and other technology roles in the company have continually grown with the increases in sales. Lululemon is no stranger to success—it gained more market share between 2019 and 2021 than any other brand in the adult apparel industry. It made more revenue through its store and online sales than Under Armour.

Lululemon's high-priced luxury products are projected to remain in high demand. As a result, company leaders continue to set aggressive growth goals. Its Power of Three × 2 growth strategy includes goals like doubling its men's business, doubling its digital revenue, and quadrupling its international business. Continued expansion has a broad aim, which includes expansion in mainland China and North America, and entering new countries across Asia Pacific and Europe. The company also plans to open its first stores in Spain and Italy. As it grows in existing and new markets, Lululemon will expand its square footage by 5 percent annually, which includes new store openings and experimental store concepts like college campus stores, megastores, and short-term pop-up stores. With no manufacturing facilities of its own, Lululemon intends to continue sourcing fabrics for its apparel from dozens of suppliers from several countries around the world, designing products internally, and using third-party inspectors to ensure manufacturers meet rigorous quality standards. However, it does not make long-term contracts with suppliers or manufacturers of its products.³⁵

DISCUSSION QUESTIONS

- 6-15. Is Lululemon a multinational, multidomestic, global, or transnational organization?
- 6-16. What are the strengths and weaknesses of how Lululemon does business globally?
- 6-17. What external environmental forces are affecting Lululemon's sourcing and manufacturing? What forces affect the first store opening in a new market or country?
- 6-18. What do you think Lululemon might need to do better to expand rapidly in the global marketplace?

ENDNOTES

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Chapter 7

Managing Social Responsibility and Ethics

Learning Objectives

- 7.1** *Discuss* what it means to be socially responsible and what factors influence that decision.
- 7.2** *Explain* green management and how organizations can go green.
- 7.3** *Describe* approaches companies can take to evaluate and report on social responsibility and sustainability efforts.
- 7.4** *Discuss* the factors that lead to ethical and unethical behavior.
- 7.5** *Describe* management's role in encouraging ethical behavior.

What is a company's obligation to society? You might know Patagonia for its durable outdoor wear, but the company's mission is all about saving the planet. Avid rock-climbing founder Yvon Chouinard has long made protecting the environment a mission of the company. From the 1 percent "earth tax" on all sales that supports environmental work to the promise of bail money for any activist employees arrested at peaceful protests, the company's commitment is real. With over \$1 billion in sales annually, Patagonia's customer base is invested in its mission as well.

But Chouinard has now gone beyond the rhetoric of most wealthy business owners who claim interest in doing good in the world. Instead of leaving the private company to his heirs or selling the company, he is retiring by transferring ownership of the company to a new nonprofit entity whose mission is to combat climate change. All company profits will go directly to the new organization to work on efforts to save the environment. This move ensures Patagonia will continue to support the environment as long as the company exists.¹

In this chapter, we look at factors that determine ethical and unethical behavior and what organizations can do to create an ethical culture. First, however, we consider an organization's responsibilities to the communities in which it operates and the world.

Management Myth: Companies only engage in socially responsible actions to look good to the public.

Management Reality: Socially responsible actions can have a positive impact on organizations.

WHAT Is Social Responsibility?

LO7.1 Discuss what it means to be socially responsible and what factors influence that decision.

How do you interpret these actions? An organization professes its commitment to sustainability yet packages its products in nonrecyclable materials. A company pays its CEO 800 times what it pays its average employee. A global corporation lowers its costs by outsourcing US jobs to a country with significantly lower wages. What if that country is known for abusing human rights? Are these companies being socially responsible?

Managers regularly face decisions that have a dimension of social responsibility in areas such as employee relations, philanthropy, pricing, resource conservation, product quality and safety, and doing business in countries that devalue human rights. But what does it mean to be socially responsible?

Two Opposing Views

Few terms have been defined in as many ways as *social responsibility*. Some of the more popular meanings include “going beyond profit making,” “voluntary activities,” “concern for the broader social system,” and “social responsiveness.” Most of the debate has focused at the extremes. On one side, there is the classical—or purely economic—view that management’s only responsibility is to maximize profits. On the other side stands the socioeconomic position, which holds that management’s responsibility goes well beyond making profits to include protecting and improving society’s welfare.

THE CLASSICAL VIEW The most outspoken advocate of the **classical view of social responsibility** was economist and Nobel laureate Milton Friedman.² He argued that most managers today are professional managers, which means that they don’t own the businesses they run. They’re employees, responsible to the shareholders or owners. Their primary charge is, therefore, to conduct the business in the interests of the shareholders. And what are those interests? Friedman argued that the shareholders have a single concern: financial return.

classical view of social responsibility
The view that management’s only social responsibility is to maximize profits

According to Friedman, when managers take it upon themselves to spend their organization’s resources for the “social good,” they undermine the market mechanism. Someone has to pay for this redistribution of assets. If socially responsible actions reduce profits and dividends, shareholders are the losers. If wages and benefits have to be reduced to pay for social action, employees lose. If prices are raised to pay for social actions, consumers lose. If higher prices are rejected by the market and sales drop, the business might not survive—in which case, *all* the organization’s constituencies lose. Moreover, Friedman contended that when professional managers pursue anything other than profit, they implicitly appoint themselves as nonelected policymakers. He questioned whether managers of business firms have the expertise for deciding how society *should* be. That, Friedman argued, is what we elect political representatives to decide.

THE SOCIOECONOMIC VIEW The socioeconomic position counters that society has higher expectations of business. This is inherent in the legal formation of corporations. Corporations are chartered by state governments. The same government that creates a charter can take it away. So corporations are not independent entities, responsible only to shareholders. They also have a responsibility to the larger society that creates and sustains them.

One author, in supporting the **socioeconomic view of social responsibility**, once noted that “maximizing profits is a company’s second priority, not its first. The first is ensuring its survival.”³

socioeconomic view of social responsibility
The view that management’s social responsibility goes beyond making profits to include protecting and improving society’s welfare

A major flaw in the classicists’ view, as seen by socioeconomic proponents, is their time frame. Supporters of the socioeconomic view contend that managers should

be concerned with maximizing financial return over the *long run*. To do that, they must accept some social obligations and the costs that go with them. They must protect society's welfare by *not* polluting, *not* discriminating, *not* engaging in deceptive advertising, and the like. They must also play an affirmative role in improving society by involving themselves in their communities and contributing to charitable organizations.

STAKEHOLDER CAPITALISM Should a business adopt the classical view or the socioeconomic view? Progressive Insurance CEO Tricia Griffith believes companies need to focus on more than generating profits, stating that the best-run companies “put the customer first and invest in their employees and communities.”⁴ This reflects the growing movement among corporate leaders to shift focus from shareholders to stakeholders. A company shareholder is someone who has ownership in the company. The shareholder could be the owner(s) of the company or someone in the public who owns company shares in the stock market. Classical views on capitalism argue that the primary goal of a business is to make a profit that benefits shareholders.

Corporate leaders and others who are advocating for stakeholder capitalism suggest that companies should focus on all stakeholders, which engages more of the socioeconomic view of social responsibility. Stakeholders include employees, vendors, community members, and the environment. Advocates suggest that the stakeholder approach maximizes long-term returns for a company.⁵ Concerns such as climate change and rising recognition of societal inequalities have increased focus on the concept of stakeholder capitalism as business leaders have started to believe that putting shareholders ahead of everything else is a short-sighted approach to management.⁶ Stakeholder capitalism puts social responsibility at the forefront of a business's priorities.

Exhibit 7-1 summarizes the major arguments for and against business assuming social responsibilities.

From Obligations to Responsiveness to Responsibility

Now it's time to narrow in on precisely what we mean when we talk about **social responsibility**. It is a business firm's obligation, beyond that required by the law and economics, to pursue long-term goals that are good for society.⁷ Note that this definition assumes that the business obeys the law and pursues economic interests. We take as a given that all business firms—those that are socially responsible and those that aren't—will obey all laws that society imposes. Also note that this definition views business as a moral agent. In its effort to do *good* for society, it must differentiate between right and wrong.

We can understand social responsibility better if we compare it with two similar concepts: social obligation and social responsiveness. A business has fulfilled its **social obligation** when it meets its economic and legal responsibilities and no more. It does the minimum that the law requires. A firm pursues social goals only to the extent that they contribute to its economic goals. In contrast to social obligation, both social responsibility and social responsiveness go beyond merely meeting basic economic and legal standards.

Social responsibility adds an ethical imperative to do those things that make society better and *not* to do those that could make it worse. **Social responsiveness** refers to the capacity of a firm to adapt to changing societal conditions. For example, in 2021, in

response to public protests against systemic racism, food companies rebranded products such as Aunt Jemima Syrup and Uncle Ben's Rice to eliminate the racist stereotypes used for the products' images.⁸

social responsibility

A firm's obligation, beyond that required by the law and economics, to pursue long-term goals that are good for society

social obligation

Meeting economic and legal responsibilities and no more

social responsiveness

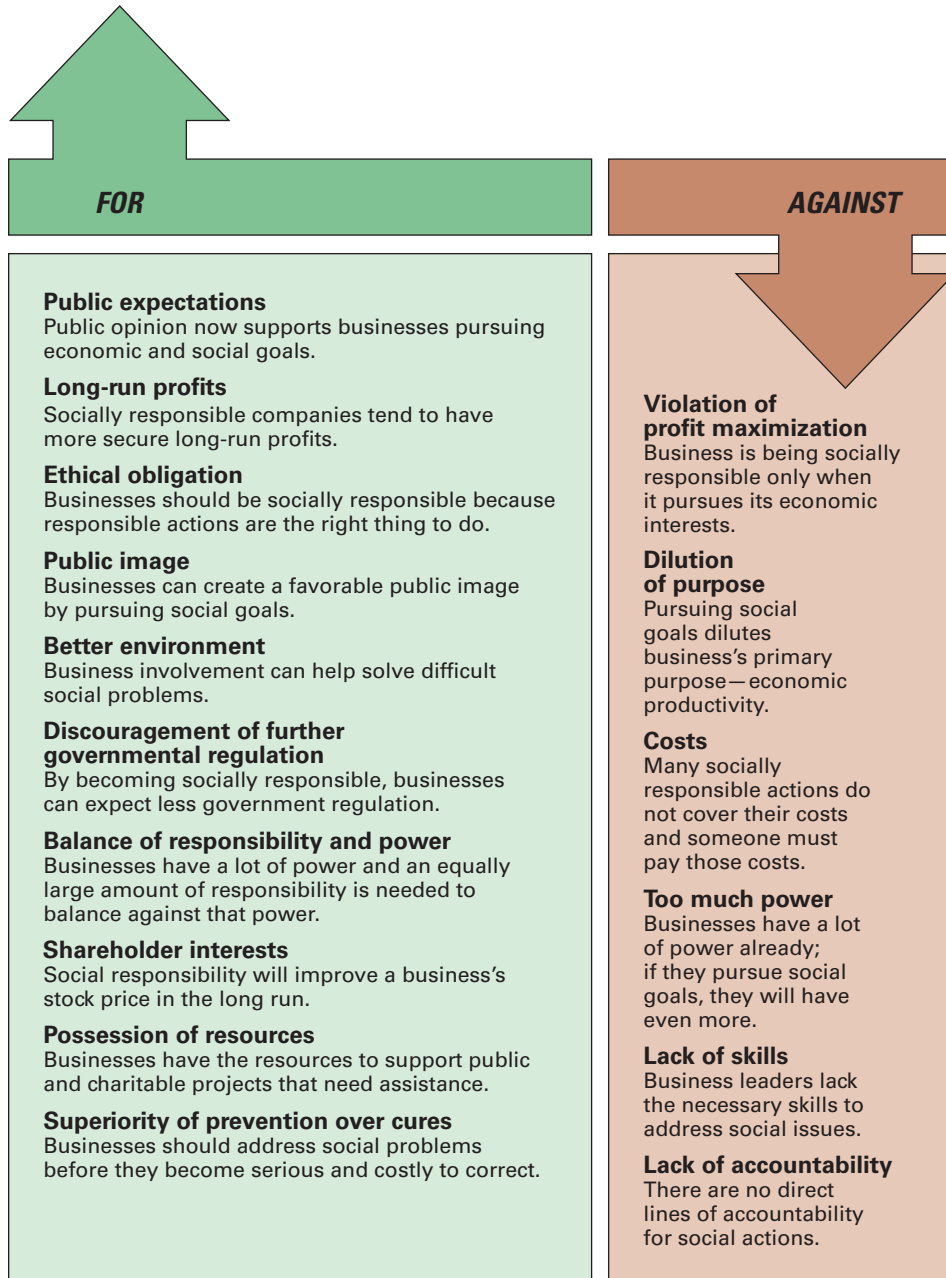
Adapting to changing societal conditions



PepsiCo, the parent company of Quaker Oats, rebranded Aunt Jemima to Pearl Milling Company to eliminate the racist stereotype in the product's image.

Source: OntheRun photo/Alamy Stock Photo

Exhibit 7-1
Arguments For and Against Social Responsibility



As Exhibit 7-2 describes, social responsibility requires businesses to determine what is right or wrong and thus seek fundamental ethical truths. Social responsiveness is guided by social norms. The value of social norms is that they can provide managers with a more meaningful guide for decision making.

Exhibit 7-2
Social Responsibility Versus Social Responsiveness

	Social Responsibility	Social Responsiveness
Major consideration	Ethical	Pragmatic
Focus	Ends	Means
Emphasis	Obligation	Responses
Decision framework	Long-term	Medium- and short-term

Source: Adapted from Steven L. Wartick and Philip L. Cochran, "The Evolution of the Corporate Social Performance Model," *Academy of Management Review* (October 1985): 766.

When a company meets pollution control standards established by the federal government or doesn't discriminate in hiring against older employees, it is meeting its social obligation and nothing more. Contrasting responsiveness with responsibility is a little less clear. Walmart's response to plastic bag bans provides an example of this distinction. Many states have banned single-use plastic bags in response to environmental concerns with both the fossil fuel used to produce them and the litter problem created by the nonbiodegradable bags that often aren't recycled. Although Walmart is meeting its social obligation by not offering plastic bags in states that have bans in place, the company is not entirely responsive to environmental concerns because it does not have a company-wide policy to ban offering plastic bags in all states.⁹

Social Responsibility and Economic Performance

In this section, we seek to answer the question: Do socially responsible activities lower a company's economic performance?

Numerous studies have examined the relationship between social involvement and a company's economic performance.¹⁰ Most of these studies have found a small positive relationship, although some critics have challenged the direction of causation.¹¹ If a study shows that social involvement and economic performance are positively related, this correlation doesn't necessarily mean that social involvement *caused* higher economic performance—it could simply mean that high profits afford companies the “luxury” of being socially involved. Another view is that social responsibility helps companies build better overall relationships with stakeholders, which leads to stronger financial performance.¹²

The strongest argument in support of managers being socially responsible is a comprehensive summary of 53 studies that encompassed practices at more than 16,000 companies.¹³ The results of this summary found overwhelming support for the argument that social responsibility is linked to financial performance. Of the 53 studies, 71.7 percent showed a positive result and only 3.1 percent were negative.

So what can we conclude about social involvement and economic performance? There is little evidence that social actions actually *hurt* a company's economic performance. And even if the positive effect is small, being socially responsible makes good sense. Given the current political and social pressures on business to pursue social goals, this may have the greatest significance for managerial decision making. So, to answer our opening question, do socially responsible activities lower a company's economic performance? The answer appears to be “No!”



Aside from benefiting the community, corporate philanthropy can contribute to numerous benefits for a firm, including increased sales, image and reputation, and employee morale. Here we see representatives from Ralphs, a West Coast supermarket chain, at a donation event for Los Angeles families in need.

Source: Jordan Strauss/AP Images

Corporate Philanthropy

Beyond socially responsible practices, corporate philanthropy can be an effective way for companies to demonstrate a commitment to society.¹⁴ For example, Ben & Jerry's, which is now owned by Unilever, has always prioritized giving to charities, with a commitment of giving 7.5 percent of its annual net income to the Ben & Jerry's Foundation to provide grants to support social causes. To date, the foundation has given over \$50 million.¹⁵

One could argue, following the classical view of social responsibility, that for-profit businesses should not be using shareholders' money to support corporate philanthropy. Yet charity can be consistent with the profit motive. For instance, a Nielsen study found that 55 percent of online consumers stated that they would pay more for products and services from companies that are committed to positive social and environmental impact.¹⁶ Additionally, there is evidence that philanthropy is good for employee morale. It can be a source of pride and increase a company's ability to attract and recruit qualified staff. Thus, corporate philanthropy can be a win-win situation. Business firms “are able to meet their customers' demand while increasing long-term profits through positive public relations.”¹⁷ The fact that corporate philanthropy is now

so widespread suggests that regardless of the motivation—increased sales, good marketing, concern for community and society, long-term profits, image and reputation, or employee morale—corporate executives appear committed to it.

GREEN Management and Environmental Sustainability

LO7.2 Explain green management and how organizations can go green.

Until the late 1960s, few people (and organizations) paid attention to the environmental consequences of their decisions and actions. Although some groups were concerned with conserving natural resources, about the only reference to saving the environment was the ubiquitous printed request “Please Don’t Litter.” However, a number of environmental disasters have brought a new spirit of environmentalism to society and organizations. Increasingly, managers have begun to consider the impact of their organization on the natural environment, which we call **green management**.



How Organizations Go Green

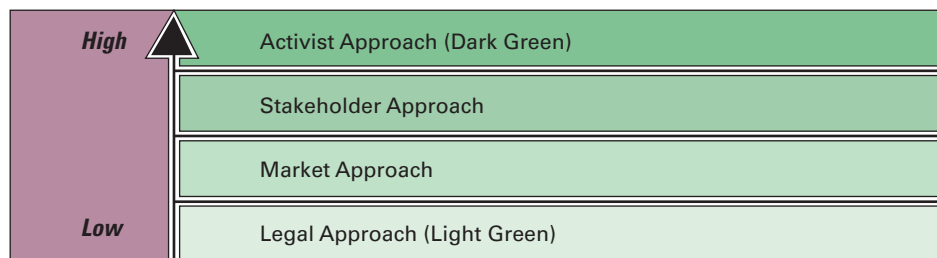
A number of organizations have radically changed their products and production processes as part of their efforts to protect and preserve the natural environment.¹⁸ For instance, Fiji Water uses renewable energy sources, preserves forests, and conserves water. Carpet-maker Mohawk Industries uses recycled plastic containers to produce fiber used in its carpets. Adidas is working with social awareness-raising network Parley for the Oceans to make sportswear from recycled ocean waste. Although interesting, these examples don’t tell us much about how organizations go green. We’ll use the *shades of green* model to describe the different environmental approaches that organizations can take.¹⁹ (See **Exhibit 7-3**.)

The first approach, the *legal (or light green) approach*, is simply doing what is required legally. In this approach, which illustrates social obligation, organizations exhibit little environmental sensitivity. They obey laws, rules, and regulations without legal challenge, and that’s the extent of their being green.

As an organization becomes more sensitive to environmental issues, it may adopt the *market approach* and respond to the environmental preferences of customers. Whatever customers demand in terms of environmentally friendly products will be what the organization provides. For example, McDonald’s is phasing out fossil fuel-based plastic toys in its Happy Meals in response to concerns from its customers.²⁰ This is a good example of social responsiveness, as is the next approach.

Today, managers are making a more substantial effort to consider the impact of their organization on the natural environment. For example, UPS considers ways to save on fuel when planning a driving route, contributing to the sustainability of the planet and also saving the company money.
Source: Victor Maschek/Shutterstock

green management
Managers considering the impact of their organization on the natural environment



Environmental Sensitivity

Exhibit 7-3 Green Approaches

Source: Based on R. E. Freeman, J. Pierce, and R. Dodd, *Shades of Green: Business Ethics and the Environment* (New York: Oxford University Press, 1995).

In the *stakeholder approach*, an organization works to meet the environmental demands of multiple stakeholders such as employees, suppliers, or community. For instance, L'Oréal has not only committed to sustainable practices across all aspects of its business—shortening transit routes, using biodegradable packaging, converting manufacturing facilities to run on renewable energy—the company has set stringent requirements on its thousands of worldwide suppliers. These requirements set standards for the suppliers' carbon footprint, water usage, water quality, biodiversity, acidification, resource depletion, air quality, and ozone depletion.²¹

Finally, if an organization pursues an *activist (or dark green) approach*, it looks for ways to protect the earth's natural resources. The activist approach reflects the highest degree of environmental sensitivity and illustrates social responsibility. For example, IKEA has committed to becoming climate positive by 2030 by reducing greenhouse gas emissions in producing their products by 15 percent. By making changes in a variety of activities, from sourcing materials to employee commuting, the company has an integrated strategy to make an impact.²²

REPORTING Social Responsibility and Sustainability

LO7.3 Describe approaches companies can take to evaluate and report on social responsibility and sustainability efforts.

Organizations benefit from informing stakeholders on their work related to social responsibility and sustainability. Reporting helps companies not only communicate progress on goals, but also track and evaluate their efforts. In this section we will explore reporting strategies including ESG reporting, the Global Reporting Initiative, ISO 9000, the United Nations Sustainable Development Goals, and the Global 100.

ESG Reporting

In **Chapter 4** we introduced environmental, social, and governance (ESG) as a reporting tool for investors to evaluate companies. Beyond investors, regulators demanding more transparency and employees who want to work somewhere that is making a positive impact on the world are also looking at ESG reporting. Businesses can share stories of social responsibility or sustainability work, but ESG reporting helps measure or quantify efforts. The reporting not only communicates externally, but also provides measures to evaluate work internally.²³ As ESG reporting has emerged, the challenge has been a lack of common standards, with companies searching for appropriate reporting standards to reflect their priorities. In response, in 2020 the World Economic Forum proposed universal ESG reporting focusing on four pillars. The pillar of “people” reflects the treatment of employees, the “planet” pillar focuses on environmental impacts, “prosperity” addresses the impact on the financial well-being of the community, and “principles of governance” reflects purpose, strategy, and accountability.²⁴

GLOBAL REPORTING INITIATIVE Many companies release detailed reports on their environmental impact to keep stakeholders informed. More than 10,000 companies around the globe now voluntarily report their efforts in promoting environmental sustainability using the guidelines developed by the Global Reporting Initiative (GRI). The GRI provides reporting standards appropriate for any organization, regardless of size. There are also standards available for specific industries.

ISO 9000 Another way organizations show their commitment to being green is through pursuing standards developed by the nongovernmental International Organization for Standardization (ISO). Although ISO has developed more than 18,000 international standards, it's probably best known for its ISO 9000

(quality management) and ISO 14000 (environmental management) standards. An organization that wants to become ISO 14000 compliant must develop a total management system for meeting environmental challenges. In other words, it must minimize the effects of its activities on the environment and continually improve its environmental performance. If an organization can meet these standards, it can state that it's ISO 14000 compliant—an accomplishment achieved by organizations in more than 155 countries.

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs) Adopted by the United Nations (UN) in 2015, the 17 SDGs set forth a plan of action for countries around the world to address societal and environmental concerns by 2030. The UN noted that the private sector can also have an impact, and many businesses look to the SDGs to prioritize sustainability efforts. The goals can also be used as an organizing framework to track and report on progress toward the goals as part of a company's sustainability reporting.²⁵

GLOBAL 100 One final way to evaluate a company's green actions is to use the Global 100 list of the most sustainable corporations in the world.²⁶ To be named to this list, a company has displayed a superior ability to effectively manage environmental and social factors. In 2023, European companies led the list with 44 Global 100 companies representing a variety of industries.²⁷ Asia Pacific companies followed with 22, and the United States with 20. The top spot went to Schnitzer Steel Industries in Portland, Oregon.



The United Nation's Sustainable Development Goals help companies prioritize their sustainability efforts.

Source: tofino/Alamy Stock Photo

MANAGERS and Ethical Behavior

LO74 Discuss the factors that lead to ethical and unethical behavior.

Let's now turn from our discussion about social responsibility to look specifically at the issue of ethics. (See **Exhibit 7-4** for some ethical guides.) Here are some ethical dilemmas. How would you handle them? Is it ethical for pharmaceutical sales representatives to provide doctors with lavish gifts as an inducement to buy? Would it make a difference if the bribe came out of the sales rep's commission? Is it ethical to use a company-issued phone to manage your social media? As an employee, would it be all right to award a lucrative contract to a company in which you hold a significant financial interest? Is it unethical to lie to someone in a negotiation in order to gain an

When faced with an ethical dilemma, consider using one or more of these tests:

- The Golden Rule Test: Would I want people to do this to me?
- The What-If-Everybody-Did-This Test: Would I want everyone to do this? Would I want to live in that kind of world?
- The Family Test: How would my parents/spouse/significant other/children feel if they found out I did this?
- The Conscience Test: Does this action go against my conscience? Will I feel guilty afterwards?
- The Front Page/Social Media Test: How would I feel if this action was reported on the front page of my hometown newspaper or splashed across social media outlets for all to see?

Source: Based on T. Lickona, *Character Matters: How to Help Our Children Develop Good Judgment, Integrity, and Other Essential Virtues* (New York: Touchstone Publishing, 2004); A. Goodman, "The Dilemma: Addicted and Conflicted About Laughing at the Afflicted," Institute for Global Ethics, June 3, 2013, globoethics.org; and G. Enck, "Six-Step Framework for Ethical Decision Making," *Journal of Health Services Research and Policy* (January 2014): 62–64.

Exhibit 7-4

Helping You Make Ethical Decisions

advantage? Or here's a question you may have already confronted or are likely to soon: If asked during a job interview how much you made on your previous job, is it unethical to give a higher number?

ethics
Moral principles that define right and wrong conduct

What do we mean by **ethics**? We define it as the moral principles that define right and wrong conduct.²⁸ Many decisions that managers make require them to consider both the process of how the decision is made and who's affected by the result. To better understand the ethical issues involved in such decisions, let's look at the factors that determine whether a person acts ethically or unethically.

Factors That Determine Ethical and Unethical Behavior

Whether a manager acts ethically or unethically is the result of a complex interaction between the manager's stage of moral development and the moderating variables of individual characteristics, the organization's structural design, the organization's culture, and the intensity of the issue (see **Exhibit 7-5**). People who lack a strong moral sense are much less likely to do the wrong things if they are constrained by rules, policies, job descriptions, or strong cultural norms that frown on such behaviors. Conversely, very moral people can be corrupted by an organizational structure and culture that permit or encourage unethical practices. Moreover, managers are more likely to make ethical decisions on issues where high moral intensity is involved. Let's look at the various factors that eventually influence whether managers behave ethically or unethically.

STAGE OF MORAL DEVELOPMENT There is a substantial body of research that confirms the existence of three levels of moral development, each composed of two stages.²⁹ At each successive stage, an individual's moral judgment grows less and less dependent on outside influences. The three levels and six stages are described in **Exhibit 7-6**.

The first level is labeled *preconventional*. At this level, individuals respond to notions of right or wrong only when there are personal consequences involved, such as physical punishment, reward, or exchange of favors. Reasoning at the *conventional* level indicates the moral value resides in maintaining the conventional order and the expectations of others. In the *principled* level, individuals make a clear effort to define moral principles apart from the authority of the groups to which they belong or society in general.

Exhibit 7-5
Factors That Determine Ethical and Unethical Behavior

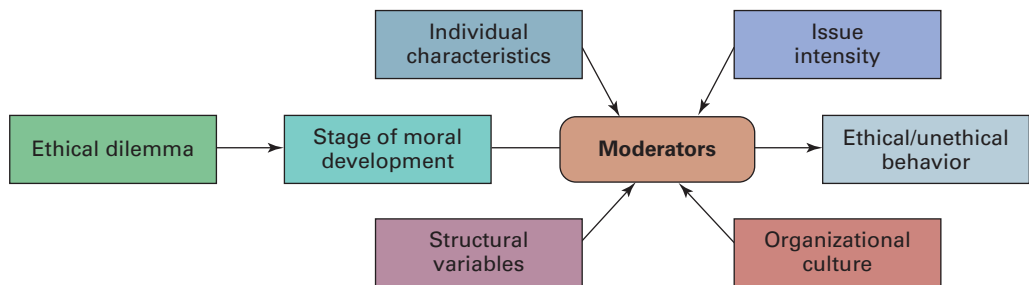


Exhibit 7-6
Stages of Moral Development

Source: L. Kohlberg, "Moral Stages and Moralization: The Cognitive-Development Approach," in *Moral Development and Behavior: Theory, Research, and Social Issues*, ed. T. Lickona (New York: Holt, Rinehart & Winston, 1976), 34–35.

Level	Description of Stage
Principled	6. Following self-chosen ethical principles even if they violate the law 5. Valuing rights of others and upholding absolute values and rights regardless of the majority's opinion
Conventional	4. Maintaining conventional order by fulfilling obligations to which you have agreed 3. Living up to what is expected by people close to you
Preconventional	2. Following rules only when doing so is in your immediate interest 1. Sticking to rules to avoid physical punishment

Research on these stages of moral development allows us to draw several conclusions.³⁰ First, people proceed through the six stages in a lockstep fashion. They gradually move up a ladder, stage by stage. They don't jump steps. Second, there is no guarantee of continued moral development. Development can terminate at any stage. Third, the majority of adults are at stage 4. They're limited to obeying the rules and laws of society. Finally, the higher the stage a manager reaches, the more they will be predisposed to behave ethically. For instance, a stage 3 manager is likely to make decisions based on peer approval; a stage 4 manager will try to be a "good corporate citizen" by making decisions that respect the organization's rules and procedures; and a stage 5 manager is likely to challenge organizational practices that they believe to be wrong.

INDIVIDUAL CHARACTERISTICS Every person enters an organization with a relatively entrenched set of personal **values**, which represent basic convictions about what is right and wrong. Our values develop from a young age based on what we see and hear from parents, teachers, friends, and others. Thus, employees in the same organization often possess very different values.³¹ Note that although *values* and *stage of moral development* may seem similar, they're not. The former are broad and cover a wide range of issues, whereas the latter is specifically a measure of independence from outside influences.

Two personality variables have also been found to influence an individual's actions according to their beliefs about what is right or wrong. They are ego strength and locus of control.

Ego strength measures the strength of a person's convictions. People with high ego strength are likely to resist impulses to act unethically and instead follow their convictions; that is, individuals high in ego strength are more likely to do what they think is right. We would expect managers with high ego strength to demonstrate more consistency between moral judgment and moral action than those with low ego strength.

Locus of control is a personality attribute that measures the degree to which people believe they control their own fate. People with an *internal* locus of control believe they control their own destinies. They're more likely to take responsibility for consequences and rely on their own internal standards of right and wrong to guide their behavior. They're also more likely to be consistent in their moral judgments and actions. People with an *external* locus of control believe what happens to them is due to luck or chance. From an ethical perspective, people with an external locus of control are less likely to take personal responsibility for the consequences of their behavior and more likely to rely on external forces.³²

STRUCTURAL VARIABLES An organization's structural design can influence whether employees behave ethically. Some structures provide strong guidance, whereas others only create ambiguity. Structural designs that minimize ambiguity and continuously remind employees of what is "ethical" are more likely to encourage ethical behavior.

Formal rules and regulations reduce ambiguity. Job descriptions and written codes of ethics are examples of formal guides that promote consistent behavior. Research continues to indicate, though, that the behavior of superiors is the strongest single influence on an individual's own ethical or unethical behavior.³³ People check to see what those in authority are doing and use that as a benchmark for acceptable practices and what is expected of them. Some performance appraisal systems focus exclusively on outcomes. Others evaluate means as well as ends. Where people are appraised only on outcomes, there will be increased pressures to do "whatever is necessary" to look good on the outcome variables. And closely associated with the appraisal system is the way rewards are allocated. The more rewards or punishments depend on specific goal outcomes, the more pressure there is to reach those goals and compromise ethical standards. Structures also differ in the amount of time, competition, cost, and similar pressures they place on job incumbents. The greater the pressure, the more likely it is that people will compromise their ethical standards.

values

Basic convictions about what is right and wrong

ego strength

A personality measure of the strength of a person's convictions



Nonhlanhla Joye has high ego strength. Based on her strong convictions, she developed a vegetable gardening system in a low-income neighborhood of her hometown in South Africa for residents to grow their own organic vegetables. She now runs her own business, Umgibe Farming Organics and Training Institute.

Source: Bernard Menigault/Alamy Stock Photo

locus of control

A personality attribute that measures the degree to which people believe they control their own fate

ORGANIZATION'S CULTURE The content and strength of an organization's culture also influence ethical behavior.³⁴ A culture that is likely to shape high ethical standards is one that is high in adaptability, people orientation, and integrity. Employees in such a culture will be encouraged to be innovative, thoughtful of others, and free to openly challenge demands or expectations they consider to be unrealistic or personally distasteful.

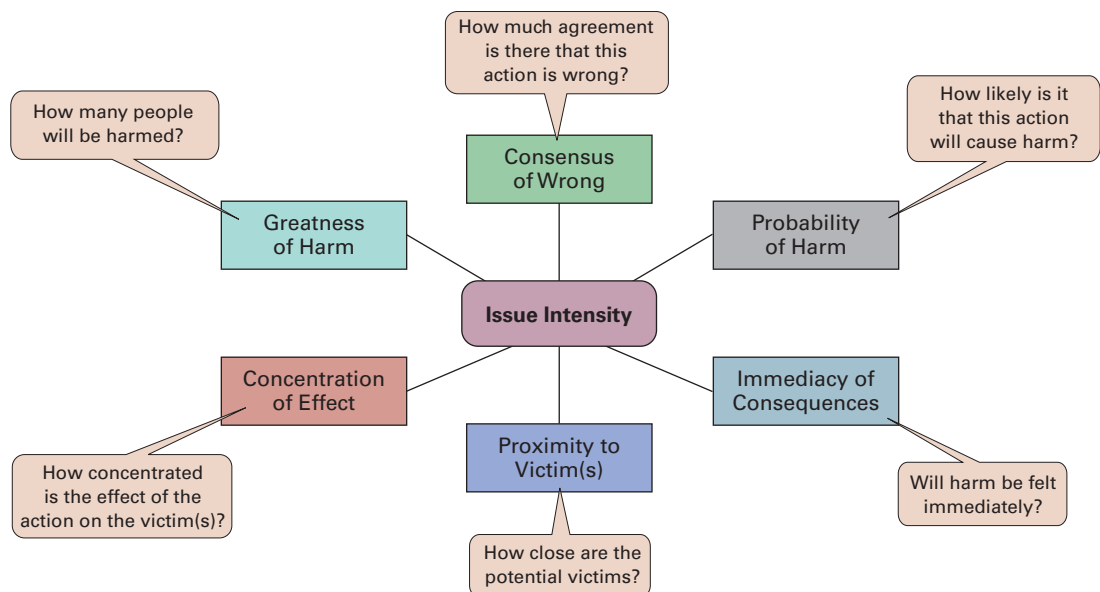
A strong culture will exert more influence on people than a weak one. If the culture is strong and supports high ethical standards, it should have a very powerful and positive influence on employees' ethical behavior. In a weak culture, however, people are more likely to rely on subculture norms as a behavioral guide. Work groups and departmental standards will strongly influence ethical behavior in organizations that have weak overall cultures.

ISSUE INTENSITY A student who would never consider breaking into an instructor's office to steal an accounting exam doesn't think twice about asking a friend who took the same course from the same instructor last semester what questions were on an exam. Similarly, a manager might think nothing about using their work computer to shop for personal items, yet be highly concerned about the possible embezzlement of company funds. These examples illustrate the final factor that influences ethical behavior: the intensity of the ethical issue itself.³⁵

As **Exhibit 7-7** shows, six characteristics determine issue intensity or how important an ethical issue is to an individual:

1. How great a harm (or benefit) is done to victims (or beneficiaries) of the ethical act in question? *Example:* An act that puts 1,000 people out of work is more harmful than one affecting 10 people.
2. How much consensus is there that the act is evil (or good)? *Example:* More Americans agree that it is evil to bribe a customs official in Texas than agree that it is evil to bribe a customs official in Mexico.
3. What is the probability that the act will actually take place and will actually cause the harm (or benefit) predicted? *Example:* Selling a gun to a known armed robber has a greater probability of harm than selling a gun to a law-abiding citizen.
4. What is the length of time between the act in question and its expected consequences? *Example:* Reducing the retirement benefits of current retirees has greater immediate consequences than reducing retirement benefits of current employees who are under age 45.

Exhibit 7-7
Issue Intensity



5. How close do you feel (socially, psychologically, or physically) to the victims (or beneficiaries) of the evil (beneficial) act in question? *Example:* Layoffs in one's own work unit hit closer to home than layoffs in a remote city.
6. How large is the concentrated effect of the ethical act on the people involved? *Example:* A change in the warranty policy denying coverage to 10 people with claims of \$10,000 has a more concentrated effect than a change denying coverage to 10,000 people with claims of \$10.

Following these guidelines, the larger the number of people harmed, the greater the consensus that an act is evil, the higher the probability that an act will take place and actually cause harm, the shorter the length of time until the consequences of the act surface, and the closer the observer feels to the victims of the act, the greater the issue intensity. In aggregate, these six components determine how important an ethical issue is. And we should expect managers to behave more ethically when a moral issue is important to them than when it is not.

Ethics in an International Context

Are ethical standards universal? Although some common moral beliefs exist, social and cultural differences between countries are important factors that determine ethical and unethical behavior.³⁶

Should Coca-Cola employees in Saudi Arabia adhere to US ethical standards, or should they follow local standards of acceptable behavior? If Airbus (a European company) pays a “broker’s fee” to an intermediary to get a major contract with a Middle Eastern airline, should Boeing be restricted from doing the same because such practices are considered improper in the United States?

In the case of payments to influence foreign officials or politicians, US managers are guided by the Foreign Corrupt Practices Act (FCPA), which makes it illegal to make payments to foreign government officials to assist in obtaining or retaining business. However, this law doesn’t always reduce ethical dilemmas to black and white. In some countries, government bureaucrat salaries are low because custom dictates that they receive small payments from those they serve. Payoffs to these bureaucrats “grease the machinery” and ensure that things get done. The FCPA does not expressly prohibit small payoffs to foreign government employees whose duties are primarily administrative or clerical *when* such payoffs are an accepted part of doing business in that country. Any action other than this is illegal and can be costly for companies. In 2022, the US Department of Justice and the Securities and Exchange Commission brought eight FCPA corporate enforcement actions, collecting \$1.5 billion in fines.³⁷

It’s important for individual managers working in foreign cultures to recognize the social, cultural, and political-legal influences on what is appropriate and acceptable behavior.³⁸ And international businesses must clarify their ethical guidelines so that employees know what’s expected of them while working in a foreign location.

Another ethical guide in international business is the United Nations Global Compact, which is an initiative created by the United Nations outlining principles for doing business globally in the areas of human rights, labor, the environment, and anticorruption (see **Exhibit 7-8**). More than 17,000 participants and stakeholders from over 160 countries have committed to the UN Global Compact, making it the world’s largest voluntary corporate citizenship initiative.³⁹ The goal of the UN Global Compact is a more sustainable and inclusive global economy. Organizations making this commitment do so because they believe that the world business community plays a significant role in improving economic and social conditions. In addition, the Organisation for Economic Co-operation and Development (OECD) has made fighting bribery and corruption in international business a high priority. The centerpiece of its efforts is the Anti-Bribery Convention (or set of rules and guidelines), which

Exhibit 7-8

The 10 Principles of the United Nations Global Compact

The UN Global Compact asks companies to embrace, support, and enact, within their sphere of influence, a set of core values in the areas of human rights, labor standards, the environment, and anti-corruption:

Human Rights

- Principle 1: Business should support and respect the protection of internationally proclaimed human rights within their sphere of influence; and
- Principle 2: Make sure they are not complicit in human rights abuses.

Labor Standards

- Principle 3: Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: The elimination of all forms of forced and compulsory labor;
- Principle 5: The effective abolition of child labor; and
- Principle 6: The elimination of discrimination in respect to employment and occupation.

Environment

- Principle 7: Business should support a precautionary approach to environmental challenges;
- Principle 8: Undertake initiatives to promote greater environmental responsibility; and
- Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Business should work against corruption in all its forms, including extortion and bribery.
-

Source: United Nations Global Compact (www.unglobalcompact.org). Copyright © 2012 United Nations Global Compact.

was the first global instrument to combat corruption in cross-border business deals. To date, significant gains have been made in fighting corruption in the 44 countries that have ratified or agreed to it. To further strengthen the convention, in 2021 it was extended to add new measures.⁴⁰

Artificial Intelligence and Ethics

As companies identify more applications for artificial intelligence (AI), it is important to keep ethics at top of mind. For example, what obligation does a company have to inform you that you are interacting with a chatbot and not a human? And what if the chatbot shares something offensive? Further, bias can find its way into AI machine-learning models regardless of the intent of the company, and if not controlled, AI can actually amplify biases.⁴¹ For example, many companies are already using AI to help with their employee recruitment process. Companies that receive hundreds of applications for open jobs can use AI to help them screen through the applications, saving a lot of time and effort. However, AI is based on algorithms that pull from a vast amount of data, and that data may already have bias in it. If the historical data on past successful applicants include more men than women, the AI could develop a bias against women. Although some experts suggest programming ethics into the AI algorithms, the reality is that ethics is nuanced and often requires human insights. Company leaders need to consider addressing ethics concerns as they explore AI applications.⁴²

Learning from FAILURE From Greenwashing to Electric Cars

Ten years ago, Volkswagen was touting eco-friendly features and low carbon emissions in marketing campaigns, appealing to consumers who cared about the environment. But an ethics scandal in 2015 quickly led to accusations of “greenwashing,” putting the company’s reputation into peril. Greenwashing means a company spends time and money marketing itself as environmentally friendly instead of actually minimizing its impact on the environment.

Volkswagen’s wrongdoings went further than just an inaccurate marketing campaign. The company installed software on its diesel-powered engines that helped them cheat on emissions tests, concealing illegally high carbon emissions from regulators. The ensuing scandal threatened the future of the 80-year-old company. Executives were caught lying, and we learned that the cutthroat company culture encouraged the deception. The company faced billions of dollars in fines, and the Volkswagen brand was in jeopardy.

In 2016 the company formed a Sustainability Council to guide it through a turnaround. The council had the daunting challenge of trying to figure out a path to zero-emissions vehicles and how to fix an ethically corrupt workplace. The council established three principles to guide the company’s work. First, they would embrace a technology change, moving from diesel to electric vehicles. Second, they would become public policy advocates and work with regulators to establish ambitious standards to reduce pollution. And finally, they would work to shift their workplace culture from one focused on financial returns, where failure was not an option, to an ethical, purpose-driven, collaborative culture where employees learn from failure.

So far Volkswagen seems on track to meet its goal of a turnaround. With a plan to invest nearly \$200 billion in developing electric vehicle technology, Volkswagen is now leading the way in moving the auto industry away from fossil fuels.⁴³

ENCOURAGING Ethical Behavior

LO75 Describe management’s role in encouraging ethical behavior.

Managers can do a number of things if they’re serious about encouraging ethical behaviors—for instance, hire employees with high ethical standards, establish codes of ethics, and lead by example. By themselves, such actions are not likely to have much of an impact. But if an organization has a comprehensive ethics program in place, it can potentially improve its ethical climate. The key term, however, is *potentially*. Despite a focus on ethics in many organizations around the world, ethical behavior continues to be a concern. A recent survey on the state of ethics globally found that 29 percent of workers have felt pressured to compromise their ethical standards. The most reported types of misconduct included favoritism, management lying to employees, and conflicts of interest. To address these concerns, let’s look at some specific ways that managers can encourage ethical behavior and create a comprehensive ethics program.⁴⁴

Employee Selection

Wanting to reduce workers’ compensation claims, Hospitality Management Corp. did pre-employment integrity testing at one hotel to see if the tests could “weed out applicants likely to be dishonest, take dangerous risks or engage in other undesirable behaviors.” After six months, claims were down among new hires.⁴⁵ Integrity tests can evaluate an applicant’s honesty and trustworthiness, including attitudes toward risky workplace behavior, theft, lying, misuse of company resources, email and internet abuse, use of drugs and alcohol, and trust with confidential information.⁴⁶

In addition to integrity testing, the entire selection process should be viewed as an opportunity to learn about an individual’s trustworthiness. Management should also consider conducting reference and background checks and including questions related to integrity or propose ethical dilemmas as part of the employment interview.⁴⁷ For



GM CEO Mary Barra uses the selection interview as a strategy to assess the integrity of potential employees.

Source: ANDREJ SOKOLOV/dpa/Alamy Live News/Alamy Stock Photo

code of ethics

A formal statement of an organization's primary values and the ethical rules it expects its employees to follow

instance, General Motors CEO Mary Barra asks applicants how coworkers would describe them. She probes about the perception of peers as well as superiors and subordinates, looking to evaluate their integrity in working with others.⁴⁸

Codes of Ethics

Uncertainty about what is and is not ethical can be a problem for employees. A **code of ethics** is a formal statement of an organization's values and the ethical rules it expects employees to follow. It's a popular device for providing employees with guiding principles and helping to define proper behavior in ambiguous situations.

What should a code of ethics look like? The *Fortune* Global 200 offer some insights.⁴⁹ The most commonly cited core values cited in the codes are integrity, teamwork, respect, innovation, and client focus. And when asked why the company had a code, the three top answers were: to comply with legal requirements, to create a shared company culture, and to protect/improve company reputation.

The effectiveness of a code of ethics depends heavily on whether management supports it and how employees who break the code are treated. When management considers a code of ethics to be important, regularly reaffirms its content, and publicly reprimands rule breakers, codes can supply a strong foundation for an effective ethics program.

Leadership at the Top

Codes of ethics require a commitment from top management. Why? Because it's the top managers who set the cultural tone. They're role models in terms of both words and actions—though what they *do* is far more important than what they *say*. If top managers, for example, take company resources for their personal use, inflate their expense accounts, or give favored treatment to friends, they imply that such behavior is acceptable for all employees.

After Steve Easterbrook, the CEO of McDonald's, was fired for an inappropriate relationship with an employee, the company's board of directors sued him after learning about other unethical behavior, leading to the return of \$105 million in compensation. In doing so, the company made it clear that such behavior was not acceptable.⁵⁰

Job Goals and Performance Appraisal

Employees should have tangible and realistic goals. Work-related goals can create ethical problems if employees see them as unrealistic. Under the stress of unrealistic goals, otherwise ethical employees may feel they have no choice but to do whatever is necessary to meet those goals. Also, goal achievement is usually a key issue in performance appraisal. If performance appraisals focus only on economic goals, ends will begin to justify means. To encourage ethical behavior, both ends *and* means should be evaluated. For example, a manager's annual review of employees might include a point-by-point evaluation of how their decisions measured up against the company's code of ethics as well as how well goals were met.

Ethics Training

Most large organizations have set up seminars, workshops, and similar ethics training programs to encourage ethical behavior. For instance, a study of 71 US-based global organizations with at least 5,000 employees found that 70 of them had employee ethics training.⁵¹ These training programs were typically less than two hours in length and usually administered as part of new employee orientation or as an annual refresher.

But does ethics training work? The failures, unfortunately, get the most attention.⁵² Arthur Andersen made millions selling ethical consulting services to its clients,

before it was revealed to be helping its client, Enron, hide its losses. And Andersen was embarrassed again when it put out videos on the importance of ethics, including one featuring supermarket entrepreneur Stew Leonard speaking earnestly about integrity shortly before he was imprisoned for massive tax fraud.

In spite of some high-publicity failures, the overall evidence is generally positive when training is combined with a code of ethics, top-management role models, accountability policies, and regular ethics audits.⁵³ However, ethics training doesn't appear to have a significant impact on participants when it relies on abstract dilemmas and stories, which have little relevance to real situations; uses multiple-choice formats rather than requiring actual deliberation and judgment; is conducted sporadically; and conflicts with reward systems that emphasize outcomes at the expense of means.⁵⁴ When those issues are addressed, we should expect ethics training to reduce unethical behavior.

Parker Hannifin, an equipment manufacturer with more than 55,000 employees in 50 countries, promotes ethical behavior through “Winning with Integrity,” a virtues-based training program that focuses on developing the character of its employees. Instead of traditional training programs that focus on compliance, Parker's approach focuses on helping employees understand the positive virtues they want them to exhibit. For example, participants learn that they can use the virtue of courage to speak up when they see the company making a mistake. Early evidence suggests that this approach is effective in improving ethical behavior, and employees appreciate the investment in their personal development.⁵⁵

Ethics Officer or Committee

Encouraging ethical behavior is clearly complex and requires a multifaceted approach. Many organizations hire an ethics officer to lead ethics programs and also address ethical issues as they arise. An ethics officer can create programs or initiatives that address the ethical challenges specific to a company. In fact, a recent study found that ethics officers taking an innovative approach to ethics initiatives is associated with better ethical behavior in the organization.⁵⁶

In an organization with more complex challenges, an ethics committee with a variety of expertise might be more useful. For example, given the potential problematic ethical consequences of the use of AI, experts recommend an AI ethics committee as a step to avoid ethical challenges when engaging AI. Such a committee made up of lawyers, technical experts, business strategists, and subject matter experts can mitigate the risks of using AI by reviewing the use and application of AI within the business.⁵⁷

Protecting Whistle-Blowers

What would you do if you saw other employees doing something illegal, immoral, or unethical? Would you step forward? Many of us wouldn't because of the perceived risks. That's why it's important for organizations to have a comprehensive anti-retaliation program in place that allows employees to raise ethical concerns without personal or career risks. These employees, called *whistle-blowers*, require protection.

Whistle-blowing is defined as an act of an individual within an organization who discloses information in order to report and correct corruption.⁵⁸ In the United States, federal legislation offers some legal protection to employees. There are 22 federal statutes that protect employees who raise or report a variety of activities—including workplace safety hazards, environmental violations, and financial manipulations.⁵⁹ The provisions of these statutes are enforced by the Occupational Safety and Health Administration (OSHA). For instance, according to the Sarbanes-Oxley Act, any manager who retaliates against an employee for reporting violations faces a stiff penalty: a 10-year jail sentence.



Many firms offer ethics training to their employees, either as part of orientation for new hires or on an annual basis. This is one way organizations can encourage ethical behavior and emphasize the value placed on it.
Source: Fizkes/Shutterstock

whistle-blowing

An act of an individual within an organization who discloses information in order to report and correct corruption

OSHA has proposed that employers create an anti-retaliation program that contains five key elements:⁶⁰

1. **Management commitment:** Senior management needs to demonstrate that it is committed to addressing employees' concerns regarding potential violations of the law and to preventing retaliation.
2. **Compliance concern response system:** Management needs to establish procedures and enable employees to confidentially report concerns, provide for a fair and transparent evaluation of the concerns, offer a timely response, and ensure a fair and effective resolution.
3. **Anti-retaliation response system:** There needs to be clearly designated and independent channels for reporting the retaliation that bypass the manager who is believed to have retaliated. If unsatisfied, the reporting employee should have the ability to elevate the matter to higher levels.
4. **Anti-retaliation training:** All employees, including management, need training to ensure they know the law, their rights, and applicable organizational procedures.
5. **Program oversight:** Rigorous oversight needs to be enacted in the form of monitoring processes and independent audits to ensure that the program is working as intended.

WORKPLACE CONFIDENTIAL Balancing Work and Personal Life

Several business critics have proposed that business firms have a social responsibility to help employees balance their work demands with their family and personal commitments. A number of companies, usually large ones and often in high-tech industries, have responded by making work-life balance an important corporate goal. They've introduced flexible work hours, offered paid leave for new parents, built on-site childcare facilities, and introduced similar policies that make it easier for employees to balance their personal life and work. The emergence of remote work also helps reduce time spent commuting. But such workplace benefits are probably more the exception than the rule. Unfortunately, most of us face situations more accurately described as work-life *imbalance*.

If you're going to achieve balance, responsibility is most likely to fall largely on your own shoulders. So what can you do?

In an ideal world, you would seek a progressive employer that sees the benefits of providing its employees with the flexibility to balance work and personal responsibilities. As we've noted, there are such firms. *Fortune* magazine publishes an annual list of the 100 best companies to work for. Many of these companies make the *Fortune* list in large part because of their progressive human resource policies that include options to facilitate work-life balance.

Our next suggestion asks you to assess your priorities. What trade-offs are you prepared to make between your work and personal life? Keep in mind that the answer to this question often changes over time. At age 25, your career might be your highest priority, and working 70 hours a week might be a price you're willing to pay to move up the career ladder. At 35, you might not feel the same way. There is nothing wrong with going "all in" on your job. Just realize that there are trade-offs. If you have high career

aspirations, recognize that you will need to make personal sacrifices. Consider where you want to be in 5, 10, 20, and even 30 years. If you decide that pursuing a rich personal life outside of work is important to you, consider this fact when seeking a job. And per **Chapter 4**, choose an organization whose culture is compatible with your values. If your nonwork activities are your highest priority, choose an organization and a job where your preference will be honored.

Take a look ahead at the "It's Your Career" box in **Chapter 8**. It provides a brief summary of time-management techniques. To successfully manage conflicts that might arise between your work and nonwork life, few activities are more valuable than effective use of your time.

Time is a unique resource in that, if it's wasted, it can never be replaced. Importantly, every one of us is allotted the same 24 hours a day, seven days a week. Some people just use their allotments better than others; that is, they do a better job of managing their time. For instance, you can reduce work-life conflicts by prioritizing both work and personal activities by importance and urgency. Besides prioritizing activities, here are three additional time-management suggestions:

- **Follow the 80/20 principle.** Most of us produce 80 percent of our results using only 20 percent of our time. It's easy to get caught in an activity trap and confuse actions with accomplishments. Those who use their time well make sure that the crucial 20 percent gets highest priority.
- **Know your productivity cycle.** Each of us has a daily energy cycle that influences when we feel most productive or unproductive. Some of us are morning people; others are late afternoon or evening people. Don't fight your

natural cycle. Understand it and use it to your advantage. Handle your most demanding problems during the high part of your energy cycle, when you are most alert and productive. Relegate routine and undemanding tasks to your low periods.

- **Group less-important activities together.** Set aside a regular time period each day to make phone calls, respond to emails, do follow-ups, and perform other kinds of “busy work.” Ideally, this should be during your low cycle. This avoids duplication, waste, and redundancy; it also prevents trivial matters from crowding out high-priority tasks.

The following are a few additional practices that can help you balance your work–life commitments:

- **Set specific time targets for leaving work.** Make it a habit to leave work at a set time each day. As this pattern is established, colleagues will become increasingly aware of your schedule and learn to interact with you during your specific work hours. This is more challenging if you are working remotely; having a specific work space you can leave helps.
- **Separate work and personal cell phones.** Use two separate cell phones or cell accounts. Respond to your work

number during working hours and your personal number at other times. Turn off your business phone when you’re outside your work hours.

- **Avoid checking emails or responding to work-related texts outside work hours.** Don’t let your work hours become 24/7. In our digital world, it’s increasingly common for people to assume we’re always available. Make clear to others that you separate your personal life from your work. In reality, most “urgent” messages aren’t urgent. Most replies can be delayed 10 or 12 hours with minimal effects.
- **Our final suggestion recognizes that working for others always requires giving up some degree of control.** No matter how progressive your employer, the employment agreement implies a trade-off: You give up some of your freedom in return for compensation. You can potentially maximize control of your work–life conflicts by becoming your own boss. Although this rarely lessens demands on your time, it can allow you to dictate how you will spend your time. You may end up working longer hours than you would if you worked for someone else, but that decision will be yours rather than someone else’s.⁶¹

Chapter 7

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO7.1 DISCUSS what it means to be socially responsible and what factors influence that decision.

Social responsibility is a business’s obligation, beyond its economic and legal obligations, to pursue long-term goals that are good for society. The classical view of social responsibility is that managers’ primary charge is to ensure financial returns for the company. A firm pursues social goals as they contribute to economic goals. The socioeconomic view of social responsibility involves the belief that organizations have a responsibility to society. Both views suggest that businesses have an ethical obligation to make society better and *not* to engage in activities to make it worse. A socially responsive company might decide to do something because of social norms expecting them to; a socially responsible business decision is guided by a decision about what they themselves think is right or ethical. Determining whether organizations should be socially responsible can be done by looking at arguments for and against it. We can conclude that a company’s social responsibility doesn’t appear to hurt its economic performance. Businesses can promote positive social change through corporate philanthropy efforts.

LO7.2 EXPLAIN green management and how organizations can go green.

Green management is when managers consider the impact of their organization on the natural environment. Organizations can “go green” in different ways. The light green approach is doing what is required legally, which is social obligation. Using the market

approach, organizations respond to the environmental preferences of their customers. Using the stakeholder approach, organizations respond to the environmental demands of multiple stakeholders. Both the market and stakeholder approaches can be viewed as social responsiveness. With an activist or dark green approach, an organization looks for ways to respect and preserve the earth and its natural resources, which can be viewed as social responsibility.

LO7.3 DESCRIBE approaches companies can take to evaluate and report on social responsibility and sustainability efforts.

Businesses are increasingly using environmental, social, and governance (ESG) measures as a way to report on social responsibility work and green business initiatives to help measure and quantify efforts. The Global Reporting Initiative provides standards in reporting environmental sustainability work. Green actions can be evaluated by examining reports that companies compile about their environmental performance, by looking for compliance with global standards for environmental management (e.g., ISO 14000), as well as by reviewing the guidelines from the Global 100.

LO7.4 DISCUSS the factors that lead to ethical and unethical behavior.

Ethics refers to the principles, values, and beliefs that define right and wrong decisions and behavior. The factors that affect ethical and unethical behavior include an individual's level of moral development (preconventional, conventional, or principled), individual characteristics (values and personality variables—ego strength and locus of control), structural variables (structural design, use of goals, performance appraisal systems, and reward allocation procedures), organizational culture, and issue intensity (greatness of harm, consensus of wrong, probability of harm, immediacy of consequences, proximity to victims, and concentration of effect). Because ethical standards aren't universal, managers should know what they can and cannot do legally as defined by the Foreign Corrupt Practices Act. It's also important to recognize any cultural differences and to clarify ethical guidelines for employees working in different global locations. Finally, managers should be aware of ethical issues that arise out of use of technology such as artificial intelligence.

LO7.5 DESCRIBE management's role in encouraging ethical behavior.

The behavior of managers is the single most important influence on an individual's decision to act ethically or unethically. Some specific ways managers can encourage ethical behavior include paying attention to employee selection, creating an organizational culture that positively influences ethical behavior, having and using a code of ethics, recognizing the important ethical leadership role they play and how what they do is far more important than what they say, making sure that goals and the performance appraisal process don't reward goal achievement without taking into account how those goals were achieved, and using ethics training and an ethics officer or committee. Managers can protect whistle-blowers (employees who raise ethical issues or concerns) by encouraging them to come forward, by setting up toll-free ethics hotlines, and by establishing a culture in which employees can complain and be heard without fear of reprisal.

REVIEW AND DISCUSSION QUESTIONS

- 7-1. Differentiate the business practices related to social responsiveness, social responsibility, and social obligation.
- 7-2. Does social responsibility mean something different to your employee behavior than your behavior as a manager? Do you think a business can be socially responsible when its employees and managers are not? Explain.
- 7-3. Compare the market, stakeholder, and activist approaches to green management. Why would a company choose one approach instead of the other?
- 7-4. Describe an approach companies should use to evaluate and report on their social responsibility and sustainability efforts.
- 7-5. What factors influence whether an employee behaves ethically or unethically? Explain the relevant factors.
- 7-6. Review the United Nations principles for doing business globally (see **Exhibit 7-8**). Identify and describe the two most important principles in your opinion.
- 7-7. How can managers encourage ethical behavior in the workplace?
- 7-8. What are some problems that could be associated with employee whistle-blowing for (a) the whistle-blower and (b) the organization?
- 7-9. Do you think businesses have a responsibility to help employees balance their work demands with their family and personal commitments? Why or why not?

PREPARING FOR: My Career

ETHICS DILEMMA

A coworker takes credit for the excellent job you've performed. Frustrating! It's probably happened to you or someone you know. How did it happen? Perhaps you shared an idea with a coworker and then heard them present it as their own in a meeting. Or perhaps you worked during the weekend to ensure that a project report was completed on time and your coworker took credit for your initiative. Or maybe you resolved a conflict with a customer, but your department head reported the resolution as their own.

- 7-10. What are two possible reasons others take credit for your work? Are either of these reasons justifiable? Why or why not?
- 7-11. Do you think those who take credit for your work know to do so is wrong?
- 7-12. How would you respond to your coworker or boss taking all the credit for your work? Explain.

SKILLS EXERCISE Developing Your Trust Building Skill

About the Skill

Trust plays an important role in the manager's relationships with their employees.⁶² Given the importance of trust in setting a good ethical example for employees, today's managers should actively seek to develop it within their work group.

Steps in Practicing the Skill

- **Practice openness.** Mistrust comes as much from what people don't know as from what they do. Being open with employees leads to confidence and trust. Keep people informed. Make clear the criteria you use in making decisions. Explain the rationale for your decisions. Be forthright and candid about problems. Fully disclose all relevant information.
- **Be fair.** Before making decisions or taking actions, consider how others will perceive them in terms of objectivity and fairness. Give credit where credit is due. Be objective and impartial in performance appraisals. Pay attention to equity perceptions in distributing rewards.
- **Speak your feelings.** Managers who convey only hard facts come across as cold, distant, and unfeeling. When you share your feelings, others will see that you are real and human. They will know you for who you are and their respect for you will likely increase.
- **Tell the truth.** Being trustworthy means being credible. If honesty is critical to credibility, then you must be perceived as someone who tells the truth. Employees are more tolerant of hearing something "they don't want to hear" than of finding out that their manager lied to them.

- **Be consistent.** People want predictability. Mistrust comes from not knowing what to expect. Take the time to think about your values and beliefs, and let those values and beliefs consistently guide your decisions. When you know what's important to you, your actions will follow, and you will project a consistency that earns trust.
- **Fulfill your promises.** Trust requires that people believe that you are dependable. You need to ensure that you keep your word. Promises made must be promises kept.
- **Maintain confidences.** You trust those you believe to be discreet and those you can rely on. If people open up to you and make themselves vulnerable by telling you something in confidence, they need to feel assured you won't discuss it with others or betray that confidence. If people perceive you as someone who leaks personal confidences or someone who can't be depended on, you've lost their trust.
- **Demonstrate competence.** Develop the admiration and respect of others by demonstrating technical and professional ability. Pay particular attention to developing and displaying your communication, negotiation, and other interpersonal skills.

Practicing the Skill

Building trust with the people you work with during team projects in your classes is a great way to practice this skill. Using the steps above, create a plan you can use during a project to effectively build and maintain trust within the team. Make a list of steps from above you will focus on at the project's beginning, middle, and end. Next, list a behavior matching each step you are willing to commit to during the team project to build or maintain trust with the different team members. For example, you may want to commit to responding to your teammates' communications within a certain time period. Implement the plan during your next team project.

WORKING TOGETHER Team Exercise

Identify a company you do business with regularly (for example, a restaurant or retail store). List a socially responsible behavior of the company you selected. Does the company provide any support to the local community, for example, donating items for fundraisers or participating in local events? Does the company engage in any green management practices, for example, recycling or using alternative energy sources? Do some research

on the company to see if you can expand the list of the company's socially responsible actions. Next, divide into groups of three to four students and share your lists. Compare and discuss the socially responsible actions of each of the companies your group considered. How do these actions benefit each company? Are there other steps that each company could take to become more socially responsible?

MY TURN TO BE A MANAGER

- Go to the Global Reporting Initiative website (www.globalreporting.org) and choose three businesses from the list that have filed reports. Look at those reports and describe/evaluate what is in them. In addition, identify the stakeholders who might be affected and how they might be affected by the company's action.
- Identify three companies that are known for being socially responsible. List and compare the types of socially responsible behavior that each company engages in.
- Find a list of companies with the lowest environmental, social, and governance (ESG) scores. Do you recognize any of the companies with the lowest scores? Are you surprised by any of the company names on the list? Are there some simple steps the companies can take to raise their scores quickly?
- Research careers in sustainability. Visit the Occupational Information Network (O*Net) at www.onetcenter.org and search for careers using the terms "sustainability" or "green management." Create a list of the types of jobs or careers you can pursue. Identify the skills and abilities that are required for a career in sustainability.
- Find three different examples of organizational codes of ethics. Compare and contrast the examples. Using the examples of codes of ethics you found, create what you feel would be an appropriate and effective organizational code of ethics. With this information as inspiration, create your own *personal code of ethics* to use as a guide to ethical dilemmas.
- Over the course of two weeks, see what ethical "dilemmas" you observe. These could be ones you face personally, or they could be ones that others (friends, colleagues, other students talking in the hallway or before class, and so forth) face. Write these dilemmas down and think about what you might do if faced with each dilemma.
- Interview a manager and professor about how employees should be encouraged to be ethical. Now ask an artificial intelligence (AI) chatbot the same question. Write down the similarities and differences between all of the comments. Discuss how these ideas might help you be a better manager.

CASE APPLICATION 1

Chobani: A Different Kind of Yogurt Company

If a company you founded in a small town in the United States grew so quickly that hiring candidates from the area still left you in need of more employees, what would you do? Hamdi Ulukaya, the founder of Chobani (which sells the top-selling brand of Greek yogurt in the United States), decided in 2010 to contact a refugee center 30 miles away from his business in upstate New York.⁶³ He figured he could solve his staffing shortage while also helping people in need.

It was an experiment that started with a few temporary workers. There were challenges to resolve: cultural differences, language barriers, and transportation needs. Eight years later, 30 percent of the company's 2,000 employees were immigrants, with more than 20 languages spoken at the company's plants in New York and Idaho.⁶⁴ Ulukaya, who is a Turkish immigrant himself, explained his hiring strategy: "This was not about politics . . . this was about hiring from our community." Chobani took this approach to the next level in 2022 by persuading its suppliers around the world to hire refugees as well.

There have been unexpected benefits of this hiring approach. First, the motivation of the workforce at Chobani has helped the business. "These are the most hardworking, patriotic, honest people. They will give everything they have," according to Ulukaya.⁶⁵ Also, there is a sense of community and high employee morale at Chobani because the company seems to be doing more than only increasing profits.

Hiring immigrants is not Chobani's only uncommon business approach. Chobani has always given 10 percent of its post-tax profits to charitable causes.⁶⁶ Chobani employees have a six-week parental leave for both mothers and fathers, including adoptive and foster parents.⁶⁷ Unlike most companies, Chobani's hourly employees get the same parental leave as salaried employees. The average worker's wages are double the federal minimum wage. In 2016, Chobani began giving employees shares of the company based on tenure in the company. Employees now own 10 percent of the company. "The staff was always proud, but this ownership piece was missing. This is probably one of the smartest, most tactical things you can do for a company. You're faster, you're more passionate. Your people are happier,"⁶⁸ Ulukaya says.

DISCUSSION QUESTIONS

- 7-13. Is Chobani a better example of social responsibility or social responsiveness? Provide reasons why.
- 7-14. What actions has Chobani taken that illustrate the socioeconomic view of social responsibility? What ways (if any) could Chobani expand its efforts logically into corporate philanthropy?
- 7-15. Which of the arguments for and against social responsibility apply to Chobani (see **Exhibit 7-1**)?
- 7-16. Do you think Chobani's approaches to business would attract customers? Why or why not?

**CASE
APPLICATION 2****Every Kid Fed: Addressing Childhood
Hunger Through Social Entrepreneurship**

While in graduate school, Shanay Thompson volunteered to work with at-risk high school students. Shanay noticed that students increasingly asked her for food. Some said they were bullied at school when they ate the free lunches provided. Others said there was no food available at home. Shanay already knew that a lack of food makes it nearly impossible for kids to learn, but hearing these kids' stories in person was different ... and she found it to be too difficult to just hand them a snack and get back to her own life.

Shanay had the idea of a food pantry—a place where students (or someone else from their family) could get needed food before or after school or at lunch without feeling embarrassed. The principal of the school where Shanay was volunteering approved the idea. Before long, Shanay realized that she couldn't stop with just one school. She targeted low-income schools and started an organization called Every Kid Fed.

To get her first pantry started, Shanay chipped in her own money. She needed more food, though, so she started spending her weekends asking 10 to 15 grocery store managers for gift cards. That approach lasted for about three months. Teachers and counselors were referring students in need to the pantries, and the food was going fast.

Shanay thought her next move should be to write grant proposals. But she was concerned about the competition for grants and the slow grant approval process. As she put it, she was “competing with a ton of wonderful nonprofits for grants through this same standard process, so I said what the heck, I'm going to start emailing the CEOs of these big companies. To my surprise, it actually worked.”⁶⁹ CEOs of companies, such as Amazon and Salesforce, put her in touch with their community outreach departments. And Shanay was able to quickly acquire funds.

One year into running Every Kid Fed, Shanay taught herself to code so students could access boxed meals during the summer using an app.⁷⁰ Shanay has done it all—founding and operating Every Kid Fed while simultaneously attending medical school. She recently was recognized with an award from “Black Girls Rock!” for making a difference.⁷¹

DISCUSSION QUESTIONS

- 7-17. What barriers did Shanay confront in creating Every Kid Fed? How did she overcome them?
- 7-18. You read about one graduate student making a difference by being socially responsible. With Every Kid Fed as an example, how important is a partnership with companies for individuals being socially responsible?
- 7-19. Building on the example of Shanay Thompson, what personal qualities and behaviors does it take to be socially responsible?
- 7-20. Provide examples of individuals leading socially responsible activities in your community. Have these individuals partnered with corporations? Why or why not?

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PART 2 Management Practice

Continuing Case: Starbucks—Basics of Managing in Today's Workplace

As managers manage in today's workplace, they must be aware of some specific integrative issues that can affect the way they do their job. What are these integrative managerial issues, and how does Starbucks accommodate and respond to them? In this part of the Continuing Case, we will look at Starbucks's external environment/organizational culture, diversity, management in a global environment, and social responsibility/ethical challenges.

The Culture and External Environment

Managers must be aware of the external environment within which they plan, organize, lead, and control. The constraints and challenges of the environment influence what managers and other employees do and how they do it. And more importantly, its complexity will affect how efficiently and effectively managers coordinate other people's work so that goals—organizational and work-level or work-unit—can be accomplished. Managers then interpret what Starbucks's environmental uncertainty matrix looks like and how the company's executives, managers, and employees should adapt to their external environment.

An organization's culture is a mix of shared values, beliefs, and codes of behavior that influence the way work gets done and the way managers behave in organizations. And the strong culture at Starbucks can be traced to the founders' philosophies and Howard Schultz's unique beliefs about how his iteration of the company should be run. The three friends (Jerry Baldwin, Gordon Bowker, and Zev Siegl) who founded Starbucks in 1971 as a store in Seattle's historic Pike Place Market district did so because they loved coffee and tea and wanted Seattle to have access to the best. They had opened five stores in Seattle by 1982 and had no intention of building a global business empire. Although never written down, their business philosophy was simple: Use free samples of brewed coffee to entice customers to buy bulk coffee beans, tea, spices, coffee makers, grinders, and teapots. The original Starbucks founders formed a company passionately committed to world-class coffee and dedicated to educating its customers, one-on-one, about what great coffee could be. These qualities ignited Howard Schultz's passion for the coffee business and inspired him to envision what Starbucks could become.¹

The company's current mission and guiding principles (which you can find at www.starbucks.com) are meant to guide the decisions and actions of company partners from top to bottom. They also have significantly influenced the organization's culture. For instance, Starbucks's culture emphasizes keeping employees motivated and content.

Howard Schultz cared about the relationships he had with his employees. Following Schultz, Kevin Johnson and now Laxman Narasimhan have continued that sense of caring. Both Johnson and Narasimhan call Starbucks employees "partners" just like Schultz did; as Johnson said, "As CEO, I serve the 330,000 Starbucks partners around the world who proudly wear the green apron, a purpose that brings me joy."² When Narasimhan took over as CEO in 2023, he said, "We have a critical role to play in bringing human connection to a world that's quite disconnected. . . . In order to exceed the customer expectations, we must first exceed partner expectations."³ Like his predecessors, he understands how Starbucks's human connection with partners and customers fueled its growth from 11 stores to 36,000.

Starbucks's employees worldwide serve millions of customers each week. That is a lot of opportunities to either satisfy or disappoint the customer. The experiences customers have in the stores ultimately affect the company's relationships with its customers. That is why Starbucks has created a unique relationship with its employees. Starbucks provides a set of generous employee benefits, referred to as "Your Special Blend," to all employees who work more than 20 hours a week: healthcare benefits, paid sick leave, and a compensation plan that includes stock options. In 2018, the company expanded its healthcare coverage to offer inclusive transgender medical benefits. Starbucks's employees also can earn a bachelor's degree from Arizona State University's online course offerings at company expense. More than 10,000 employees have earned their bachelor's degrees through this partnership, and almost 90 percent of stores have at least one worker participating in the program.⁴ Starbucks is known for providing employees with higher pay and better benefits than many restaurants and retail companies. Schultz felt higher quality employees cared more and was determined to attain them by providing benefits to lower-level and part-time employees. The numbers justified his vision of being a people-oriented employer. "We did a regression analysis of the cost of hiring, training and losing people," Bradley Honeycutt, Starbucks's compensation and benefits manager, said. "We looked at inherent benefits of not having to recruit people. The cost of benefits is far lower than the cost of the [other] program."⁵ In 2022, Starbucks spent an additional \$1 billion on raising wages, doubling the training new baristas and shift supervisors receive, and store innovation.⁶

Caring about its employees in ways beyond pay and just talking about it is part of the culture at Starbucks. For instance, Starbucks supports hurricane relief efforts across the Caribbean and North America. In 2017, Starbucks paid more than 10,000 employees at 700 stores in Puerto Rico and 400 stores in Texas even though they were closed due

to hurricanes. As another example, Starbucks has begun installing safe-needle disposal boxes in restrooms where employees have expressed concerns about being poked by needles that drug users threw away. Other examples of the company's concern: Starbucks met its goal of hiring 25,000 veterans and military spouses six years ahead of schedule. It remains committed to hiring 5,000 veterans and military spouses each year while also reimbursing any fees employees faced as part of the "Dreamers" immigration program.⁷

Global Challenges

You could say that Starbucks has been a global business from day one. While on a business trip to Milan in 1983, Howard Schultz (who worked in marketing for Starbucks's original founders) experienced firsthand Italy's coffee culture and had an epiphany about how such an approach might work back home in the United States. Now, 40 years later, Starbucks stores are found in over 80 countries, from China and Australia to South Africa and the Turks & Caicos. Doing business globally, as **Chapter 6** points out, can be challenging. With Starbucks stores already established on what might seem like every neighborhood corner in the United States, Starbucks depends on growing globally in countries like China, Uruguay, and Italy.

Starbucks was a "first mover" in China and, as of 2023, had more than 6,000 stores in 230 Chinese cities, with 1,000 stores in Shanghai alone.⁸ That makes China Starbucks's second-largest market in the world! However, other companies have been competing with Starbucks in China, including the local brand Luckin Coffee. Luckin, founded in 2017, has quickly expanded to more than 9,000 stores, surpassing the current number of Starbucks stores in China. Starbucks is countering with plans to operate 9,000 stores in China by 2025. Luckin is a Chinese company, and its executives understand Chinese customer preferences—like how much delivered coffee is appreciated—and have allocated half of its stores to coffee delivery and "pick up and go" coffee outlets. Expanding Starbucks's delivery options in China to compete with Luckin has not been easy. Coffee delivery not only cuts into Starbucks's profit margins but also involves challenges like using more durable foam lids on top of drinks to keep the beverage intact after a delivery scooter ride darting through traffic. Luckin Coffee stores, many within sight of a Starbucks, and other global competitors, like Dunkin' Brands and McDonald's, sell their coffee drinks at lower prices while expanding on a large scale in China, ensuring Chinese customers have multiple retail coffee options.⁹

Starbucks must be cognizant of the economic, legal-political, and cultural aspects that characterize China and the rest of the global market. For instance, in Europe—the "birthplace of café and coffeehouse culture"—Starbucks experienced years of slowing sales. Starbucks sold its stores in four European countries (France, Netherlands, Belgium, and Luxembourg) to a partner company, Asea, in 2018. In the same year, Starbucks opened its first store in Italy. The Starbucks in Milan, Italy, is

one of the company's Reserve Roastery locations, which are high-end "experiential coffee palaces." The Milan store has heated marble counters, a 21-foot bronze cask suspended in the air to store coffee, and a bar serving signature Starbucks cocktails. Ironically, Milan is where Howard Schultz famously drank the cappuccino that sparked his ideas about how to grow the company. If Starbucks can sell the "Starbucks experience"—not just coffee—with Reserve Roasteries in global locations like Milan, Shanghai, and Tokyo, some think that will be the recipe for success.

Shanghai's Reserve Roastery has become a sort of "Willy Wonka for coffee" tourist destination. Customers in Shanghai can use augmented reality tools for an enhanced experience of coffee roasting right in front of them and can participate in an online/offline scavenger hunt using their phones within the store. The Shanghai location is beautifully adorned with 1,000 hand-engraved traditional Chinese stamps that tell the story of Starbucks and coffee making while offering three restaurants inside, including a pizzeria. Luxury experiences at Roasteries appeal to a more upscale clientele known to wait outside to get inside, where they can purchase rare and higher-quality coffees from far-off locations.¹⁰

Starbucks hopes to figure out how to appeal to the vast array of tastes and preferences worldwide. So, as Starbucks continues its global expansion, it must pay close attention to and respect cultural differences. However, tastes do change. Some industry experts believe customers in the future will continue to want healthier drinks, whereas others say that Starbucks needs to show more innovation in its drink options. For instance, the "Oleato" line of drinks made with extra-virgin olive oil is the latest experiment to make coffee drinks a healthy option by adding small amounts of olive oil with coffee.

Starbucks practically invented the order-by-app concept, and its app allows customers to track the progress of their orders to let them know when their order is ready. The app's success during the COVID-19 pandemic dramatically increased drive-through and app-to-go ordering. Postpandemic customer behavior remained different as these types of orders remained the largest part of the business. Only 28 percent of customers order at the counter, and baristas struggle to make drinks fast enough to meet the peak demand.¹¹ Company leaders have recognized current stores were built for customers looking for an in-store experience, meaning the stores' contemporary design is misaligned with the dominant preference of today's customers. Pricing and rising distribution and operating costs remain a concern for Starbucks as its main competitors, Dunkin' and McDonald's, have continued to offer similar drinks at prices more than 10 percent less than Starbucks.

Managing Diversity and Inclusion

Not only does Starbucks attempt to be respectful of global cultural differences, but it also is committed to being an organization that embraces inclusion and diversity as it

does business. The company mandated antibias training for executives and feels it is a place where all are welcome and where partners can feel a sense of belonging. Melody Hobson, a longtime Starbucks board member, was promoted to be the only Black chair of an S&P 500 company in 2020. Only 8 percent of S&P 500 directors are Black and 24 percent are nonwhite, and women hold 33 percent of S&P 500 board seats.¹² Diversity and inclusion are meaningful for Narasimhan, Starbucks's CEO, and he understands how difficult it can be to feel included. He was born in Pune, India, but has worked around the world. He attended graduate school at the University of Pennsylvania and speaks German, English, Spanish, and three different Indian dialects.¹³

Starbucks's supplier diversity program provides opportunities for developing a business relationship with women and suppliers owned by people of color. Starbucks also supports diversity in its local neighborhoods and global communities through strategic partnerships and investments that deepen its ties in those areas. This includes creating job opportunities and opening cafés in or near underserved or economically depressed communities. As far as its partners, the company is committed to a workplace that values and respects people from diverse backgrounds. The company supports employee resource groups (which they call "partner networks"). The most current company diversity statistics available show that 50.5 percent of employees are people of color, and 71.6 percent are women.¹⁴ In 2018, Starbucks achieved its goal of increasing the number of women in senior leadership by 50 percent two years earlier than forecasted. Starbucks also hired more young people between the ages of 16 and 24, who are unemployed and not in school, as part of its Opportunity Youth program because of the inherent value in what they considered as often overlooked talent. Many of Starbucks's diversity initiatives center on seeking to hire by removing barriers to opportunity. Young, inexperienced workers, refugees, veterans, military spouses, or people needing a second chance are meant to find success at Starbucks, because they are brought into a welcoming culture and given a sense of belonging.¹⁵ Starbucks attempts to make the Starbucks experience accessible to all customers and to respond to each customer's unique preferences and needs. And Starbucks aims to enable its partners to do their best work and to be successful in the Starbucks environment.

Starbucks has generally been viewed as a progressive implementer of diversity, equity, and inclusion policies, but it still faces challenges. In one instance, Starbucks was criticized for closing restrooms in three cafés in Los Angeles near populations of people experiencing homelessness. Employees at several US stores have recently called for unionization, and some store employees have voted to establish a union. Many of the noneconomic proposals requested by the union relate to fair treatment, zero tolerance for sexual harassment, and nondiscrimination. Management has fought against unionization.¹⁶

Starbucks also takes its social responsibility and ethical commitments seriously. In 2001, the company began issuing an annual corporate social responsibility report, which addresses the company's decisions and actions in relation to its products, society, the environment, and the workplace. These reports are not simply a way for Starbucks to brag about its socially responsible actions but are intended to stress the importance of doing business in a responsible way and to hold employees and managers accountable for their actions.

Starbucks focuses its corporate responsibility efforts on three main areas: ethical sourcing (buying), environmental stewardship, and community involvement. Starbucks approaches ethical sourcing from the perspective of helping the farmers and suppliers who grow and produce its products to use responsible growing methods and helping them be successful, thus promoting long-term sustainability of its supply of quality coffee. The company views this as a win-win situation. The farmers have a better (and more secure) future, and Starbucks is helping create a long-term supply of a commodity it depends on.

Environmental stewardship has been one of the more challenging undertakings for Starbucks, especially considering the number of disposable containers generated, which exceeds 7 billion cups and mugs worldwide each year. But front-of-the-store waste, where single-use cups account for 20 percent of the company's global waste, is only part of the battle. Behind-the-counter waste in the form of cardboard boxes, milk jugs, syrup bottles, and, not surprisingly, coffee grounds is a significant issue. Despite this, the company has made significant strides in recycling. Starbucks has the largest number of "greener stores" (energy efficient and involving sustainable materials) in its industry and was the first to include postconsumer fiber in its hot cups. It introduced a more recyclable cup lid in 2017 and has plans to stop using plastic straws worldwide. Even so, it has pledged to cut waste and carbon emissions by half by 2030 and aims to one day become resource positive. Finally, Starbucks is experimenting with discounts on orders for customers bringing their own cups to stores and offering cup-washing stations where personal cups are cleaned before ordering drinks. And the company has eliminated all disposable cups in Seoul, South Korea.¹⁷

Starbucks is also very serious about doing business ethically. It was named to the list of World's Most Ethical Companies for 12 years in a row.¹⁸ Ways to expand plant-based menu options and use reusable packaging, regenerative agriculture and water replenishment, and utilizing sustainable delivery methods are all future priorities. Additional programs ask partners (and customers) to get involved by volunteering in their communities.¹⁹ In fact, from the executive level to the store level, individuals are expected and empowered to protect Starbucks's reputation through how they conduct business and treat others. And individuals are guided by the *Standards of Business Conduct*, a resource created for employees explaining how

to do business ethically, with integrity and honesty. These business conduct standards cover the workplace environment, business practices, intellectual property and proprietary information, and community involvement. Despite the thorough information in the standards, if partners face a situation where they are unsure how to respond or if they want to voice concerns, they are encouraged to seek guidance from their manager, their partner resources representative, or even the corporate office of business ethics and compliance. The company also strongly states that it does not tolerate retaliation against or victimization of any partner who raises concerns or questions.

As a global company with revenues of \$32.2 billion,²⁰ Starbucks's executives recognize they must be aware of the impact the company's external environment has on their decisions and actions. Starbucks actively lobbies legislators in Washington, DC, on issues including global trade policies, healthcare costs, and tax breaks. It is something executives recognize as being essential to the company's future.

Discussion Questions

- P2-1.** Do you think Howard Schultz, Kevin Johnson, and Laxman Narasimhan have viewed their roles more from the omnipotent or the symbolic perspective? Explain.
- P2-2.** Who made Starbucks's culture what it is? How has that culture been maintained over time?
- P2-3.** What culture does Starbucks have? Is its strong culture a competitive advantage? Explain.
- P2-4.** Describe some of the specific and general environmental components that are likely to impact Starbucks.
- P2-5.** How would you classify the uncertainty of the environment in which Starbucks operates? Explain. Would you classify Starbucks's environment as more calm waters or white-water rapids? Explain. How does the company manage change in this type of environment?
- P2-6.** What two stakeholders do you think Starbucks might be most concerned with? Why? What issue(s) might each stakeholder want Starbucks to address?
- P2-7.** What global economic and legal-political issues might Starbucks face as it expands its operations in South America or Africa that it does not face in China?
- P2-8.** Pick one African country to be an important target for Starbucks's expansion. Make a bulleted list of this country's economic, political-legal, and cultural characteristics and how they might affect Starbucks's operation.
- P2-9.** What workforce challenges might Starbucks face in the United States with its partners?
- P2-10.** With more than 330,000 partners worldwide, what challenges might Starbucks face in ensuring its inclusivity and diversity values are practiced and adhered to?
- P2-11.** Laxman Narasimhan is quoted on the Starbucks website as saying, "We have a critical role to play in bringing human connection to a world that's quite disconnected. . . . In order to exceed the customer expectations, we must first exceed partner expectations." Explain what you think this means. How is this related to how Starbucks shares its culture with its employees?
- P2-12.** Starbucks has a Black woman as the board chair and a CEO born in India. Does Starbucks need to say and do more to show its commitment to diversity? In what ways could Starbucks become even stronger in the area of diversity?
- P2-13.** Go to the company's website, www.starbucks.com, and find the latest corporate social responsibility report. Find the goals for one of its competitors (e.g., Dunkin', Luckin Coffee, McDonald's), and describe and evaluate whether there are any meaningful differences in corporate social responsibility between the two companies. If possible, note some significant accomplishments for each.
- P2-14.** What do you think of Starbucks's goal to stop using plastic straws worldwide? What challenges might it face in meeting that goal? Is this merely a "public relations" promotion?
- P2-15.** Which of the approaches to "going green" does Starbucks utilize? Explain your choice.
- P2-16.** What do you think the company's use of the term *partners* instead of *employees* implies? What is your reaction to this? Do you think it matters what companies call their employees? (For instance, Walmart calls its employees *associates*.) Why or why not?
- P2-17.** Is Starbucks a case for or against globalization?
- P2-18.** Do Starbucks's benefits live up to the promises? For example, a barista can earn shares of

Starbucks stock as part of its Bean Stock program, which they can sell after two years. In its Stock Investment Plan, partners can use up to 10 percent of their base pay to buy Starbucks stock at a 5 percent discount. Using today's date two years ago, how happy do you think a partner would be if they sold 10 shares in each program today? Complete the necessary calculations to explain your answer.

Practice Your Data Analysis Skills

A coffee business started by three friends caught on, and currently has 10 locations, the environmentally conscious founders of this business have started to consider if the garbage generated by each store is problematic. Last month, the average waste sent to landfills amounted to 1,500 pounds per store. Stores are open seven days a week, and about 500 customers visit each store daily. It turns out that single-use coffee cups, approximately 500 per day per store, can be replaced by compostable paper cups at a cost of \$0.15 per cup. By implementing recycling, 600 pounds of garbage per store can be diverted from going to a landfill.

- P2-19.** What is the waste diversion rate per store if recycling and compostable cups are used? Assume 50 single-use cups equal one pound of garbage, and the waste diversion rate is calculated by dividing the amount of waste diverted by the total amount of waste, then multiply the total by 100. The waste diversion rate is presented as a percentage.
- P2-20.** The founders have also decided to donate \$100,000 yearly to an environmental organization dedicated to saving the earth through food security, ecosystem survival, and reducing carbon footprints. Calculate the total cost of the company's new sustainability initiatives (donations and compostable cups). Do you feel the impact on the organization's bottom line is too high? Explain. Are there other or better sustainability steps this coffee business should take?

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Chapter 8

Foundations of Planning

Learning Objectives

- 8.1** *Define* the nature and purposes of planning.
- 8.2** *Classify* the types of plans organizations might use.
- 8.3** *Identify* the key contingency factors in planning.
- 8.4** *Compare* and contrast approaches to objective setting.
- 8.5** *Discuss* contemporary issues in planning.

A severe winter storm knocking out power is not uncommon—that is, unless it happens in Texas. In a state where the temperature rarely dips below freezing, a winter storm in 2021 wreaked havoc across the state, surprising many. Millions were left without electricity as equipment froze at power plants, taking almost half of the state’s power offline. Natural gas wells iced over, slowing the fuel supplies homeowners counted on for heat. The state was caught unprepared. Ten years earlier, energy regulators had warned that the state’s power system could not handle a winter storm. And climate scientists had been warning for decades that climate change would be causing unusual weather events just like this storm. Why, then, were they unprepared? The bottom line is—they had failed to plan.¹

Management Myth: Planning is a waste of time because no one can predict the future.

Management Reality: Planning helps companies establish their future direction and focus on achieving their goals.

THE WHAT AND WHY of Planning

LO8.1 Define the nature and purposes of planning.

All managers need to understand the importance and the process of planning to help accomplish organizational goals. Let’s start by covering the basics of planning: *What* is it? And *why* is it important?

What Is Planning?

What do we mean by the term *planning*? As we stated in **Chapter 1**, planning encompasses defining the organization’s objectives or goals, establishing an overall strategy for achieving these goals, and developing a comprehensive hierarchy of plans to

integrate and coordinate activities. It is concerned, then, with *ends* (what is to be done) as well as with *means* (how it is to be done).

Planning can be further defined in terms of whether it is informal or formal. All managers engage in planning, but it might be only the informal variety. In informal planning, nothing is written down, and there is little or no sharing of objectives with others in the organization. This describes planning in many small businesses; the owner-manager has a vision of where he or she wants to go and how he or she expects to get there. The planning is general and lacks continuity. Of course, informal planning exists in some large organizations, and some small businesses have very sophisticated formal plans.

When we use the term “planning” in this text, we are implying *formal* planning. Specific objectives are formulated covering a period of years. These objectives are committed to writing and made available to organization members. Finally, specific action programs exist for the achievement of these objectives; that is, management clearly defines the path it wants to take to get from where it is to where it wants to be.

Why Do Managers Plan?

The planning process consumes a lot of time and effort. So why should managers plan? We can give you at least four reasons:

1. *Planning provides direction* to managers and nonmanagers alike. When employees know what their organization or work unit is trying to accomplish and what they must contribute to reach goals, they can coordinate their activities, cooperate with each other, and do what it takes to accomplish those goals. Without planning, departments and individuals might work at cross-purposes and prevent the organization from efficiently achieving its goals.
2. *Planning reduces uncertainty* by forcing managers to look ahead, anticipate change, consider the impact of change, and develop appropriate responses. Although planning won't eliminate uncertainty, managers plan so they can respond effectively.
3. *Planning minimizes waste and redundancy*. When work activities are coordinated around plans, inefficiencies become obvious and can be corrected or eliminated.
4. *Planning establishes the goals or standards* used in controlling. When managers plan, they develop goals and plans. When they control, they see whether the plans have been carried out and the goals met. Without planning, there would be no goals against which to measure work effort or identify deviations.



Planning contributes to the profitable performance of Recreational Equipment Inc. (REI). Formal expansion plans have helped REI grow from one store in 1944 to a major retailer of outdoor gear with more than 150 stores, 13,000 employees, and annual sales of over \$3 billion. Shown here are employees at an REI store opening in New York City's SoHo shopping district.

Source: Matt Peyton/REI/AP Images

Planning and Performance

Is planning worthwhile? We have more than 30 years of research that has looked at the relationship between planning and performance.² Although most have shown generally positive relationships, we can't say that organizations that formally plan always outperform those that don't plan. But *what* can we conclude?

First, generally speaking, formal planning is associated with positive financial results—higher profits, higher returns on assets, and so forth. Second, the *quality* of the planning process and the appropriate *implementation* of the plans probably contribute more to high performance than does the *extent* of planning. Finally, in those studies where formal planning didn't lead to higher performance, the external environment was typically the culprit. When government regulations, powerful labor unions, and similar environmental forces constrain management's options, planning will have less of an impact on the organization's performance. Why? Because management will have fewer choices for which planning can propose viable alternatives. For example, planning might suggest that a manufacturing firm produce a number of key parts in

Asia in order to compete effectively against low-cost foreign competitors. But if the firm's contract with its labor union specifically forbids transferring work overseas, the value of the firm's planning effort is significantly reduced. Dramatic shocks from the environment can also undermine the best-laid plans. Many companies had future plans in place at the beginning of 2020, but when the COVID-19 pandemic shut down businesses around the world, it also significantly changed most companies' plans.

TYPES of Plans

LO8.2 Classify the types of plans organizations might use.

The most popular ways to describe organizational plans are breadth (strategic versus operational), time frame (short-term versus long-term), specificity (directional versus specific), frequency of use (single use versus standing), and planning conditions (static versus scenario). As **Exhibit 8-1** shows, these types of plans aren't independent of one another. For instance, there is a close relationship between the short- and long-term categories and the strategic and operational categories.

Strategic versus Operational Plans

Plans that apply to the entire organization, that establish the organization's overall objectives, and that seek to position the organization in terms of its environment are called **strategic plans**. These plans evolve from the organization's mission. A **mission** is a broad statement of an organization's purpose that provides an overall guide to what organizational members think is important. Plans should reflect the organization's mission. For instance, Target's mission is "To help all families discover the joy of everyday life."

Plans that specify the details of how the overall objectives are to be achieved are called **operational plans**. Strategic and operational plans differ in their time frame, their scope, and whether or not they include a known set of organizational objectives. Operational plans tend to cover shorter periods of time. For instance, an organization's monthly, weekly, and day-to-day plans are almost all operational. Strategic plans tend to include an extended time period—usually five years or more. They also cover a broader area and deal less with specifics. Finally, strategic plans include the formulation of objectives, whereas operational plans assume the existence of objectives. Operational plans offer ways of attaining these objectives.

strategic plans

Plans that apply to the entire organization, that establish the organization's overall objectives, and that seek to position the organization in terms of its environment

mission

The purpose of an organization

operational plans

Plans that specify the details of how the overall objectives are to be achieved

short-term plans

Plans covering less than one year

long-term plans

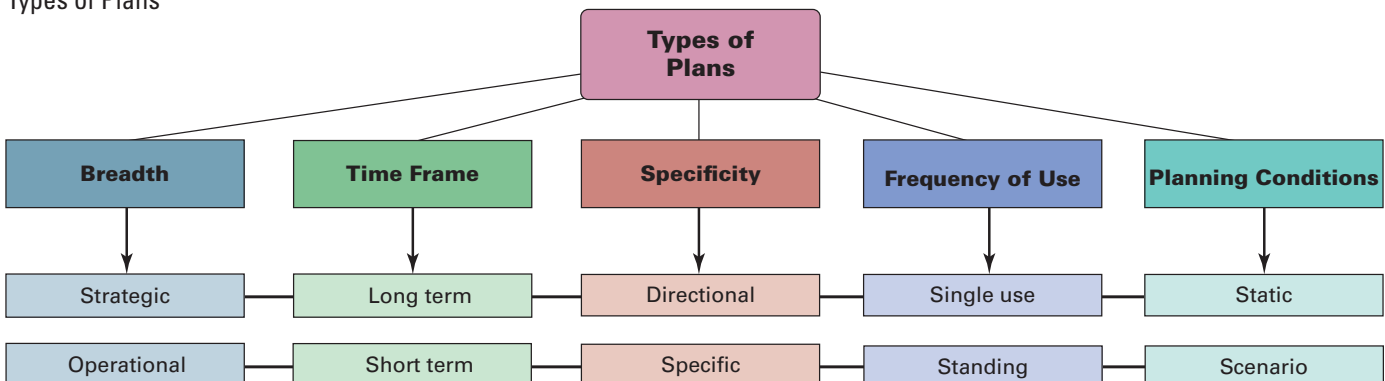
Plans of five years or more

Short-Term versus Long-Term Plans

Financial analysts traditionally describe investment returns as *short-*, *intermediate-*, and *long-term*. **Short-term plans** cover less than one year. Any time frame beyond five years is classified as **long-term plans**. Intermediate plans covers the period in

Exhibit 8-1

Types of Plans



between. Managers have adopted the same terminology to describe plans. For clarity, we'll emphasize short-term plans and long-term plans in future discussions.

Specific versus Directional Plans

It seems intuitively correct that specific plans are always preferable to directional, or loosely guided, plans. **Specific plans** have clearly defined objectives. There is no ambiguity, no problem with misunderstandings. For example, a manager who seeks to increase their firm's sales by 20 percent over a given 12-month period might establish specific procedures, budget allocations, and schedules of activities to reach that objective. These represent specific plans.

However, specific plans are not without drawbacks. They require clarity and a sense of predictability that often doesn't exist. When uncertainty is high, which requires management to maintain flexibility in order to respond to unexpected changes, then it's preferable to use directional plans.

Directional plans identify general guidelines. They provide focus but do not lock management into specific objectives or specific courses of action. Using **Exhibit 8-2** as an example, specific plans would dictate the exact route to get from point A to point B. In contrast, directional plans would point you in the general direction but essentially leave open the specific streets to take. And point B might be a general area rather than a specifically defined destination.

Instead of a manager following a specific plan to cut costs by 4 percent and increase revenues by 6 percent in the next six months, a directional plan might aim at improving profits by 5 to 10 percent during the next six months. The flexibility inherent in directional plans is obvious. This advantage must be weighed against the loss in clarity provided by specific plans.

specific plans
Plans that are clearly defined and leave no room for interpretation

directional plans
Plans that are flexible and set out general guidelines

Single-Use versus Standing Plans

Some plans that managers develop are ongoing whereas others are used only once. A **single-use plan** is a one-time plan specifically designed to meet the needs of a unique situation. For instance, when Walmart wanted to expand the number of its stores in China, top-level executives formulated a single-use plan as a guide. In contrast, **standing plans** are ongoing plans that provide guidance for activities performed repeatedly. Standing plans include policies, rules,

single-use plan
A one-time plan specifically designed to meet the needs of a unique situation

standing plans
Ongoing plans that provide guidance for activities performed repeatedly

Exhibit 8-2
Specific versus Directional Plans



Directional Plans



Specific Plans

and procedures, which we defined in **Chapter 3**. An example of a standing plan is the nondiscrimination and anti-harassment policy developed by Microsoft. It provides guidance to Microsoft executives and staff as they make hiring plans and do their jobs.

Static versus Scenario Plans

Most business plans are made under the assumption that the business environment and internal conditions will remain mostly unchanged over the given planning period. Although these **static plans** can provide leaders with stable direction, they are not responsive to the increasingly dynamic environment that most businesses operate in. **Scenario plans** involve making assumptions about what might happen in the future and determining how your organization will respond.³ A **scenario** is a consistent view of what the future is likely to be.⁴ Scenario planning has its roots in the military and requires managers to map out multiple scenarios that include both positive and negative outcomes for the organization and develop a specific plan for each path. Engaging in scenario planning can enable managers to react quickly and decisively. In some cases this would be in the midst of a crisis; in other situations, quick actions allow managers to take advantage of an opportunity.⁵

Although scenario planning is useful in anticipating events that *can be* anticipated, it's difficult to forecast random events—the major surprises and aberrations that can't be foreseen. For instance, businesses around the world could not have anticipated the business shutdowns of the COVID-19 pandemic. Although some businesses—such as those in the healthcare sector who have managed epidemics in the past—could have been more prepared, the need to shut down businesses so broadly was unexpected. One lesson from the pandemic is the need for businesses to think broadly about the possible scope of scenarios that might affect a company or industry.⁶

static plans

Plans made under the assumption that the business environment and internal conditions will remain unchanged

scenario plans

Plans involving making assumptions about the future and determining how the company will respond

scenario

A consistent view of what the future is likely to be

CONTINGENCY Factors in Planning

LO8.3 Identify the key contingency factors in planning.

In some cases, long-term plans make sense; in others, they do not. Similarly, in some situations, directional plans are more effective than specific ones. What are these situations? In this section, we identify three contingency factors that affect planning.

Level in the Organization

Exhibit 8-3 illustrates the general relationship between managerial level in an organization and the type of planning that is done. For the most part, operational planning dominates the planning activities of lower-level managers. As managers rise in the hierarchy, their planning role becomes more strategy oriented. The planning effort by the top executives of large organizations is essentially strategic. In a small business, of course, the owner-manager needs to do both.

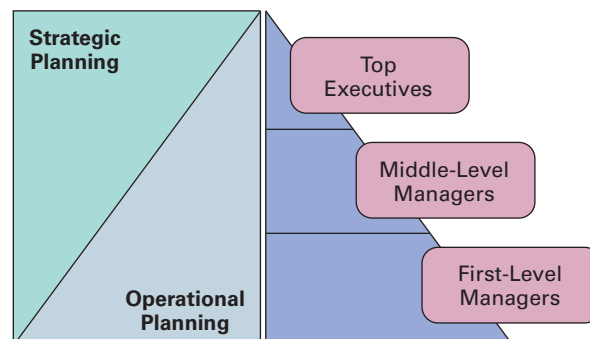


Exhibit 8-3

Planning in the Hierarchy of Organizations

Degree of Environmental Uncertainty

The greater the environmental uncertainty, the more plans should be directional and emphasis placed on the short term. In uncertain environments, the planning process should also include scenario planning to prepare for sudden shifts.

If rapid or important technological, social, economic, legal, or other changes are taking place, well-defined and precisely chartered routes are more likely to hinder an organization's performance than aid it. When environmental uncertainty is high, specific plans have to be altered to accommodate the changes—often at high cost and decreased efficiency. In today's highly competitive environment, where disruptors are attacking most industries, this contingency variable would suggest that plans be more flexible—hence, less specific and covering a shorter term.

Length of Future Commitments

Our final contingency factor is the **commitment concept**. This states that the more that current plans affect future commitments, the longer the time frame for which management should plan. This concept means that plans should extend far enough to see through those commitments that are made today. Planning for too long or too short a period is inefficient.

Managers are not planning for future decisions. Rather, they are planning for the future impact of the decisions they are currently making. Decisions made today become a commitment to some future action or expenditure. For instance, in 2022 Intel

commitment concept

Plans should extend far enough to meet those commitments made when the plans were developed

IT'S YOUR CAREER

Planning Your Time

Do you feel constantly busy? Do you always seem to have a lot to do and never enough time to do it? If you're like most people, the answer to these questions is YES! Well, maybe in a management text we need to do something about that by focusing on one aspect of management that can be tremendously useful to you . . . *time management*.

Time is a unique resource. If it's wasted, it can never be replaced. People talk about saving time, but time can never actually be saved. And unlike resources such as money or talent, which are distributed unequally in this world, time is an equal-opportunity resource. Each one of us gets exactly the same amount: 24 hours per day and 168 hours each week. Some people are just a lot more efficient in using their allotment. Here are some suggestions to help you better plan how you use your time:

- **List your current and upcoming goals.** Know what needs to be done daily, weekly, and monthly.
- **Rank your goals according to importance.** Not all goals are of equal importance. Make sure you give highest priority to the most important goals.
- **List the activities/tasks necessary to achieve your goals.** What specific actions do you need to take to achieve your goals?
- **Divide these activities/tasks into categories using an A, B, and C classification.** The As are important and urgent. Bs are either important or urgent, but not both. Cs are routine—not important nor urgent, but still need to be done.
- **Schedule your activities/tasks according to the priorities you've set.** Prepare a daily plan. Every morning, or at the end of the previous workday, make a list of the five or so most important things you want to accomplish for the day. Then set priorities for the activities listed on the basis of importance and urgency.
- **Recognize that technology can be a time waster.** Think for a moment how many phone calls, emails, texts, and postings on social media you receive on a typical day. Some are essential, but others are distractions that don't require immediate attention. Prioritize the importance of this information.
- **Realize that priorities may change as your day or week proceeds.** New information may change a task's importance or urgency. As you get new information, reassess your list of priorities.

announced a \$20 billion investment in two new factories in Ohio plus an additional \$100 million toward partnerships with educational institutions to build a pipeline of workforce talent and to support research. With this investment, Intel committed itself to a plan of significant growth because demand is expected to increase as more products become electronic, requiring computer chips to function.⁷

OBJECTIVES: The Foundation of Planning

LO8.4 Compare and contrast approaches to objective setting.

objectives (also called goals)
Desired outcomes for individuals, groups, or entire organizations

Objectives are goals. We use the terms interchangeably. What do these terms mean? They refer to desired outcomes for individuals, groups, or entire organizations. They provide the direction for all management decisions and form the criteria against which actual accomplishments can be measured. It's for these reasons that they are the foundation of planning.

Stated versus Real Objectives

stated objectives
Official statements of what an organization says and what it wants various publics to believe

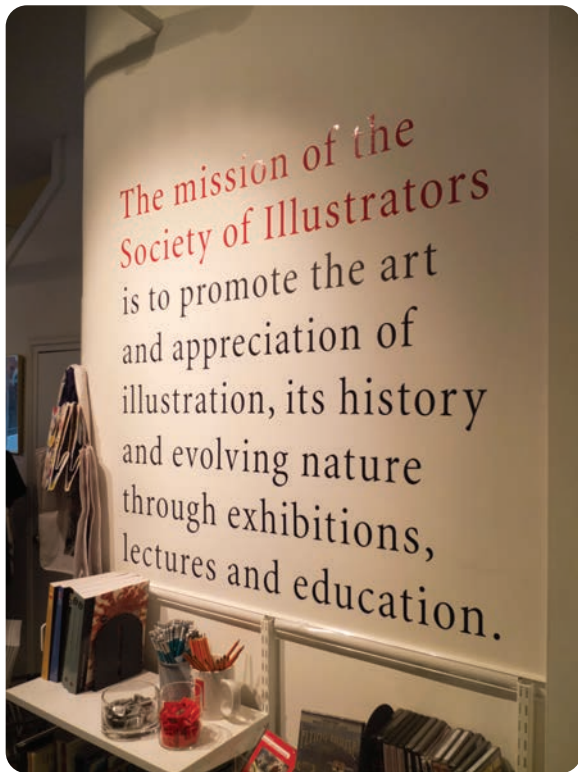
Stated objectives are official statements of what an organization says—and what it wants various publics to believe—are its objectives. However, stated objectives—which can be found in the organization's charter, annual report, or public-relations announcements, or in public statements made by managers—are often conflicting and excessively influenced by what society believes organizations *should* do.

The conflict in stated goals exists because organizations respond to a vast array of constituencies. Unfortunately, these constituencies frequently evaluate the organization by different criteria. As a result, management is forced to say different things to different audiences. For example, a number of years ago, a major US airline was negotiating to get wage concessions from its flight attendants' union.⁸ The union, not wanting to give up anything, was threatening to strike. To the union's representatives, management was saying, "If you strike, we'll dismantle the airline. By selling off aircraft and air routes, the company is worth more dead than alive." At the same time, management was trying to calm the nerves of potential passengers by saying the company was determined to fly and survive, even if its flight attendants struck. To support its intention, airline management said that it was training 1,500 people to step in if its attendants walked out. Management had explicitly presented itself in one way to the union and in another way to the public. Was one true and the other false? No. Both were true, but they were in conflict.

Did you ever read an organization's objectives as they are stated in its brochures or on its website?⁹ American Express says, "We work hard every day to make American Express the world's most respected service brand." Nordstrom states that it seeks "to give customers the most compelling shopping experience possible." Sony's mission is to "Fill the world with emotion, through the power of creativity and technology." These types of statements are, at best, vague and more likely representative of management's public relations skills than they are meaningful guides to what the organization is actually seeking to accomplish.

It shouldn't be surprising, then, to find that an organization's stated objectives are often quite irrelevant to what actually goes on in that organization. In a corporation, for instance, one statement of objectives is issued to stockholders, another to customers, and still others to employees and to the public.

The overall objectives stated by top management should be treated for what they are: "fiction produced by an organization to account for, explain, or rationalize to



Management should make sure that the real objectives of the company align with the stated objectives.

Source: Randy Duchaine/Alamy Stock Photo

particular audiences rather than as valid and reliable indications of purpose.”¹⁰ The content of objectives is substantially determined by what those audiences want to hear. Moreover, it is simpler for management to state a set of consistent, understandable objectives than to explain a multiplicity of objectives.

If you want to know what an organization’s **real objectives** are, closely observe what members of the organization actually do. Actions define priorities. The university that proclaims the objectives of limiting class size, facilitating close student–faculty relations, and actively involving students in the learning process, and then puts its students into lecture halls of 300 or more, is not unusual. Nor is the automobile service center that promotes fast, low-cost repairs and then gives mediocre service at high prices. An awareness that stated and real objectives can deviate is important, if for no other reason than because it can help you to explain what might otherwise seem to be management inconsistencies.

real objectives

Objectives that an organization actually pursues, as defined by the actions of its members

Traditional Objective Setting

The traditional role of objectives is one of control imposed by an organization’s top management. The president of a manufacturing firm *tells* the production vice president what they expect manufacturing costs to be for the coming year. The president *tells* the marketing vice president what level they expect sales to reach for the coming year. The city mayor *tells* their chief of police how much the departmental budget will be. Then, at some later point, performance is evaluated to determine whether the assigned objectives have been achieved.

The central theme in **traditional objective setting** is that objectives are set at the top and then broken down into subgoals for each level of an organization. It is a one-way process. The top imposes its standards on everyone below. This traditional perspective assumes that top management knows what’s best because only it can see the “big picture.”

traditional objective setting

Objectives are set at the top and then broken down into subgoals for each level of an organization

In addition to being imposed from above, traditional objective setting is often largely nonoperational. If top management defines the organization’s objectives in broad terms such as achieving “sufficient profits” or “market leadership,” these ambiguities have to be turned into specifics as the objectives filter down through the organization. At each level, managers supply operational meaning to the goals. Specificity is achieved by each manager applying their own set of interpretations and biases. The result is that objectives lose clarity and unity as they make their way down from the top (see **Exhibit 8-4**).



Exhibit 8-4
Traditional Objective Setting

management by objectives (MBO)

A system in which specific performance objectives are jointly determined by subordinates and their superiors, progress toward objectives is periodically reviewed, and rewards are allocated on the basis of this progress

cascading objectives

The organization's overall objectives are translated into specific objectives for each succeeding level

Management by Objectives

Instead of using traditional goal setting, companies such as Adobe, GE, and Microsoft have implemented **management by objectives (MBO)**. MBO is a system in which specific performance objectives are jointly determined by subordinates and their superiors, progress toward objectives is periodically reviewed, and rewards are allocated on the basis of this progress. Rather than using goals to control, MBO uses them to motivate.

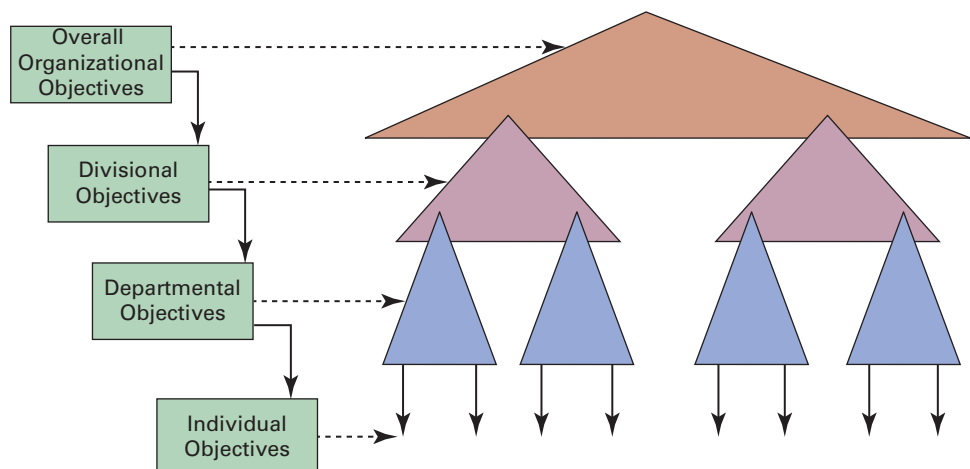
Adobe refers to its MBO program as Check In. Each year, employees and managers meet to establish goals. Then, at least every two months, employees check in with their managers to discuss their progress. At the end of the year, managers meet for a “rewards check-in” session where they discuss how well employees attained their goals, and pay increases and bonuses are awarded based on goal attainment.¹¹

CASCADING OBJECTIVES The appeal of MBO lies in its emphasis on converting overall objectives into specific objectives for organizational units and individual members.¹² MBO makes objectives operational by devising a process by which they cascade down through the organization. **Cascading objectives** are depicted in **Exhibit 8-5**. The organization's overall objectives are translated into specific objectives for each succeeding level—divisional, departmental, individual—in the organization. Because lower unit managers jointly participate in setting their own goals, MBO works from the “bottom up” as well as from the “top down.” The result is a hierarchy that links objectives at one level to those at the next level. For the individual employee, MBO provides specific personal performance objectives. Each person, therefore, has an identified specific contribution to make to their unit's performance. If all the individual employees achieve their goals, then their unit's goals will be attained, and the organization's overall objectives will become a reality.

SMART OBJECTIVES MBO programs benefit from well-written goals. Objectives should be concise statements of expected accomplishments. It's not adequate, for example, merely to state a desire to cut costs, improve service, or increase quality. Such desires have to be converted into tangible objectives that can be measured and evaluated. The SMART framework helps managers and employees write effective goals.¹³ The acronym stands for:

- **Specific:** Goals have an understood desired outcome. For example, to cut departmental costs *by 7 percent*, to improve service by ensuring that all telephone orders are processed *within 24 hours of receipt*, or to increase quality by keeping returns *less than 1 percent of sales* are examples of specific objectives.
- **Measurable:** There should be a number associated with the goal, as the previous examples illustrate. It must be a number that the company can track to evaluate progress toward the goal.

Exhibit 8-5
Cascading Objectives



- **Achievable:** Goals must be realistic in order for an employee to maintain enthusiasm to pursue the goal. Bigger goals can be broken down into smaller achievable goals during the MBO process.
- **Relevant:** As discussed earlier, goals should cascade down from higher overall organizational goals.
- **Time-bound:** Goals should have a date for when the employee intends to achieve the goal.

The final ingredient in an MBO program is feedback on performance. MBO seeks to give continuous feedback on progress toward goals. Ideally, this is accomplished by giving ongoing feedback to individuals so they can monitor and correct their own actions. This is supplemented by periodic formal appraisal meetings in which an employee and superior can review progress toward goals and further feedback can be provided.

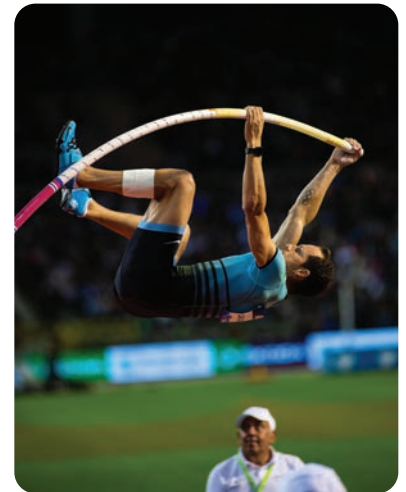
DOES MBO WORK? Assessing the effectiveness of MBO is a complex task. Let's begin by briefly reviewing a growing body of literature on the relationship between goals and performance.¹⁴

If factors such as a person's ability and acceptance of goals are held constant, evidence demonstrates that more *difficult* goals lead to higher performance. Although individuals with very difficult goals achieve them far less often than those with very easy goals, they nevertheless perform at a consistently higher level. Of course, goals can be too hard. If individuals perceive a goal to be impossible instead of challenging, their desire to achieve it decreases, and the likelihood that they will abandon it increases.

Moreover, studies consistently support the finding that *specific* hard goals produce a higher level of output than do no goals or generalized goals such as "do your best." *Feedback* also favorably affects performance. Feedback lets a person know whether their level of effort is sufficient or needs to be increased. It can induce a person to raise their goal after attaining a previous goal and can inform a person of ways in which to improve their performance.

The results cited here are all consistent with MBO's stress on specific goals and feedback. MBO implies, rather than explicitly states, that goals must be perceived as feasible. Research on goal setting indicates that MBO is most effective if the goals are difficult enough to require the person to do some stretching.

But what about participation? MBO strongly advocates that goals be set participatively. Does the research demonstrate that participatively set goals lead to higher performance than those assigned by a superior? Interestingly, the research comparing participatively set and assigned goals on performance has not shown any strong or consistent relationships. When goal difficulty has been held constant, assigned goals frequently do as well as participatively determined goals, contrary to MBO ideology.¹⁵ Therefore, it isn't possible to argue for the superiority of participation as MBO proponents advocate. One major benefit of participation, however, is that it appears to induce individuals to establish more difficult goals. Thus, participation may have a positive impact on performance by increasing one's goal aspiration level.



Athletes, managers, and employees all perform better when they have specific and difficult goals.

Source: Gary Mitchell, GMP Media /Alamy Stock Photo

CONTEMPORARY Issues in Planning

LO8.5 Discuss contemporary issues in planning.

We conclude this chapter by looking at two contemporary planning topics: monitoring what's going on in the environment to identify potential threats or opportunities, and utilizing virtual reality to improve the planning process.

Environmental Scanning

What potential changes in laws and regulations could affect our business? What technological breakthroughs might create new competitors? What new products or services are our competitors working on? Which of our competitors are talking about a possible

WORKPLACE CONFIDENTIAL When You Face a Lack of Clear Directions

Today's workplace is often described as exhibiting rapid change. New competitors pop out of nowhere. Innovative ideas disrupt established businesses. Products and services find their life cycles increasingly shortened. And employees are finding themselves having to cope with change and the ambiguity that comes with it.

Although some people thrive on ambiguity, most of us find it frustrating and stressful. This is particularly true at work. What does my boss want me to do? What's a priority, and what can wait? When problems arise, whom should I see for help? How far can I go without overstepping my job responsibilities?

There are essentially two solutions to a lack of clear directions. One is a boss who offers explicit and precise guidelines. They tell you, in unambiguous terms, what your job entails. In your boss's leadership role, the lines of where your job responsibilities start and end are made perfectly clear to you.

The other solution is a formal position description. This is a statement of the essential components of your job—what work is to be performed, your primary duties and responsibilities, and the criteria that will be used to evaluate your performance. Having a written position description can sharply reduce ambiguity. Most large organizations will have position descriptions available.

Ideally, your employer has a position description for your job. One might exist, but you may have never received it when you took your job. If so, ask your boss or human resources department for a copy.

There is strong evidence indicating that position descriptions provide role clarity and that employees who have role clarity are much more likely to be engaged with the work they're doing. Of course, these position descriptions need to be updated regularly to reflect the changing nature of work and specific jobs. You might suggest to your boss that, following your annual performance evaluation, the two of you sit down, assess the changes that have taken place in the past year, and then update your position description to reflect if, or how, these changes have reshaped your job responsibilities.

But let's assume a position description for your job doesn't exist and your boss doesn't excel at providing you with clear directives. What then? Consider creating a position description in partnership with your boss. Explain to

your boss how a detailed position description can help you do your job better and reduce your dependence on them. Importantly, if this document is truly to be effective, it needs to contain shared expectations; that is, it has to be created in cooperation with your boss so they "own" the final document with you.

Realistically, even with a great boss who provides clear directions or a detailed position description, there will still be times when you'll feel a lack of clear directions. Here are three suggestions that can help you through these times:

- **Suppress your urge to control things.** No matter how much we want to control those things around us, we have to accept that there are elements of our life that we can't control. This is certainly true in relation to work. In terms of our concern here, we rarely get to choose our boss. And you may find that it's not realistic to impose structure—in the terms of a position description—in a culture where it has never existed. Add in the fact that, in many organizations, changes are occurring so rapidly that the valid life span of a position description may be only a few months or even weeks. End result: You need to learn to accept the reality that you can't control everything related to your job.
- **Learn to act without the complete picture.** Rational decision making assumes that problems are clear and unambiguous, and that you know all possible alternatives and consequences. That's not the real world of work; hence, you will rarely, if ever, have all the information you need when making a decision. You need to accept that you will regularly face ambiguous situations and that you will have to take actions without clear directions from either your boss, colleagues, or a procedure manual.
- **You can make decisions based on the information you have, even if the information isn't complete.** Don't be afraid to make a mistake. Often, a wrong decision is better than no decision. You don't want to become characterized as someone who's afraid to do anything without your boss's direction or without first getting their approval. If you're going to move ahead in the organization and be seen as a leader, you will have to take assertive action under conditions of ambiguity. And that means your decisions are not always going to be proven correct. Live with it! Baseball players who fail 60 percent of the time at bat end up in the Hall of Fame.¹⁶

merger? What cultural trends might indicate changing customer or client tastes? These are the kinds of questions for which environmental scanning can provide answers.

Environmental scanning refers to screening large amounts of information to detect emerging trends and create a set of scenarios.¹⁷ In the general environment, managers will be looking for political, economic, social, and technological data. Data more specific to an organization would include a firm's industry, competitors, suppliers, and customers. **Exhibit 8-6** lists these environmental elements and examples of where you might get information on them.

environmental scanning

Screening large amounts of information to detect emerging trends and create a set of scenarios

Exhibit 8-6
Environmental Scanning

What	Where
General Environment	
Political	Lobbyists; political representative
Economic	Minutes of the Federal Reserve Board meetings; financial news
Social	Social media
Technological	Patent reports
Specific Environment	
Industry	Business media; industry associations
Competitors	Websites; others in the industry
Suppliers	Vendors
Customers	Surveys; focus groups

One of the fastest-growing and most important forms of environmental scanning is **competitive intelligence**, which refers to gathering information about competitors that allows managers to anticipate competitors' actions rather than merely react to them.¹⁸ Who are our competitors? What are they doing? How will what they're doing affect us? This can be as simple as monitoring a competitor's website to see what new products they have in the pipeline, or as aggressive as following up on a merger rumor by monitoring FAA flight plans of corporate aircraft to identify locations where competitors' executives are flying.

Competitive intelligence *isn't* corporate espionage. Advertisements, promotional materials, press releases, reports filed with government agencies, annual reports, online job postings, media reports, internet searches, and industry studies are readily accessible sources of information. Specific information on an industry and associated organizations is increasingly available through electronic databases. Managers can literally tap into this wealth of competitive information by purchasing access to databases. Attending trade shows and debriefing your own sales staff also can be good sources of information on competitors.

Airlines provide a ready example of competitive intelligence, as do professional sports teams.¹⁹ Every day, airlines change ticket prices based on data they monitor on their competitors' routes and prices. And almost all pro baseball, football, and basketball teams now combine scouting and analytics to help coaches and managers better position their teams against opponents, shape drafting and trade decisions, and guide play choices.

Social media is also an important source of competitive intelligence.²⁰ In the same way that high school students and parents use social media platforms to exchange information and opinions about potential colleges, managers can utilize sites such as LinkedIn, Facebook, and Twitter to extract opinions, patterns, and intelligence. For instance, job listings on LinkedIn might be a tip-off that a competitor is planning on adding a new location or expanding into a new product line. The problem, in fact, is the availability of *too much* information. The challenge is to analyze the wealth of available data to extract information that can help managers make planning decisions. But with the right analytics, management can gain valuable information about competitors.

Using Artificial Intelligence to Support Planning

Business leaders know that artificial intelligence (AI) holds opportunities to manage and grow businesses. In fact, a recent survey of 1,500 CEOs found that 75 percent believe if they don't figure out how to integrate AI into their management practices, they risk going out of business.²¹ And it makes sense to put AI at the central point of planning—it consumes and learns

competitive intelligence
Gathering information about competitors that allows managers to anticipate competitors' actions



Social media can provide valuable information on a company's competitors.
Source: Michele Ursi/Shutterstock

from data, creating opportunities for managers to support planning. Generally speaking, it is difficult for humans to analyze large amounts of data. AI and machine learning can identify trends in the data, predict future results, and also create or recommend future actions or plans, helping to support quicker planning.²² From a customer perspective, AI can study trends in consumer behaviors or in customer engagement. From an operations or supply chain perspective, AI can be useful to help analyze and forecast supply and demand of materials or products.²³ From an employee management perspective, AI can also support workforce planning; for example, IBM uses AI to learn about and plan for employee training and development needs. It has leveraged its internal data on employees to create predictive insights on employee development opportunities and also the availability and skills of talent to recruit. The engagement of AI has had a significant impact on improving employee engagement.²⁴

Chapter 8

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO8.1 DEFINE the nature and purposes of planning.

Planning involves defining the organization's goals, establishing an overall strategy for achieving those goals, and developing plans for organizational work activities. Planning can be informal or formal. The four purposes of planning are providing direction, reducing uncertainty, minimizing waste and redundancy, and establishing the goals or standards used in controlling. Studies of the planning/performance relationship have concluded that formal planning is associated with positive financial performance, for the most part; it's more important to do a good job of planning and implementing the plans than doing more extensive planning; and the external environment is usually the reason why some companies that plan don't achieve high levels of performance.

LO8.2 CLASSIFY the types of plans organizations might use.

Organizational plans vary in terms of breadth (strategic or operational), time frame (short-term or long-term), specificity (directional or specific), frequency of use (single use or standing), and planning conditions (static or scenario). Strategic plans apply to the entire organization and seek to position the organization in terms of its environment, whereas operational plans detail how objectives are to be achieved and cover shorter period of time. Long-term plans are those with a time frame beyond five years. Short-term plans cover one year or less. Specific plans have clearly defined objectives. Directional plans identify more general guidelines. A single-use plan is a one-time plan designed to meet the needs of a unique situation. Standing plans are ongoing plans that provide guidance for activities performed repeatedly. Static plans are made under the assumption that the business environment and internal conditions will remain unchanged. Scenario plans involve making assumptions about the future and determining how the company will respond.

LO8.3 IDENTIFY the key contingency factors in planning.

The key contingency factors in planning are the organizational level, the degree of environmental uncertainty, and the length of future commitments.

LO8.4 COMPARE and contrast approaches to objective setting.

Stated objectives are official statements of what an organization says are its objectives. An organization's real objectives are what members of the organization actually do. In traditional objective setting, objectives are set at the top of the organization and then become subgoals for each organizational area. Management by objectives (MBO) is a process of setting mutually agreed-upon objectives and using those objectives to evaluate employee performance. The contingency factors that affect planning are the manager's level in the organization, the degree of environmental uncertainty, and the length of future commitments.

LO8.5 DISCUSS contemporary issues in planning.

One contemporary planning issue involves using environmental scanning to detect emerging trends in the firm's external environment. One form of environmental scanning, competitive intelligence, can be especially helpful in finding out what competitors are doing. Another contemporary issue in planning is the use of artificial intelligence to support the planning process. AI can be used to study trends, understand customer behavior, predict supply and demand of materials, and support workforce planning.

REVIEW AND DISCUSSION QUESTIONS

- 8-1. Explain what studies have shown about the relationship between planning and performance.
- 8-2. Discuss the contingency factors that affect planning.
- 8-3. Will planning become more or less important to managers in the future? Why?
- 8-4. If planning is so crucial, why do some managers choose not to do it? What would you tell these managers?
- 8-5. Explain how planning involves making decisions today that will have an impact later.
- 8-6. How might planning in a not-for-profit organization such as the World Wildlife Fund differ from planning in a for-profit organization such as Airbnb?
- 8-7. What types of planning do you do in your personal life? Describe these plans in terms of being (a) strategic or operational, (b) short-term or long-term, and (c) specific or directional.
- 8-8. Provide examples of the sources of data a residential solar panel company might gather when engaging in environmental scanning. Exhibit 8-6 may be helpful when answering this question.

PREPARING FOR: My Career

ETHICS DILEMMA

Dr. Elizabeth Burgos was meeting with her patient Bob Abernathy to review the results of medical testing after he complained that he was experiencing blurred vision.

Dr. Burgos explained to Mr. Abernathy that he was suffering from a rare condition that leads to blindness. Naturally, Mr. Abernathy was upset, and he asked whether there was any treatment. Unfortunately, conventional therapies were rarely effective, but Dr. Burgos discussed a relatively new medication that showed promise for preventing blindness when taken over a three-month period. Unfortunately, the treatment also dramatically increases cancer rates later in the life of the patients completing the treatment. She went on to tell Mr. Abernathy that his health insurance

company only pays 90 percent of the treatment's expense, which costs \$1 million. Vision is critical to Mr. Abernathy's work. He is the lead virtual-reality product developer at a company where he solely invented what is widely considered to be a revolutionary technology. It is a critical time for his company, which is about to go public through an initial public offering (IPO). Mr. Abernathy later visited with several executives to discuss his diagnosis. They were concerned that the company and Mr. Abernathy would lose millions of dollars if he were to lose his sight. The executives believed potential investors would decide not to buy the company's stock if he did not successfully retain his sight. Essentially, Mr. Abernathy was a critical component in their ability to accomplish the company's strategic goals, and they told him the company would cover any costs associated with his treatment that the insurance would not cover.

- 8-9. What potential ethical issues do you see here? What are the strategic issues?
- 8-10. If you were an employee or executive with stock options, would you press Mr. Abernathy to take the medication? Why or why not?

SKILLS EXERCISE Making a To-Do List That Works and Using It

Do you have lots to do and limited time in which to do it? That sounds familiar, doesn't it! One tool that many successful people use is a to-do list. Lists can be useful because they help organize and make sense of what needs to be done; keep details of work/life events; track progress; and help overcome procrastination. Making a to-do list that works and then using it is a skill that every manager needs to develop.

Steps in Practicing the Skill

- **Break project(s) into smaller tasks and prioritize those tasks.** When you have a major project to complete, spend some time upfront identifying as many of the sequential tasks necessary to complete that project. Also, prioritize, prioritize, prioritize. It's the only way to get done what's most important.
- **Be realistic about your to-do list.** Whether your to-do list is daily, weekly, or monthly—or all of these—you've got to realize that interruptions will and do happen. Don't overestimate what you can get done. And you will face conflicting priorities. Reprioritize when this happens.
- **Know and pay attention to your own time and energy.** Develop your own personal routines. You know when you're the most productive. Those are the times you need to do your most important tasks. Or maybe you need to do the task you like least first. You'll want to get it done faster so you can move on to tasks that you enjoy doing.
- **Know your biggest time wasters and distractions.** We all have them, whether they're found online, on television, or elsewhere. (And you probably already know what yours are!) Also, realize you probably can't (nor do you want to) eliminate them. But do be leery of them, especially when you're trying to get something done or need to get something done.
- **Let technology be a tool, not a distraction.** Find an app (or written approach) that works *for you*. There are many

available. And don't constantly try out new ones—that, in itself, wastes precious time. Find one that works for your needs and your personal situation and that you'll *use*.

- **Conquer the email/instant messaging challenge.** Although coworkers communicate in many ways in organizations, email and instant messaging are popular *and* can be overwhelming to deal with when you're trying to accomplish work tasks. Again, you need to find what works best for you. Some ideas for “conquering” this distraction include:
 - Check only at certain times during the day.
 - Maybe avoid checking your phone first thing in the morning because it's so easy to get sidetracked.
 - Come up with a system for responding—if a response can be given in less than three minutes (or whatever time control you choose), respond immediately; if it can't, set the email/message aside for later when you have more time. And a good rule: the faster your response time, the shorter the email.
 - Weed out any “subscriptions” that you're not reading/using. You know, those you thought sounded really interesting and you end up deleting immediately anyway. So, don't even get them—unsubscribe.
 - Use your email system tools—filters that move emails to folders, canned responses, autoresponders, and so forth—to manage your email messages.

Practicing the Skill

The best way to practice this skill is to pick a project (school, work, personal) that you are facing and try to use the above suggestions. To get better at using to-do lists, you've just got to jump in, create them, and, most importantly, use them to guide what you do and when you do it. Commit to making your to-do list a habit by referring to it on a daily basis for at least a month.

WORKING TOGETHER Team Exercise

In groups of three or four, choose a local bakery, club, restaurant, or sandwich shop with which members of your group are familiar. Now, look through the list of strategic objectives found at this link and choose three strategic objectives that your team believes to be important for this business: www.clearpointstrategy.com/56-strategic-objective-examples-for-your-company-to-copy. Why are the strategic

objectives you chose important to this business? Discuss what plans this business could complete in the next six months as a beginning step to achieve your team's chosen strategic objectives. Be prepared to discuss your objectives and plans with the class.

MY TURN TO BE A MANAGER

- Practice setting goals for various aspects of your personal life, such as academics, career preparation, family, hobbies, and so forth. Set at least two short-term goals and at least two long-term goals for each area.
- For these goals that you have set, write out plans for achieving those goals. Think in terms of what you will have to do to accomplish each. For instance, if one of your academic goals is to improve your grade point average, what plan can you create to reach this academic goal?
- Write a personal mission statement. Although this may sound simple to do, it's not going to be simple or easy. Our hope is that it will be something you'll want to keep, use, and revise when necessary and that it will help you be the person you'd like to be and live the life you'd like to live. Start by doing some research on personal mission statements. There are some online resources that can guide you.
- Interview three managers about the types of strategic and operational planning they do. Ask them for suggestions on how to be a better planner. Write a report describing and comparing your findings.
- Find a podcast about strategy, strategy skills, or strategic thinking. Listen to leading experts, senior management, or board directors to learn what happens during strategy meetings. As they share their insights on tips, tricks, and tools, try to understand the skills needed to be good at strategy in business.
- Choose two companies, preferably in different industries. Research the companies' websites and find examples of goals they have stated. (Hint: A company's annual report is often a good place to start.) Evaluate these goals.
- Effective managers are always screening information to look for emerging trends that might affect their industries. Start looking for trends in an industry you're interested in by subscribing to a variety of social media sources that are related to the industry.

CASE APPLICATION 1

Johnson Controls Using OpenBlue to Reach Net Zero

Many companies have pledged to cut their greenhouse gas emissions to “net zero” by 2050 as part of global efforts to tackle climate change. Few have detailed plans on how they would accomplish this, but scientists feel global emissions would need to be cut in half by 2030 for there to be a reasonable chance of companies achieving net zero by 2050. Employees also prefer companies taking action to become more sustainable—71 percent of applicants consider the environmental practices of a company during their job searches. Yet right now, humans are on track to increase CO₂ emissions by 11 percent by 2030, and the earth's temperature is projected to rise by 2.5°C (4.5°F) by 2100.²⁵

Buildings are, in part, responsible for the increases in emissions, and Johnson Controls, a company that optimizes buildings' performance while reducing emissions, has set the goal to lead companies toward reaching their net zero goals. George Oliver, chairman and CEO of Johnson Controls stated that

Climate change is a key defining theme of this century. We have seven years to cut global emissions nearly in half to reach net zero by 2050 and limit global warming to 1.5 degrees Celsius. With almost 40% of those emissions coming from buildings, the consensus among global leaders is that there will be no net zero without decarbonizing buildings.²⁶

He sees sustainability as Johnson Controls' business; in 2019, \$11 billion of the company's revenues came from products or services that improved customers' sustainability. OpenBlue is Johnson Controls' AI-enabled technology. This digital platform supports building management by optimizing indoor air, lighting, and energy usage through a machine-learning process that optimizes real-time cost and energy. Because customers like Children's of Alabama, a pediatric medical center, reduced its use of natural gas by 69 percent and the University of North Dakota reduced its greenhouse gas emissions by 38,000 metric tons a year, new customers are asking what OpenBlue can do for them.

To address the demand, Johnson Controls and Accenture are collaborating to open and operate two OpenBlue Innovation Centers. These centers will deliver the opportunity to cut emissions, energy, and costs to new customers more quickly. “Companies should not have to make trade-offs between their business and sustainability goals, and an effective technology strategy can address this,” said Paul Daugherty, Accenture’s chief technology officer. This platform converts data into information customers can gain new insights from related to buildings and their occupants.²⁷

DISCUSSION QUESTIONS

- 8-11. Is Johnson Controls helping customers meet their strategic or operational goals? Explain.
- 8-12. What advantages and disadvantages does Johnson Controls’ OpenBlue platform have over companies looking to develop solutions on their own?
- 8-13. What contingency planning might Johnson Controls need to complete regarding its approach to helping companies reach their net zero goals?
- 8-14. How could additional collaborations help Johnson Controls and Accenture expand?

CASE APPLICATION 2

Living Up to Goals at Tesla

Tesla Inc. has generated a lot of excitement since it began producing its electric car “for the masses,” the Model 3 sedan, in 2017. The Model 3 price begins near \$40,000, whereas other, luxury-style models Tesla produces cost \$100,000 or more. Currently producing close to 2 million electric vehicles annually, CEO Elon Musk has aggressive growth plans for Tesla, claiming it will make 20 million electric vehicles in 2030. When met, Tesla’s production would equal the combined 2022 sales of Toyota and Volkswagen, which is also 20 percent of the 100 million new cars expected to be sold in 2030.

To meet this challenge, Tesla set an objective of producing 5,000 Model 3 sedans per week.²⁸ Tesla missed this objective at the end of 2017 due to difficulties it encountered with automation and battery-pack assembly; in 2023, the company still only produced 3,500 a week. Next-generation factories in Austin, Texas, and near Berlin, Germany, have come online with a state-of-the-art production process that, among other optimizations, eliminated 1,700 welds during assembly. These new factors and other anticipated optimizations have caused many industry experts to believe Tesla will be able to hit the company’s 2030 goal; however, some critics note Tesla needs at least 18 more factories to have that capacity.

In March 2023, Tesla revealed all this to investors in its presentation of “Master Plan Part 3.” Tesla’s leaders noted achieving production goals would require a \$175 billion investment, well above the \$28 billion it has already spent. Secondary goals include cutting 50 percent of the cost on its next-generation vehicle, developing at least 10 car models, and producing a \$25,000 car, among others. Some questioned whether Tesla could sustain its progress toward its production objective in later quarters or if there would be enough demand for Tesla vehicles.²⁹ Tesla proved it was up to the challenge, however, because its Model Y was the world’s best-selling new vehicle in 2023.³⁰

DISCUSSION QUESTIONS

- 8-15. What factors will make it difficult for Tesla to meet its stated objective of 5,000 Model 3 sedans per week? Explain why you think its stated objective should (or should not) have been different than it was.
- 8-16. What is the downside of setting an ambitious production objective as Tesla has for 2030?
- 8-17. How supportive do you think Tesla’s production staff is of the objective to produce 20 million electric vehicles in 2030? Would it have a positive or negative impact on morale? Explain.

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Learning Objectives

- 9.1 Define** strategic management and explain why it's important.
- 9.2 Explain** what managers do during the five steps of the strategic management process.
- 9.3 Describe** the three types of corporate strategies.
- 9.4 Describe** competitive advantage and the competitive strategies organizations use to get it.

Quibi's entrance into the streaming entertainment content market in 2019 seemed destined to succeed. Developed as a mobile device-only subscription service that offered scripted shows in 7- to 10-minute segments, the platform was taking an innovative strategy to enter the entertainment market with its focus on brief content, easily accessible anywhere (Quibi = quick bites). The company's founder, former Disney executive Jeffrey Katzenberg, worked to bring in top talent to create new shows, including directors Steven Spielberg and Steven Soderbergh. On the business side, Quibi was led by Meg Whitman, an experienced CEO with companies such as eBay and HP on her résumé. Wondering why you haven't heard of this great company? It's because it wasn't around long, shutting down in 2020, just months after the launch.

So how did this company that attracted \$1.75 billion in investments to help it launch fail so quickly? Experts say Quibi missed its mark on strategy. Although the concept was innovative, video streaming is a customer-driven market. The mobile needs of the younger demographic the company targeted were already met by many other free streaming options such as YouTube. Further, although the demographic did like watching content on a mobile device, the preference for scripted shows is still focused on the bigger screen, with Netflix reporting that 70 percent of its content is viewed on a television. Katzenberg and Whitman stayed focused on the innovation of mobile device only, instead of listening to the customers and other levels of management who thought mobile only was not enough. Ultimately, the company took the strategy of focusing on developing an innovative product, when instead they should have learned about what their customers really wanted.¹

Successful managers recognize market opportunities to exploit, take steps to correct company weaknesses, or formulate new and hopefully more effective strategies to be strong competitors. How they manage those strategies will play an important role in an organization's success or failure. This chapter presents the strategic management process and reviews a variety of strategies that organizations can pursue.

Management Myth: Strategic management only involves top managers.

Management Reality: All managers need to be involved in not only planning but also executing strategy.

WHAT Is Strategic Management, and Why Is It Important?

LO9.1 Define strategic management and explain why it's important.

Although Quibi did not get its move into the entertainment market right, Netflix did. Netflix's stated vision is to entertain the world. With revenue growth from \$3.6 billion to over \$30 billion in just over a decade, it seems to be pretty good at accomplishing its vision. How did it get there? What started as a home video mailing service has grown to be one of the world's most popular home entertainment streaming services. The first strategic move was to allow customers to keep DVDs as long as they wanted, edging out brick-and-mortar stores who made most of their revenue on late fees. To replace the in-store shopping experience, Netflix figured out search algorithms to help customers find movies they would enjoy. And then the company was quick to convert from mailing DVDs to providing a streaming service as technology evolved. But its biggest strategic move was to begin developing its own content. Although most streaming services now provide original content, Netflix has kept ahead by being the first in the game. Around every corner, Netflix has had the strategy to stay ahead.²

Defining Strategic Management

Strategic management is the formulation and implementation of initiatives by top management—taking into consideration resources and environmental opportunities—that will allow the organization to achieve its goals. What are an organization's **strategies**? They're the plans for how the organization will do whatever it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals.

One term often used in strategic management is **business model**, which is how a company uses resources to create value for customers and generate profits. It focuses on three things: (1) whether customers will value what the company is providing, (2) whether the company has or can acquire the resources needed to execute its strategy, and (3) whether the company can make money.³ Quibi's business model failed mostly because its targeted customer base did not value the service enough to subscribe to it. But Jeff Bezos pioneered a business model for selling books to consumers directly online that worked. Customers *valued* what Amazon offered. Did Amazon *make money* doing it that way? Not at first, but now, absolutely! What began as the world's biggest bookstore is now the world's biggest everything store—and one of the most valuable companies in the world. These examples illustrate that as executives develop their organization's strategies, they need to assess and ensure the economic viability of their business model.

Why Is Strategic Management Important?

Marvel Entertainment, the home of Spider-Man and numerous other iconic characters, has long been the comic book world's biggest player. But in the mid-1990s the comics market crashed, Marvel went broke, and there was no superpower strong enough to stave off bankruptcy. But after restructuring, Marvel changed its approach, focusing on movies rather than paper and ink. Today, Black Panther, Iron Man, the Avengers, Spider-Man, and the X-Men are all billion-dollar franchises, and the company's strategic plan—to connect many of its characters in a single cinematic universe—has turned it into one of pop culture's most powerful brands. The managers behind Marvel clearly understand the importance of strategic management.⁴

strategic management

The formulation and implementation of initiatives by top management that will allow the organization to achieve its goals

strategies

The plans for how the organization will do what it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals

business model

How a company uses resources to create value for customers and generate profits

Why is strategic management so important? There are three reasons. The most significant one is that it can make a difference in how well an organization performs. It helps explain why some businesses succeed and others fail, even when faced with the same environmental conditions. Research has found a generally positive relationship between strategic planning and performance.⁵ In other words, it appears that organizations that use strategic management do have higher levels of performance. A second reason is the fact that managers in organizations of all types and sizes face continually changing situations. They cope with this uncertainty by using the strategic management process to examine relevant factors and decide what actions to take. Finally, strategic management is important because organizations are complex and diverse. Each part needs to work together toward achieving the organization's goals; strategic management helps do this.

Today, both for-profit and not-for-profit organizations are using strategic management. For instance, the American Cancer Society continues to evolve its mission and strategy in order to address the changing nature of the fight against cancer. With over 200 maladies that fall under the diagnosis of cancer, the previous mission to “end cancer” did not address the full range of support the organization provided to cancer patients and families with different needs. Organization leaders set out a new mission statement: “to improve the lives of people with cancer and their families through advocacy, research, and patient support, to ensure everyone has an opportunity to prevent, detect, treat, and survive cancer.” The organization strategically allocates funding to support improving the lives of cancer patients in addition to research searching for cures.⁶ Although strategic management in not-for-profits hasn't been as well researched as it has been for for-profit organizations, we know it's important for them as well.

Supporting the Strategic Management Process

Many companies keep the strategic management process at the top of the company, with a belief that only the CEO and other high-level leaders are responsible for strategy. However, research on the strategic management process provides evidence that strategic planning is more likely to positively influence organizational performance when there is cross-organizational involvement in the strategic management process and when the company invests resources in doing a thorough analysis of the internal and external environment.⁷

Involving employees from all levels of the organization benefits strategic management in several ways. First, broader involvement helps support the development of an effective strategy as employees from different parts and levels in the organization bring a perspective that top management does not hold. This also leads to more creative ideas for consideration as a company formulates its strategy. Second, involvement can enhance overall employee engagement in the organization as those involved feel valued. And finally, if there is early buy-in on the strategic plan that has been developed, those responsible for implementing the plan will be more committed, increasing the likelihood of success.⁸

ARTIFICIAL INTELLIGENCE The strategic management process works to plan for the future based on what is known in the present. Therefore, companies rely upon data to inform the strategic formulation process. As we discuss in the following section, companies need to conduct internal and external analyses to understand the current state of the organization, and artificial intelligence (AI) can be a useful tool to learn from the data to better inform the formulation of strategy. Hemlock Semiconductor, a provider of polysilicon products used in the electronic and solar power industries, uses AI to extract insights from huge amounts of data the organization continuously generates. The company has sped up its learning and taken a deeper dive into its internal processes, providing strategic insights to make plans to improve quality and reduce costs.⁹



Using strategic management has helped Marvel Entertainment achieve higher levels of organizational performance. When market demand for its comic books declined, the company broadened its focus from print readership to a wider audience of moviegoers by featuring Spider-Man and other comic book characters in films.

Source: Moviestore Collection Ltd/Alamy Stock Photo

As AI capabilities continue to evolve, tools eventually could automate the development of corporate strategy. However, business managers are generally more resistant to allowing AI to generate strategy than other applications of AI; strategy development is an integrative and conceptual process, and leaders value their own intuition. That said, many organizations see the role that AI can play in providing the building blocks to develop their strategy. With access to significant amounts of data, AI can support quicker analysis and insights from the data.¹⁰

THE STRATEGIC Management Process

LO9.2 Explain what managers do during the five steps of the strategic management process.

strategic management process
A five-step process that encompasses strategic planning, implementation, and evaluation

The **strategic management process** (see **Exhibit 9-1**) is a five-step process that encompasses strategy planning, implementation, and evaluation. Although the first three steps describe the planning that must take place, implementation and evaluation are just as important! Even the best strategies can fail if management doesn't implement or evaluate them properly.

Step 1: Start with Purpose: Identifying the Organization's Current Mission

As noted in **Chapter 8**, every organization needs a mission—a statement of its purpose. Defining the mission forces managers to identify what the organization is in business to do. An example of a mission statement is Tesla's "To accelerate the world's transition to sustainable energy."¹¹ But mission statements aren't written in stone. Sometimes management realizes they are in need of modification, like the American Cancer Society did. Patagonia's mission statement for many years was to "Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis." But as you read in **Chapter 7**, as Yvon Chouinard moved toward retirement, he and company leaders focused on a growing commitment to the environment, which led the company to change its mission statement to "We're in business to save our home planet."¹² Such a statement helps focus the strategic direction of the company.

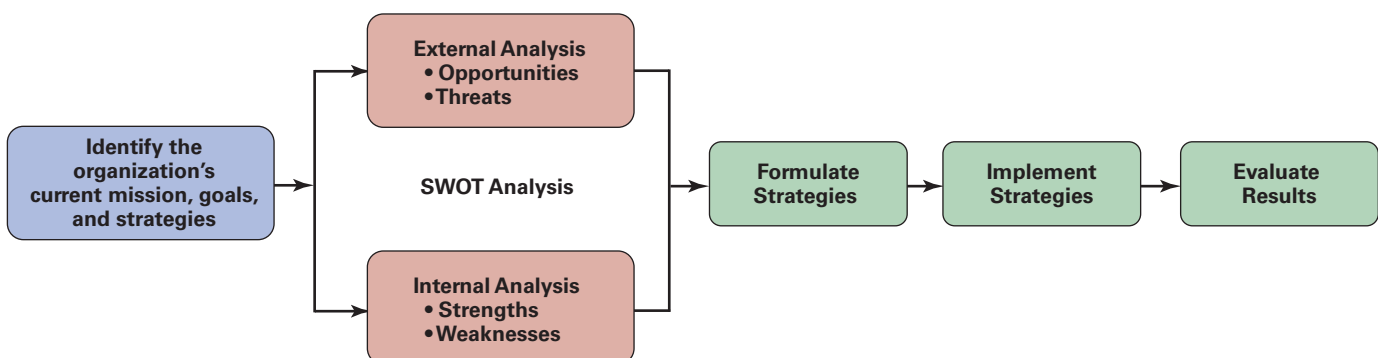
What *should* a mission statement include? **Exhibit 9-2** describes some typical components.

Step 2: SWOT Analysis

With purpose in mind, a company next needs an understanding of the current state of the company and the external influences on the business. The combined internal and external analyses are called the **SWOT analysis**, an analysis of the organization's

SWOT analysis
An analysis of the organization's strengths, weaknesses, opportunities, and threats

Exhibit 9-1
Strategic Management Process



Customers:	Who are the firm's customers?
Markets:	Where does the firm compete geographically?
Concern for survival, growth, and profitability:	Is the firm committed to growth and financial stability?
Philosophy:	What are the firm's basic beliefs, values, and ethical priorities?
Concern for public image:	How responsive is the firm to societal and environmental concerns?
Products or services:	What are the firm's major products or services?
Technology:	Is the firm technologically current?
Self-concept:	What are the firm's major competitive advantage and core competencies?
Concern for employees:	Are employees a valuable asset of the firm?

Strengths, Weaknesses, Opportunities, and Threats.¹³ After completing the SWOT analysis, managers are ready to formulate appropriate strategies—that is, strategies that (1) exploit an organization's strengths and external opportunities, (2) buffer or protect the organization from external threats, or (3) correct critical weaknesses.

INTERNAL ANALYSIS The internal analysis provides important information about an organization's specific resources and capabilities. An organization's **resources** are its assets—financial, physical, human, and intangible—that it uses to develop, manufacture, and deliver products to its customers. They're "what" the organization has. On the other hand, its **capabilities** are its skills and abilities in doing the work activities needed in its business—"how" it does its work. The major value-creating capabilities of the organization are known as its **core competencies**.¹⁴ Both resources and core competencies determine the organization's competitive weapons. For instance, FedEx's strategic plan "Deliver Today, Innovate for Tomorrow" highlights the company's intention to build on its foundation to improve profitability through continuing to drive efficiency in its delivery networks and prepare for the future through leveraging technology to further grow capabilities.¹⁵ Essentially, leadership plans to leverage the company's core competency of logistics management to meet the company's strategic goals.

After completing an internal analysis, managers should be able to identify organizational strengths and weaknesses. Any activities the organization does well or any unique resources that it has are called **strengths**. **Weaknesses** are activities the organization doesn't do well or resources it needs but doesn't possess.

EXTERNAL ANALYSIS We described the external environment in **Chapter 4** as an important constraint on a manager's actions. Analyzing that environment and understanding opportunities and threats is a critical step in the strategic management process. Managers do an external analysis so they know, for instance, what the competition is doing, what pending legislation might affect the organization, or what the labor supply is like in locations where it operates. In an external analysis, managers should examine the economic, demographic, political/legal, sociocultural, technological, and global components to see the trends and changes. For example, Best Buy worked to transform its workforce and sales strategy to focus on e-commerce well before its competitors in response to the COVID-19 pandemic. Best Buy leadership believed consumer behaviors preferring

Exhibit 9-2

Components of a Mission Statement

Source: Based on F. R. David, *Strategic Management*, 13th ed. (Upper Saddle River, NJ: Pearson Education, Inc., 2011).

resources

An organization's assets—including financial, physical, human, and intangible—that are used to develop, manufacture, and deliver products to its customers

capabilities

An organization's skills and abilities in doing the work activities needed in its business

core competencies

An organization's major value-creating capabilities that determine its competitive weapons

strengths

Any activities the organization does well or its unique resources

weaknesses

Activities the organization does not do well or resources it needs but does not possess



Best Buy expanded the company's e-commerce capabilities in response to changes in the external environment.

Source: NetPhotos3/Alamy Stock Photo

opportunities

Positive trends in the external environment

threats

Negative trends in the external environment

online shopping would sustain after the pandemic. The company proactively closed stores and reskilled workers for digital roles based on its analysis of the future behaviors of consumers.¹⁶

Once they've analyzed the environment, managers need to pinpoint opportunities that the organization can exploit and threats that it must counteract or buffer against. **Opportunities** are positive trends in the external environment; **threats** are negative trends.¹⁷

Let's take a look at ongoing strategic opportunities and threats in the at-home entertainment industry. Companies entering the streaming market have an opportunity with Generation Z (those born in the late 1990s to early 2010s) entering the workforce and becoming a primary target market for purchases. Gen Z is digitally savvy, more racially and ethnically diverse, and on track to be better educated than previous generations; media companies need to match the preferences of this demographic such as a passion for advancing social issues. However, companies also face a threat in the market from the increasing number of competitors. As Quibi learned, competition for paid subscribers is fierce, particularly because content creators can reach audiences for free through social media. Netflix, however, has succeeded in attracting Gen Z, with 78 percent reporting they have a subscription. Attracting the younger generations through targeted programming based on consumer preferences reflects a long-term strategy to build relationships and brand loyalty.¹⁸

Step 3: Formulating Strategies

As managers formulate strategies, they need to consider the realities of the external environment and their available resources and capabilities to design strategies that will help an organization achieve its goals. The three main types of strategies managers will formulate include corporate, competitive, and functional. We'll describe each shortly.

Step 4: Implementing Strategies

No matter how effectively an organization has planned its strategies, performance will suffer if the strategies aren't implemented properly. Successful implementation requires managers have the right capabilities and take correct actions in strategy implementation. Research suggests that successful strategy implementation requires three conditions: competence, commitment, and coordination. Competence means that managers and employees have the knowledge, skills, and abilities required to execute tasks that support the strategy. Commitment means that managers and employees are determined to do what is needed to execute the strategy. And coordination indicates managers and employees must be able and willing to work together to implement the strategy. Think of it like a soccer game: Players must have the right skills (competencies), the drive to win (commitment), and the ability to work together as a team (coordination) to win a match. Implementing an organizational strategy requires this same combination.¹⁹

Step 5: Evaluating Results

The final step in the strategic management process is evaluating results. How effective have the strategies been at helping the organization reach its goals? What adjustments are necessary? Strategies should be monitored continuously and shifts or adjustments should be made as feedback is received. Some companies may shift strategies quickly, especially if they receive strong feedback from customers. When Airbnb launched, the company growth strategy focused on adding new listings and building site traffic. However, it wasn't getting a lot of bookings, which it eventually attributed to the low quality of the listings. So the company founders shifted their focus and started working with hosts to engage professional photographers to improve listings. Sales doubled within a month and continued to grow from there.²⁰

IT'S YOUR CAREER

Learning Your Strengths and Weaknesses

Do you know your personal strengths and weaknesses? You need to for at least two reasons. The first is that job interviewers commonly ask what you consider your strengths and weaknesses, and you want to be prepared to answer those questions. Second, by knowing your strengths and weaknesses you can size up where you stand in your career and make good decisions about what you need to do to keep advancing.

Here are some suggestions to help you learn your strengths and weaknesses:

1. Identify your strengths. Your strengths are your individual personal positive attributes and characteristics. As you look at your strengths, assess the following: skills (what you are good at), interests (what you enjoy doing), educational background (what qualifications you have), your values (what things are important to you), and your personality (what characteristics you have). As you evaluate these, think in terms of what sets you apart. What things do you like to do? What things do you do well? What things do you do better than others? It's also helpful to ask others you trust what they see as your strengths.

2. Take a look at your weaknesses. It's sometimes hard to admit, but we all have weaknesses. What things could you improve about

yourself? What are your negative personal/work habits? What things do you not like to do? What skills, training, or qualifications are you lacking, the possession of which would make you a more valuable employee? Are you lacking career direction or focus? What things do others do better than you do? Again, it's helpful to ask others you trust what they see as your weaknesses.

3. As discussed later in this chapter's "Workplace Confidential," develop a strategy to do something about your strengths and weaknesses. What actions can you take to get the job you want or to best meet the requirements of your current job or a promotion you're seeking? Accentuate your positives! You want to leverage, emphasize, and capitalize on your strengths.

Here's an insight that many young people don't realize: You can go a long way on just a few strengths. In school, to be an outstanding student, you have to be a generalist. You have to be good at everything: math, science, history, geography, languages, the arts, and so forth. But "the real world" pays off for specialization. You only have to excel in one or two areas to have an amazing career. So find your niche and exploit that strength.

4. Update your list of strengths and weaknesses periodically. As you gain new experiences and as your life circumstances change, you'll want to revise your list of strengths and weaknesses. Sharpen your self-awareness so you can craft the kind of life—professionally and personally—you want to live.

CORPORATE Strategies

LO9.3 Describe the three types of corporate strategies.

As we said earlier, organizations use three types of strategies: corporate, competitive, and functional. (See **Exhibit 9-3**.) Top-level managers typically are responsible for corporate strategies, middle-level managers for competitive strategies, and lower-level managers for the functional strategies. In this section, we'll look at corporate strategies.

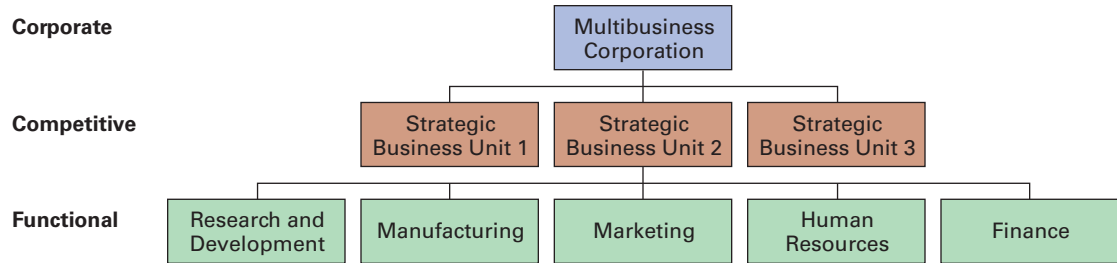
What Is Corporate Strategy?

A **corporate strategy** determines what businesses a company is in or wants to be in and what it wants to do with those businesses. It's based on the mission and goals of the organization and the roles that each business unit of the organization will play. Williams-Sonoma, whose vision is "To enhance the quality of our customers' lives at home," has a corporate strategy that is focused on growth in its digital presence to

corporate strategy

An organizational strategy that determines what businesses a company is in or wants to be in and what it wants to do with those businesses

Exhibit 9-3 Types of Organizational Strategies



make it easier for consumers to access its retail products at any time. This strategy applies to all of its retail store brands, which include Pottery Barn, Pottery Barn Kids, Rejuvenation, and West Elm in addition to Williams-Sonoma. These brands engage customers at different stages of life; for example, Pottery Barn appeals to young professionals, Pottery Barn Kids when they have a family, and high-end West Elm for later in life. The brand engagement for different needs as well as the accessibility through e-commerce help the company realize its vision of enhancing the quality of its customers' lives at home.²¹

What Are the Types of Corporate Strategy?

The three main types of corporate strategies are growth, stability, and renewal. Let's look at each type.

GROWTH PayPal, the payment platform that allows you to send and receive money securely, has grown into a \$218 billion enterprise since the company started more than 20 years ago, and in the last four years alone its share price has grown 208 percent. PayPal is the most accepted digital wallet in Europe and the United States, used by 75 percent of the top 1,500 merchants.

A **growth strategy** is when an organization expands the number of markets served or products offered, either through its current business(es) or through new business(es). Because of its growth strategy, an organization may increase revenues, number of employees, or market share. Organizations grow by using concentration, vertical integration, horizontal integration, or diversification.

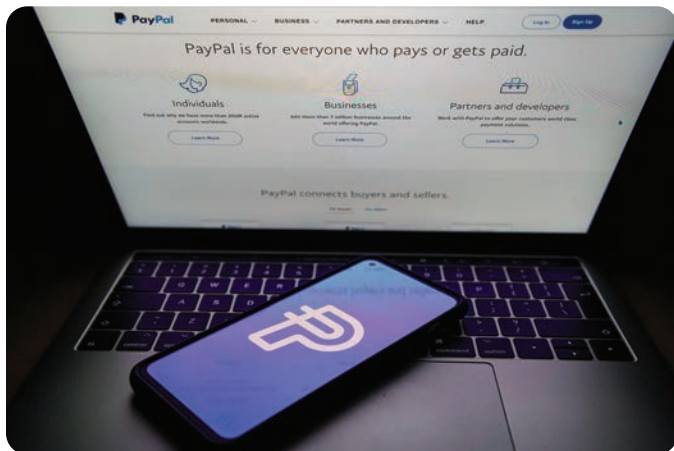
An organization that grows using *concentration* focuses on its primary line of business and increases the number of products offered or markets served in this primary business. PayPal has succeeded by focusing on digital banking. The company's growth strategy has been through offering new products such as QR code payments and cryptocurrency trading and increasing its market size by acquiring new merchant partners.²²

A company also might choose to grow by *vertical integration*, either backward, forward, or both. In backward vertical integration, the organization becomes its own supplier so it can control its inputs. For example, Delta Air Lines worked to control fuel costs through acquiring an oil refinery. In forward vertical integration, the organization becomes its own distributor and is able to control its outputs. For example, Apple has more than 500 retail stores worldwide to distribute its products.

In *horizontal integration*, a company grows by combining with competitors. For instance, Bank of America has acquired MBNA, Summit Bancorp, NationsBank, U.S. Trust, and Fleet Financial. Another example is Facebook acquiring Instagram, both social media companies with a focus on photo sharing. Horizontal integration has been used in a number of industries in the last few years—financial services, consumer products, airlines, department stores, and software, among others.

growth strategy

A corporate strategy that's used when an organization wants to expand the number of markets served or products offered, either through its current business(es) or through new business(es)



PayPal has experienced significant growth through focusing on digital banking and adding products such as QR code payments and cryptocurrency trading.

Source: Rokas Tenys/Alamy Stock Photo

WORKPLACE CONFIDENTIAL Developing a Career Strategy

The concept of strategy is not limited to managers and organizations. You can use it to think strategically about your career.

Let's start by acknowledging that, if you're reading this text, you are likely either at an early point in starting to build a career or considering a new career direction. Either way, your career plans are a top priority. Here are some suggestions for helping you develop a career plan.

Start by creating your own SWOT analysis. What are your strengths? What talents have you developed that give you a comparative advantage to others? Are you good with numbers, an excellent writer, a smooth talker, an outstanding debater, uniquely creative? And what qualities can give you an edge up? Consider your work experience, education, technical knowledge, networking contacts, and personal characteristics, like your work ethic or self-discipline. Think hard about what differentiates you and what might give you an advantage. Next, consider your weaknesses. Try to be honest with yourself and identify those things that either others do better than you or you tend to avoid. Examples might include a lack of work experience, a low GPA, lack of specific job knowledge, weak communication skills, or previous legal problems. Now move to consider opportunities and threats that you see in the job market. Where are the growth industries? Examples, for instance, might include healthcare, solar energy, artificial intelligence, counterterrorism, or internet businesses. All appear to have strong growth opportunities. Then focus on organizations within these industries that might benefit from this growth. Finally, look for geographic opportunities. What cities or towns appear to offer above-average job growth? Of course, you also want to look at the other side. Which are the declining industries, downsizing or stagnant organizations, and shrinking job markets? Integrating this analysis should provide you with a blueprint of where you're likely to find the best career opportunities.

Now, let's talk about fit. By this, we mean the match between you and specific jobs and the match between

you and specific organizational cultures. The former we call the person–job fit and the latter the person–organization fit. Here's an obvious, but often overlooked, observation: Not everyone is fit for certain jobs or certain organizations. Regardless of the opportunity, one size does not fit all!

In **Chapter 13**, Holland's personality–job fit theory is discussed. In essence, the theory proposes six personality types and argues that people who are in jobs congruent with their personality are more satisfied with their jobs and less likely to quit. We suggest that you look over these six personalities, see which one best describes you, and use the information to guide you in selecting a job that best fits you.

The person–organization fit essentially argues that people are attracted and selected by organizations that match their values, and they leave organizations that are not compatible with their personalities. So, for instance, if you tend to be high on the extroversion scale, you're likely to fit well with aggressive and team-oriented cultures; if you're high on agreeableness, you match up better with a supportive organizational culture than one focused on aggressiveness; and if you're open to new experiences, you'll fit better into organizations that emphasize innovation rather than standardization.

One final suggestion: Don't delegate your future to someone else. You are responsible for your personal career plan, your career progression, and your eventual retirement. In the 1950s and 1960s, most people either didn't think about shaping their career to maximize their potential or assumed that this was the responsibility of their employer. Even retirement programs were essentially designed by your employer, controlled by your employer, and nontransferable between employers. Although they did offer predictability, they also put control of an employee's future in the hands of the employer. In today's disruptive world, your career is in your hands. Never get comfortable with a single employer. Keep your skills current and think long term. Continually ask yourself: How will each job I take help to build a pattern of accomplishment? How will this job and my next one get me to where I eventually want to be?²³

Finally, an organization can grow through *diversification*, either related or unrelated. Related diversification happens when a company combines with other companies in different, but related, industries. For example, Google has acquired a number of businesses (more than 250!), including Fitbit, YouTube, DoubleClick, Nest, and Motorola Mobility.²⁴ Although this mix of businesses may seem odd, the company's "strategic fit" is its information search capabilities and efficiencies. Unrelated diversification is when a company combines with firms in different and unrelated industries. For instance, the Tata Group of India has businesses in chemicals, communications and IT, consumer products, energy, engineering, materials, and services. Again, an odd mix. But in this case, there's no strategic fit among the businesses.

STABILITY The Boeing Company has many values. One of them illustrates a stability strategy: "Instituting predictability and stability across our business will support our priorities and prepare us to face the unexpected."²⁵ A **stability strategy** is a corporate

stability strategy

A corporate strategy in which an organization continues to do what it is currently doing



Following several years of decline, Delta Air Lines engaged a turnaround strategy leading to a first-place ranking in the *Wall Street Journal's* annual airline scorecard in 2022 and 2023. Source: Allen Creative/Steve Allen/Alamy Stock Photo

renewal strategy

A corporate strategy designed to address declining performance

BCG matrix

A strategy tool that guides resource-allocation decisions on the basis of market share and growth rate of different business units within a company

strategy in which an organization continues to do what it is currently doing. Examples of this strategy include continuing to serve the same clients by offering the same product or service, maintaining market share, and sustaining the organization's current business operations. The organization doesn't grow, but it doesn't fall behind, either.

RENEWAL When an organization is in trouble, something needs to be done. Managers need to develop strategies, called **renewal strategies**, that address declining performance. The two main types of renewal strategies are retrenchment and turnaround strategies. A *retrenchment strategy* is a short-run renewal strategy used for minor performance problems. This strategy helps an organization stabilize operations, revitalize organizational resources and capabilities, and prepare to compete once again. For instance, in

2020 Coca-Cola started an organizational restructure, consolidating 17 business units into 9, eliminating several products, and laying off thousands of workers. The move positioned the company to survive the downturn in sales during the COVID-19 pandemic.²⁶ When an organization's problems are more serious, more drastic action—a *turnaround strategy*—is needed. Managers do two things for both renewal strategies: cut costs and restructure organizational operations. However, in a turnaround strategy, these measures are more extensive than in a retrenchment strategy. For example, more than 10 years ago Delta Air Lines was on the brink of bankruptcy. It put a turnaround strategy in place that included a merger with another airline to build capacity and an employee profit-sharing program to attract top talent. As mentioned previously, the airline also acquired an oil refinery to control fuel costs. So far, its turnaround strategy is succeeding, because Delta earned the *Wall Street Journal's* top spot in its airline rankings.²⁷

How Are Corporate Strategies Managed?

When an organization's corporate strategy encompasses a number of businesses, managers can manage this collection, or portfolio, of businesses using a tool called a corporate portfolio matrix. This matrix provides a framework for understanding diverse businesses and helps managers establish priorities for allocating resources.²⁸ The first portfolio matrix—the **BCG matrix**—was developed by the Boston Consulting Group and introduced the idea that an organization's various businesses could be evaluated and plotted using a 2×2 matrix to identify which ones offered high potential and which were a drain on organizational resources.²⁹ The horizontal axis represents market share (low or high), and the vertical axis indicates anticipated market growth (low or high). A business unit is evaluated using a SWOT analysis and placed in one of the four categories, which are as follows:

- **Stars:** High market share/High anticipated growth rate
- **Cash Cows:** High market share/Low anticipated growth rate
- **Question Marks:** Low market share/High anticipated growth rate
- **Dogs:** Low market share/Low anticipated growth rate

What are the strategic implications of the BCG matrix? The dogs should be sold off or liquidated, because they have low market share in markets with low growth potential. Managers should “milk” cash cows for as much as they can, limit any new investment in them, and use the large amounts of cash generated to invest in stars and question marks with strong potential to improve market share. Heavy investment in stars will help take advantage of the market's growth and help maintain high market share. The stars, of course, will eventually develop into cash cows as their markets mature and sales growth slows. The hardest decision for managers relates to the question marks. After careful analysis, some will be sold off and others strategically nurtured into stars.

COMPETITIVE Strategies

LO9.4 Describe competitive advantage and the competitive strategies organizations use to get it.

A **competitive strategy** is a strategy for how an organization will compete in its business(es).³⁰ For a small organization in only one line of business or a large organization that has not diversified into different products or markets, its competitive strategy describes how it will compete in its primary or main market. For organizations in multiple businesses, however, each business will have its own competitive strategy that defines its competitive advantage, the products or services it will offer, the customers it wants to reach, and the like. For example, Johnson & Johnson has different competitive strategies for its businesses, which include pharmaceuticals, medical devices, and consumer products. When an organization is in several different businesses, those single businesses that are independent and that have their own competitive strategies are referred to as **strategic business units (SBUs)**.

The Role of Competitive Advantage

Michelin has mastered a complex technological process for making superior radial tires. Apple has created the world's best and most powerful brand using innovative design and merchandising capabilities. The Ritz-Carlton hotels have a unique ability to deliver personalized customer service. Each of these companies has created a competitive advantage.

Developing an effective competitive strategy requires an understanding of **competitive advantage**, which is what sets an organization apart—that is, its distinctive edge.³¹ That distinctive edge can come from the organization's core competencies by doing something that others cannot do or doing it better than others can do it. For example, Porsche has a competitive advantage based on its engineering and design capabilities plus its reputation for building high-quality, high-performing vehicles. Or competitive advantage can come from the company's resources because the organization has something its competitors don't have. For instance, Walmart's state-of-the-art information system allows it to monitor and control inventories and supplier relations more efficiently than its competitors, which gives Walmart lower product costs, reduced inventory carrying costs, and highly competitive pricing for its customers.

Sustaining Competitive Advantage

Every organization has resources (assets) and capabilities (how work gets done). So what makes some organizations more successful than others? Why do some professional baseball teams consistently win championships or draw large crowds? Why do some companies consistently appear at the top of lists ranking the “best,” or the “most admired,” or the “most profitable”? The answer is that not every organization is able to effectively exploit its resources and to develop the core competencies that can provide it with a competitive advantage. However, it's not enough simply to create a competitive advantage. The organization must be able to *sustain* that advantage; that is, to keep its edge despite competitors' actions or evolutionary changes in the industry.³²

Warren Buffett has popularized the term *economic moat* as a means of maintaining a competitive advantage over competitors and protecting long-term profits and market share.³³ Just as moats protected medieval castles, an economic moat acts to protect profit margins. The wider the moat, the more secure the competitive

competitive strategy

An organizational strategy for how an organization will compete in its business(es)

strategic business unit (SBU)

The single independent businesses of an organization that formulate their own competitive strategies

competitive advantage

What sets an organization apart; its distinctive edge



Walmart has a competitive advantage in its state-of-the-art information system that allows it to monitor and control inventories and supplier relations more efficiently than its competitors. This gives Walmart lower product costs, reduced inventory carrying costs, and highly competitive pricing for its customers.
Source: Marc F. Henning/Alamy Stock Photo

advantage. Over time, many competitive advantages can be duplicated. Many cost advantages, for instance, are vulnerable to duplication. In contrast, a patent or high switching costs provide tougher moats to cross. Apple has developed a wide moat by creating high switching costs for consumers. Once a consumer has an iPhone, an iMac, an iPad, and an Apple Watch, it's tough for Apple competitors to steal that consumer's business.

Building a sustainable “moat” isn't easy to do. Market instabilities, new technology, and other changes can challenge managers' attempts at creating a long-term, sustainable competitive advantage. However, by using strategic management, managers can better position their organizations to get a sustainable competitive advantage.

Many important ideas in strategic management have come from the work of Michael Porter.³⁴ One of his major contributions was explaining how managers can create a sustainable competitive advantage. An important part of doing this is an industry analysis, which is done using the five forces model.

FIVE FORCES MODEL In any industry, five competitive forces dictate the rules of competition. Together, these five forces determine industry attractiveness and profitability, which managers assess using these five factors:

1. **Threat of new entrants:** How likely is it that new competitors will come into the industry?
2. **Threat of substitutes:** How likely is it that other industries' products can be substituted for our industry's products?
3. **Bargaining power of buyers:** How much bargaining power do buyers (customers) have?
4. **Bargaining power of suppliers:** How much bargaining power do suppliers have?
5. **Current rivalry:** How intense is the rivalry among current industry competitors?

CHOOSING A COMPETITIVE STRATEGY Once managers have assessed the five forces and done a SWOT analysis, they're ready to select an appropriate competitive strategy—that is, one that fits the competitive strengths (resources and capabilities) of the organization and the industry it's in. According to Porter, no firm can be successful by trying to be all things to all people. He proposed that managers select a strategy that will give the organization a competitive advantage, either from having lower costs than all other industry competitors or by being significantly different from competitors.

When an organization competes on the basis of having the lowest costs (costs or expenses, not prices) in its industry, it's following a *cost leadership strategy*. A low-cost leader is highly efficient. Overhead is kept to a minimum, and the firm does everything it can to cut costs. For example, you won't find many frills in Ross Stores. “We believe in ‘no frills’—no window displays, mannequins, fancy fixtures or decorations in our stores so we can pass more savings on to our customers.”³⁵ Low overhead costs allow Ross to sell quality apparel and home items at 20 to 60 percent less than most department store prices, and the company is profitable.³⁶

A company that competes by offering unique products that are widely valued by customers is following a *differentiation strategy*. Product differences might come from exceptionally high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image. Practically any successful consumer product

or service can be identified as an example of the differentiation strategy; for instance, 3M Corporation (product quality and innovative design), Coach (design and brand image), Apple (product design), and L.L.Bean (customer service).



L.L.Bean prides itself on offering exceptional customer service, which is one product difference a firm can use as part of its differentiation strategy.

Source: Singh_lens/Shutterstock

Although these two competitive strategies are aimed at the broad market, a third type of competitive strategy—the *focus strategy*—involves a cost advantage (cost focus) or a differentiation advantage (differentiation focus) in a narrow segment or niche. Segments can be based on product variety, customer type, distribution channel, or geographical location. For example, Denmark’s Bang & Olufsen, whose revenues exceed \$425 million with 12 percent growth in the last year, focuses on high-end audio equipment sales.³⁷ Whether a focus strategy is feasible depends on the size of the segment and whether the organization can make money serving that segment.

What happens if an organization can’t develop a cost or differentiation advantage? Porter called that being *stuck in the middle* and warned that’s not a good place to be. An organization becomes stuck in the middle when its costs are too high to compete with the low-cost leader or when its products and services aren’t differentiated enough to compete with the differentiator. Getting unstuck means choosing which competitive advantage to pursue and then doing so by aligning resources, capabilities, and core competencies.

Although Porter said you had to pursue either the low cost or the differentiation advantage to prevent being stuck in the middle, additional research has shown that organizations *can* successfully pursue both a low cost and a differentiation advantage and achieve high performance.³⁸ Needless to say, it’s not easy to pull off! You have to keep costs low *and* be truly differentiated. But a company like Southwest Airlines has been able to do it. The airline provides low-cost travel and also a unique customer experience.

Before we leave this section, we want to point out the final type of strategy, the functional strategies, which are the strategies used by an organization’s various functional departments to support the competitive strategy. These include marketing, finance, human resources, R&D, and the like. We don’t cover specific functional strategies in this text because you’ll cover them in other business courses you take.

Examples of Differentiation Strategies

We’ve talked about how Michelin, Walmart, Apple, 3M, and others have succeeded by differentiating themselves from the competition. In this section, we review five differentiation strategies and how they’ve been used for competitive advantage.

QUALITY AS A COMPETITIVE ADVANTAGE A number of well-known brands have built their success on their reputation for quality. These include Lexus, Rolex, Viking appliances, Harley-Davidson bikes, and Nordstrom. If implemented properly, quality can be a way for an organization to create a sustainable competitive advantage.³⁹ That’s why many organizations apply quality management concepts in an attempt to set themselves apart from competitors. If a business is able to continuously improve the quality and reliability of its products, it may have a competitive advantage that can’t be taken away.

INNOVATION AS A COMPETITIVE ADVANTAGE When Procter & Gamble purchased the Iams pet food business, it did what it always does—used its renowned research division to look for ways to transfer technology from its other divisions to make new products.⁴⁰ One outcome of this cross-divisional combination: a tartar-fighting ingredient from toothpaste that’s included in all of its dry adult pet foods.

As this example shows, innovation strategies aren’t necessarily focused on just the radical, breakthrough products. They can include applying existing technology to new uses. And organizations have successfully used both approaches. What types of innovation strategies do organizations need in today’s environment? Those strategies should reflect their innovation philosophy, which is shaped by two strategic decisions: innovation emphasis and innovation timing.

Managers must first decide where the emphasis of their innovation efforts will be. Is the organization going to focus on basic scientific research, product development, or process improvement? Basic scientific research requires the most resource

commitment because it involves the nuts-and-bolts work of scientific study. In numerous industries (for instance, genetic engineering, pharmaceuticals, information technology, or cosmetics), an organization's expertise in basic research is the key to a sustainable competitive advantage. However, not every organization requires this extensive commitment to scientific research to achieve high performance levels. Instead, many depend on product development strategies. In this approach, the organization takes existing technology and improves on it or applies it in new ways, just as Procter & Gamble did when it applied tartar-fighting knowledge to pet food products. Both of these first two strategic approaches to innovation (basic scientific research and product development) can help an organization achieve high levels of differentiation, which can be a significant source of competitive advantage.

Another strategic approach related to innovation differentiation is to focus on process development. Using this strategy, an organization looks for ways to improve and enhance its work processes. The organization innovates new and improved ways for employees to do their work. This innovation strategy can lead to lower costs, which, as we know, also can be a significant source of competitive advantage.

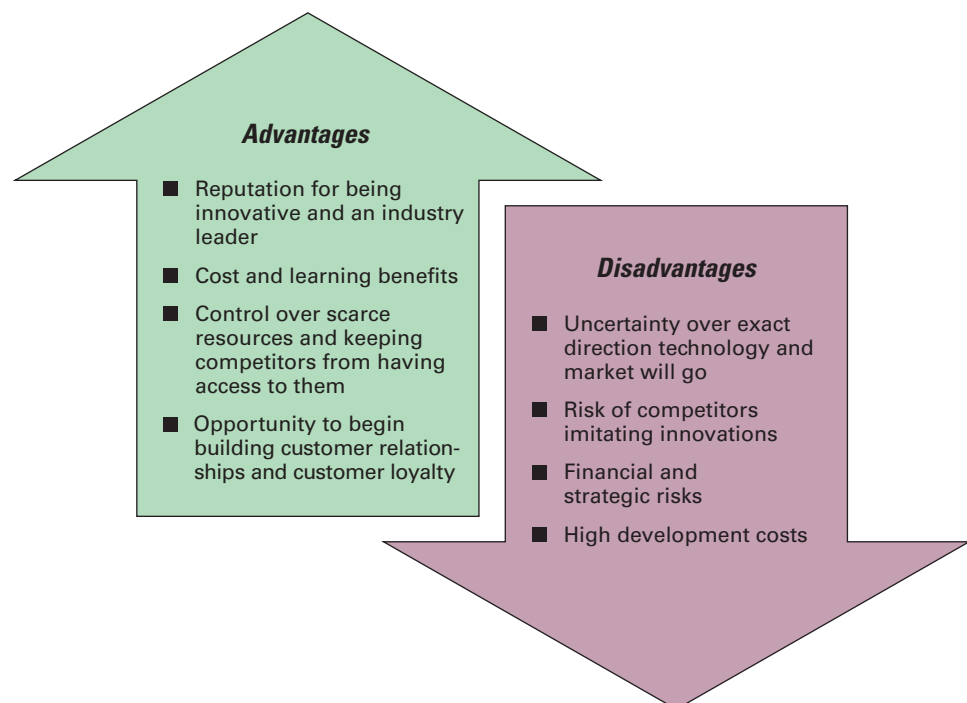
Once managers have determined the focus of their innovation efforts, they must decide their innovation timing strategy. Some organizations want to be the first with innovations, whereas others are content to follow or mimic the innovations. An organization that's first to bring a product innovation to the market or to use a new process innovation is called a **first mover**. Being a first mover has certain strategic advantages and disadvantages, as shown in **Exhibit 9-4**. Some organizations pursue this route, hoping to develop a sustainable competitive advantage. For example, Tesla was the first mover in the electric vehicle industry, taking the lead in developing electric cars, trucks, and even the charging infrastructure needed to drive long distances. Being the first to market with these innovations has allowed Tesla to stay ahead of competitors.⁴¹ Others have successfully developed a sustainable competitive advantage by being the followers in the industry. They let the first movers pioneer the innovations and then mimic their products or processes. For instance, Microsoft is rarely a first mover. It lets others incur the risks of introducing new products, then refines and improves them. VisiCorp developed the first desktop spreadsheet program, but Microsoft created a superior product—Excel, for its Windows platform—with a graphical interface and more powerful features.

first mover

An organization that's first to bring a product innovation to the market or to use a new process innovation

Exhibit 9-4

First Mover Advantages and Disadvantages



CUSTOMER FOCUS AS A COMPETITIVE ADVANTAGE Focusing on the customer typically means giving customers what they want, communicating effectively with them, and providing employees with customer service training. It shouldn't surprise you that an important customer focus strategy is giving customers what they want, which is a major aspect of an organization's overall marketing strategy. For instance, Spotify excelled ahead of other music streaming services such as iTunes. The company embraced the freemium model and gave customers the freedom and control over their music selections.⁴²

Having an effective customer communication system is an important customer service strategy. Managers should know what's going on with customers. They need to find out what customers liked and didn't like about their purchase encounter—from their interactions with employees to their experience with the actual product or service. It's also important to let customers know if something is going on with the company that might affect future purchase decisions.

Finally, employees need to be trained to provide exceptional customer service. For example, Singapore Airlines is well known for its customer treatment. Employees go through extensive training to “get service right.” It apparently works. Singapore Air has been voted the best international airline in the world for 27 consecutive years.⁴³



Singapore Airlines considers providing exceptional customer service a priority, as demonstrated by its extensive employee training, as well as comfortable cabins (and champagne) in first class.

Source: Michael Mueller/Alamy Stock Photo

MASS CUSTOMIZATION AS A COMPETITIVE ADVANTAGE The 20th century was significant for the popularization of mass production. What began with Henry Ford and his factories that could produce a car in 93 minutes in “any color you want as long as it's black,” management sought efficiencies through producing standardized products en masse. Standardization and economies of scale encouraged large size and volume. However, contemporary consumers increasingly seek products and services that are customized to their needs. As a result of improvements in production methods, information technology, and supply-chain management, businesses now have the capability of providing customized offerings at mass-production prices.⁴⁴ Very importantly, these improvements have undermined the comparative advantage of large size, allowing any size businesses to produce customized products and services at mass-produced prices.

One of the early proponents of mass customization was Dell. Michael Dell believed that many computer buyers would want to customize their purchase to meet their specific needs. He customized PC-compatible computers out of stock components and sold them directly to customers, and did all of this at a lower cost than his competitors. Today, clothiers can offer customized suits at a fraction of what such suits cost 20 years ago. You can order M&Ms with your own printed message. Furniture companies allow you to create unique sofas out of interchangeable components. Modular homebuilders can customize essentially standardized houses for buyers. BMW even claims that no two of its new cars are exactly identical.⁴⁵

Chapter 9

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY **by Learning Objectives**

LO9.1 DEFINE strategic management and explain why it's important.

Strategic management is what managers do to develop the organization's strategies. Strategies are the plans for how the organization will do whatever it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals. A business model is how a company is going to make money. Strategic management is important for three reasons. First, it makes a difference in how well organizations perform. Second, it's important for helping managers cope with continually changing situations. Finally, strategic management helps coordinate and focus employee efforts on what's important, which is helpful because organizations are complex and diverse. Strategic management benefits from engagement of employees across the organization.

LO9.2 EXPLAIN what managers do during the five steps of the strategic management process.

The five steps in the strategic management process encompass strategy planning, implementation, and evaluation. These steps include the following: (1) identify the current mission; (2) do a SWOT analysis of the organization's strengths, weaknesses, opportunities, and threats; (3) formulate strategies; (4) implement strategies; and (5) evaluate strategies. Strengths are any activities the organization does well or its unique resources. Weaknesses are activities the organization doesn't do well or resources it needs. Opportunities are positive trends in the external environment. Threats are negative trends.

LO9.3 DESCRIBE the three types of corporate strategies.

A corporate strategy determines what businesses a company is in (or wants to be in) and what it wants to do with those businesses. A growth strategy is when an organization expands the number of markets served or products offered, either through current or new businesses. The types of growth strategies include concentration, vertical integration (backward and forward), horizontal integration, and diversification (related and unrelated). A stability strategy is when an organization makes no significant changes in what it's doing. Both renewal strategies—retrenchment and turnaround—address organizational weaknesses leading to performance declines. The BCG matrix is a way to analyze a company's portfolio of businesses by looking at a business's market share and its industry's anticipated growth rate. The four categories of the BCG matrix are cash cows, stars, question marks, and dogs.

LO9.4 DESCRIBE competitive advantage and the competitive strategies organizations use to get it.

An organization's competitive advantage is what sets it apart—its distinctive edge. A company's competitive advantage becomes the basis for choosing an appropriate competitive strategy. Porter's five forces model assesses the five competitive forces that dictate the rules of competition in an industry: threat of new entrants, threat of substitutes, bargaining power of buyers, bargaining power of suppliers, and current rivalry. Porter's three competitive strategies are as follows: cost leadership (competing on the basis of having the lowest costs in the industry), differentiation

(competing on the basis of having unique products that are widely valued by customers), and focus (competing in a narrow segment with either a cost advantage or a differentiation advantage). Four differentiation strategies that have been used for competitive advantage are quality, innovation, customer service, and mass customization.

REVIEW AND DISCUSSION QUESTIONS

- 9-1. Why is strategic management important for organizations?
- 9-2. Describe the five steps in the strategic management process.
- 9-3. Should executives complete the strategic plan without input from other employees and managers? Why or why not?
- 9-4. Should (a) large, (b) small, and (c) not-for-profit organizations analyze their organization's internal and external environments differently? Why or why not?
- 9-5. Describe the three major types of corporate strategies and how the BCG matrix is used to manage the different businesses within the corporations using those corporate strategies.
- 9-6. Describe the differences between corporate and competitive strategies.
- 9-7. The concept of competitive advantage is as important for not-for-profit organizations as it is for for-profit organizations. Do you agree or disagree with this statement? Explain, using examples from the five forces model to make your case.
- 9-8. Describe quality, innovation, customer focus, and mass customization differentiation strategies.

PREPARING FOR: My Career

ETHICS DILEMMA

You were a marketing manager for We-Sell-It-All, a first mover and one of the world's largest online retailers. While at a conference, the CEO of a start-up online retailer, BuyIt, offered you a job as the company's vice president of marketing. Colleagues encouraged you to take the job because it was a huge step up in your career. You agreed and enthusiastically accepted the job offer. During your first week, the CEO asked you to do whatever is necessary to take market share from We-Sell-It-All. They emphasized *whatever is necessary* several times. As a previous insider at We-Sell-It-All, you quickly realized you know a lot of what executives there plan to

do during the next 12 months. To make a big impression at BuyIt and with the CEO, you begin to wonder if you can act on this inside information.

- 9-9. What do you think? Should you share your We-Sell-It-All inside information and show the CEO they made the right decision?
- 9-10. What ethical dilemmas are involved with sharing information about We-Sell-It-All?
- 9-11. What responsibilities, if any, do you have to your former employer?

SKILLS EXERCISE Developing Your Business Planning Skill

About the Skill

Preparing a business plan is essential in starting a business or determining a new strategic direction.⁴⁶ The business plan not only aids in thinking about what to do and how to do it but also can be a sound basis from which to obtain funding and resources.

Steps in Practicing the Skill

1. **Describe your company's background and purpose.** Provide the history of the company. Briefly describe the company's history and what this company does that's unique. Describe what your product or service

will be, how you intend to market it, and what you need to bring your product or service to the market.

2. **Identify your short- and long-term goals.** What is your intended goal for this organization? Clearly, for a new company three broad objectives are relevant: creation, survival, and profitability. Specific objectives can include such things as sales, market share, product quality, employee morale, and social responsibility. Identify how you plan to achieve each objective, how you intend to determine whether you met the objective, and when you intend the objective to be met (e.g., short or long term).
3. **Do a thorough market analysis.** You need to convince readers that you understand what you are doing, what your market is, and what competitive pressures you will face. Use a SWOT analysis to describe the overall market trends, the specific market you intend to compete in, and who the competitors are.
4. **Describe your development and production emphasis.** Explain how you are going to produce your product or service. Include time frames from start to finish. Describe the difficulties you may encounter in this stage as well as how much you believe activities in this stage will cost. Provide an explanation of what decisions (e.g., make or buy?) you will face and what you intend to do.
5. **Describe how you will market your product or service.** What is your selling strategy? How do you intend to reach your customers? In this section, describe your product or service in terms of your competitive advantage and demonstrate how you will exploit your competitors' weaknesses. In addition to the market analysis, provide sales forecasts in terms of the size of the market, how much of the market you can realistically capture, and how you will price your product or service.
6. **Put together your financial statements.** What is your bottom line? Investors want to know this information. In the financial section, provide projected profit-and-loss statements (income statements) for approximately three to five years, a cash flow analysis, and the company's projected balance sheets. In the financial section, give thought to how much start-up costs will be and develop a financial strategy—how you intend to use funds received and how you will control and monitor the financial well-being of the company.
7. **Provide an overview of the organization and its management.** Identify the key executives, summarizing their education, experience, and any relevant qualifications. Identify their positions in the organization and their job roles. Explain how much salary they intend to earn initially. Identify others who may assist the organization's management (e.g., company lawyer, accountant, board of directors). This section should also include, if relevant, a subsection on how you intend to deal with employees. For example, how will employees be paid, what benefits will be offered, and how will employee performance be assessed?
8. **Describe the legal form of the business.** Identify the legal form of the business—for example, is it a sole proprietorship, a partnership, or a corporation? Depending on the legal form, you may need to provide information regarding equity positions, shares of stock issued, and the like.
9. **Identify the critical risks and contingencies facing the organization.** In this section, identify what you will do if problems arise. For instance, if you do not meet sales forecasts, what then? Similarly, responses to such questions as problems with suppliers, an inability to hire qualified employees, poor-quality products, and so on should be addressed. Readers want to see if you have anticipated potential problems and contingency plans.
10. **Put the business plan together.** Using the information you gathered from the previous nine steps, put the business plan information in a well-organized document. A business plan should contain a cover page that shows the company name, address, contact person, and numbers at which the individual can be reached. The cover page should also contain the date the business was established and, if one exists, the company logo. The next page of the business plan should be a table of contents. Here you will want to list and identify the location of each major section and subsection in the business plan. Remember to use proper outlining techniques. Next comes the executive summary, one of the more critical elements of the business plan, because it is the first section read. Compelling executive summaries are two to three pages long and highlight information about the company, its management, its market and competition, the funds requested, how the funds will be used, financial history (if available), financial projections, and when investors can expect to get their money back (called the exit). Next come the main sections of your business plan: the material you have researched and written about in steps 1 through 9. End the business plan with a conclusion that summarizes the highlights of what you have just presented. Finally, if you have charts, exhibits, photographs, or tables, include them in an appendix at the back of the business plan.

Practicing the Skill

You have a great idea for a business and need to create a business plan to present to a bank. Choose one of the following products or services, or choose a product or service of your own. Draft the parts of your plan that describe how you will price and market it (see step 5) and identify the critical risks and contingencies (see step 9).

- Pet grooming at the customer’s home (you make house calls)
- Vending machines offering only organic and locally sourced products (convenient farm-to-table snacks)
- Rent a pet (the joys of pet ownership without all the responsibility)
- Zoom with a chef (cook gourmet meals with the help of a master chef who is right there with you on your tablet or phone)

WORKING TOGETHER Team Exercise

In groups of three or four, look up a company in one of these industries: virtual reality, green or solar energy, or commercial and professional drones. Discuss what you think this company’s competitive advantage is. Then, apply the five forces model to the company’s industry.

Brainstorm what the company could do so that it minimizes any threats you identify. Is there anything the company could do to increase its bargaining power within its industry? Be prepared to share your analysis with the class.

MY TURN TO BE A MANAGER

- Using current business periodicals or investor blogs, find two examples of each of the corporate and competitive strategies discussed in this chapter. Write a description of what these businesses are doing and how it represents that particular strategy.
- Pick three companies from the latest version of *Fortune’s* “Most Admired Companies” list. Research these companies and identify the (a) mission statements, (b) strategic goals, and (c) strategies used for each.
- Consider several businesses from which you purchase products or services on a regular basis. Identify the business model for each business.
- Write a short paper on how the process of strategy formulation, implementation, and evaluation might differ for (a) large businesses, (b) small businesses, (c) not-for-profit organizations, and (d) global businesses.
- Customer focus and innovation strategies are particularly important to managers today. Digital creators, professional gamers, and influencers are no different. Find one example and describe how that person has chosen customer focus in an innovative way to differentiate from their competitors. This could include finding new ways to give customers what they want, communicate effectively with them, or interact with customers. Provide examples and write a report describing your examples.
- Listen to a podcast about strategies used by one of the seven US companies that have reached the \$1 trillion market cap (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, or Saudi Aramco). Write what you learned about the company’s strategy and what the founders did to make the business successful.
- Search on YouTube to find information about big data and strategic decisions. Write a summary of the recommendations you discovered about how executives use or can use big data to make strategic decisions.

CASE APPLICATION 1

Nvidia’s Gaming and AI Strategy

The founders of Nvidia built their strategy while meeting regularly at a Denny’s restaurant between 1992 and 1993, where they discussed how to get into the business of making computer chips. They were specifically looking to build chips that could bring more realistic 3D graphics to gaming. At its launch, Nvidia was one of many makers of graphics processing units (GPUs) or chips that plug in and add computing power to a PC’s motherboard. Nvidia grew in notoriety among gamers and was selected as the sole provider for Microsoft’s first Xbox. By choosing to work collaboratively with developers and the software community, a unique difference among GPU makers, of the early chipmakers only Nvidia and one other company remain. As the big winner in the market, Nvidia dominates—in 2022 GPU sales accounted for 80 percent of Nvidia’s total revenue, more than \$9 billion. By the spring of 2023, Nvidia was the

world's most valuable chipmaker. It was the seventh company to top a \$1 trillion market cap in the United States (Market Cap = Current Share Price × Total Number of Shares Outstanding).

Nvidia continues to expand beyond gaming. It built a 3D platform known as the Omniverse to allow designers to collaborate and experiment with tasks virtually to perfect them before performing them in the real world. Mercedes-Benz announced a partnership with Nvidia to automate driving systems in its cars. Yet Nvidia's critical role in artificial intelligence (AI) is the most notable expansion thus far. Chips such as its A100s have been crucial to generative AI platforms like OpenAI's ChatGPT, which used 10,000 of Nvidia's A100s in a Microsoft supercomputer constructed for OpenAI. US sanctions offer the only area of concern for the company's strategy because AI chips, including Nvidia's, are among those banned from being exported to China.

Chinese companies are experimenting with ways to utilize fewer and less powerful semiconductors to power their AI applications. Workarounds like these would allow Chinese companies to catch up in the race to develop the best AI and reduce the market's reliance on Nvidia's GPUs.⁴⁷

DISCUSSION QUESTIONS

- 9-12. In what ways did Nvidia gain a competitive advantage? Will it be difficult for Nvidia to expand while sustaining its competitive advantage?
- 9-13. Use the BCG matrix to evaluate Nvidia and recommend how to manage it going forward.
- 9-14. How important is it for Nvidia to pay attention to the external and internal analysis steps in the strategic management process? What, if any, new challenges has the company faced?
- 9-15. Do Nvidia's executives have an obligation to create a strategy ensuring its technology is used in responsible and trustworthy applications? Justify your answer.

CASE APPLICATION 2

Saving Lives Through Strategy at RapidSOS

In 2014, Charles Martin fell off the roof of his home while clearing away snow. He tried and could not reach 911 from his cell phone. He had to lie on the driveway with a broken wrist and shattered hip for two hours until his wife arrived and called 911 from a landline. His son Michael, an entrepreneur, saw an opportunity to fill the need to connect cell phone users with 911 more smoothly. However, being able to make a 911 call was not the only issue. At the time, cell phone calls did not provide accurate location information to 911 operators.⁴⁸

Michael launched RapidSOS with co-founder Nick Horelik, but after talking to public safety officials, they learned that a 911 app would be a difficult solution to implement. The thousands of call centers that respond to 911 calls used different technologies, and it would be difficult to design a single app for all the centers to receive a call coming through the app. As a result, instead of an app, they focused on developing technology that would allow cell phone locations to be transmitted to 911 call centers during a phone call. Once created, the next question for RapidSOS was how to bring its technology to market; for example, should it target specific communities and then expand further to others?⁴⁹

To decide which strategy to use, RapidSOS considered its mission: to allow those with a high risk for emergencies to have better access to emergency services. Following its mission, it first gained support from specific patient groups, like those with epilepsy, diabetes, or victims of domestic violence. Eventually, Google and Apple took notice and entered partnerships with RapidSOS, allowing life-saving 911 location

information to be transmitted from their cell phones.⁵⁰ These partnerships allowed RapidSOS to be the first company to be able to transmit data directly into the existing 911 system.

As cell phones made landlines obsolete, RapidSOS again looked to build a partnership with another specific at-risk community: gig workers. Gig workers like those at Grubhub and Uber were constantly on the move and often traveled to locations without taking the time to remember addresses, landmarks, and intersections. RapidSOS developed technology to connect Grubhub and Uber workers to 911 call centers through the Grubhub or Uber app better than through a cell phone. By calling 911 through the Grubhub or Uber drivers apps, RapidSOS provides the gig worker's precise location to the nearest emergency responders. The 911 operator also automatically receives the license plate, car make and model, and caller's name and phone number from RapidSOS.⁵¹

DISCUSSION QUESTIONS

- 9-16. How does RapidSOS exemplify the advantages and disadvantages of being a first mover?
- 9-17. What growth strategy did RapidSOS implement (concentration, vertical integration, horizontal integration, or diversification)? Justify your answer.
- 9-18. What new populations can RapidSOS help next?
- 9-19. How can RapidSOS decrease the threat of new entrants and the threat of substitutes?

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Entrepreneurial Ventures Module

At just 19 years old, Jessica Matthews invented SOCKETT, a soccer ball that converts kinetic energy from one hour of playing into three hours of power for lighting. Three years later, in 2011, she founded Uncharted Power, a tech company that works with cities to create smart, sustainable energy structures. Matthews based her company in her hometown of Poughkeepsie, New York, believing smaller communities can lead sustainable energy efforts. Her mission and success have attracted well-known investors including Basketball Hall of Famer Magic Johnson, who also joined the tech company's board of directors in 2020. Johnson is helping the company expand into new communities, stating, "Many of America's urban, multicultural communities are being left behind when it comes to basic human rights such as feeling safe in the community, providing for family, getting an education and, quite literally, keeping the lights on."¹

Matthews is one of a new generation of entrepreneurs that find success in both starting a business and addressing an important social interest such as sustainable power sources. In this module we will introduce you to entrepreneurship and how the practice of management is important in starting a new venture.

THE CONTEXT of Entrepreneurship

For those who want to become entrepreneurs, there is a lot to know. In this module, we provide an overview of that knowledge. Let's begin by defining *entrepreneurship*.

What Is Entrepreneurship?

Entrepreneurship is the process of starting new businesses, generally in response to opportunities.² Entrepreneurs are pursuing opportunities by changing, revolutionizing, transforming, or introducing new products or services.

Are entrepreneurs and small-business owners the same thing? No.³ There are some key differences. Entrepreneurs want to change the world. They think big and have innovative ideas. They typically have a passion that goes beyond profits. In contrast, small-business owners want to make a living. Their business is typically composed of doing something others are already doing. Where a small-business owner sees risk, an entrepreneur sees opportunity. A small-business owner, for instance, might open a bike rental shop. An entrepreneur might develop an app that would allow people to share a common set of bikes, invest in a fleet of bicycles, negotiate with communities for places to locate bike racks and bikes, and then promote the bike-sharing app and rental business.

There is a growing interest in entrepreneurship following the COVID-19 pandemic. Before the pandemic, in 2019, 3.5 million new businesses were formed; this was followed by a record high number of 5.4 million in 2021, and the trend continued with 5.1 million in 2022. Some of the growth may have been the result of pandemic-related job loss, but the flexibility of work during the pandemic likely influenced many to seek self-employment.⁴

entrepreneurship

The process of starting new businesses, generally in response to opportunities

Why Is Entrepreneurship Important?

Entrepreneurs have given us much of what defines our current lifestyle: the microchip (Jack Kilby and Robert Noyce), the personal computer (Steve Wozniak), 24-hour news (Ted Turner), ride-sharing (Travis Kalanick and Garrett Camp), home review and referral services (Angie Hicks and Bill Oesterle), online personal shopping services

(Katrina Lake), and ubiquitous social networking (Mark Zuckerberg), to name just a few. Clearly, entrepreneurship is important. You can see it in its impact on innovation, economic growth, and job creation.⁵

INNOVATION Innovating is a process of changing, experimenting, transforming, and revolutionizing, and is a key aspect of entrepreneurial activity. The “creative destruction” process that characterizes innovation leads to technological changes and employment growth. Entrepreneurial firms act as “agents of change” by providing an essential source of new and unique ideas that may otherwise go untapped.

ECONOMIC GROWTH A country’s ability to improve its standard of living over time depends largely on its ability to raise output per worker; that is, to increase efficiency. Entrepreneurship contributes to this goal of increased efficiency by keeping markets competitive. New businesses keep established businesses “on their toes” and push out the inefficient. New and improved products, processes, and methods of production stimulate economic growth.

JOB CREATION We know that job creation is important to the overall long-term economic health of communities, regions, and nations. And the largest source of new jobs isn’t big corporations. Small businesses have created 63 percent of new jobs since 1995, and they employ almost half (46 percent) of the private sector workforce.⁶ Most revealing is that it’s the new and young businesses that are the job creators, not small business per se.

The Entrepreneurial Process

Entrepreneurs must address four key steps as they start and manage their entrepreneurial ventures.

The first is *exploring the entrepreneurial context*. The context includes the realities of the current economic, political/legal, social, and work environments. It’s important to look at each of these aspects of the entrepreneurial context because they determine the “rules” of the game and which decisions and actions are likely to meet with success. Also, it’s through exploring the context that entrepreneurs confront the next critically important step in the entrepreneurial process—*identifying opportunities and possible competitive advantages*. We know from our definition of entrepreneurship that the pursuit of opportunities is a key to the process.

Once entrepreneurs have explored the entrepreneurial context and identified opportunities and possible competitive advantages, they need to look at the issues involved with bringing their entrepreneurial venture to life; that is, *starting the venture*. Included in this phase are researching the feasibility of the venture, planning the venture, organizing the venture, and launching the venture.

Finally, once the entrepreneurial venture is up and running, the last step is *managing the venture*, which an entrepreneur does by managing processes, managing people, and managing growth. We can elaborate on this process by looking at what entrepreneurs do.

What Do Entrepreneurs Do?

Describing what entrepreneurs do isn’t easy, because no two entrepreneurs’ work activities are exactly alike. In a general sense, entrepreneurs create something new, something different. They search for change, respond to it, and exploit it.

Initially, an entrepreneur is engaged in assessing the potential for the entrepreneurial venture and then dealing with start-up issues. In exploring the entrepreneurial context, the entrepreneur gathers information, identifies potential opportunities, and pinpoints possible competitive advantage(s). Then, armed with this information, the entrepreneur researches the venture’s feasibility—uncovering business ideas, looking at competitors, and exploring financing options.

After looking at the potential of the proposed venture and assessing the likelihood of pursuing it successfully, the entrepreneur proceeds to plan the venture. Planning includes developing a viable organizational mission and creating a well-thought-out business plan. Once these planning issues have been resolved, the entrepreneur must look at organizing the venture, which involves choosing a legal form of business organization, addressing other legal issues such as patent or copyright searches, and coming up with an appropriate organizational design for structuring how work is going to be done.

Only after these start-up activities have been completed is the entrepreneur ready to actually launch the venture. Such a launch involves setting goals and strategies and establishing the technology-operations methods, marketing plans, information systems, financial-accounting systems, and cash flow management systems.

Once the entrepreneurial venture is up and running, the entrepreneur's attention switches to managing it. What's involved with managing the entrepreneurial venture? An important activity is managing the various processes that are part of every business: making decisions, reacting to changes in the environment, and measuring and evaluating performance. Also, the entrepreneur must perform activities associated with managing people, including selecting and hiring, appraising and training, motivating, delegating tasks, and displaying effective leadership. Finally, the entrepreneur must manage the venture's growth, including such activities as developing and designing growth strategies, exploring various avenues for additional financing, placing a value on the venture, and perhaps even eventually exiting the venture.

Social Entrepreneurship

The world's social problems are many, and viable solutions are few; however, as noted in the module opener, entrepreneurship offers the opportunity for those with a social interest to make a difference. The founders of Love Your Melon started their business making winter hats and beanies as part of a class project. After learning of the need for hats for kids battling cancer, they decided to donate a hat to a local hospital for every one purchased. To make a bigger impact, they eventually shifted to donating half of their profits to causes that fight pediatric cancer.⁷ Love Your Melon is an example of **social entrepreneurship**, an entrepreneurial activity with an embedded social purpose.⁸

Social entrepreneurship has the potential to impact economic systems as it creates solutions to social problems and leads the beneficiaries to a better standard of living. Some of the most striking examples have originated in developing countries. For instance, microfinance in Bangladesh has provided tiny loans to women so they could start small businesses. These loans have reportedly been a big factor in reducing rural poverty.⁹

social entrepreneurship
An entrepreneurial activity with an embedded social purpose

Side Hustles: A Hybrid Path to Entrepreneurship

There is no ignoring the statistics on entrepreneurial failures. They can be disheartening. Around 20 percent of start-ups fail their first year, many because they run out of money.¹⁰ To improve those odds, many entrepreneurs consider a hybrid approach. A recent survey found that nearly 40 percent of US adults have some kind of side hustle.¹¹ We discussed the gig economy in **Chapter 1**, and although many pursue a side gig or side hustle to earn extra money, some side hustles are a path to entrepreneurship.

Entrepreneurship needn't be an "all in" proposition. A *hybrid path to entrepreneurship* can allow you to pursue the opportunities of a new venture without the full risk and uncertainty associated with the activity. A hybrid path to entrepreneurship means starting a business while retaining your "day job" in an existing organization. By combining paid employment and a side hustle, entrepreneurs gain several advantages over jumping into full-time entrepreneurship.¹² First, because it reduces risk, it clearly has appeal to individuals who are risk averse. This opens up the entrepreneurship "door" to many people who might otherwise forgo it. Second, the hybrid path allows entrepreneurs to test their ideas and grow in a less-pressured environment.

The full-time job continues to provide a secure and ongoing income. Third, obtaining the financial assets to create a new venture is often a major barrier to starting a business. The hybrid approach can allow individuals to use income generated from their full-time job as start-up and continuing funding for their new venture. Finally, when the hybrid path is used as an interim step to full-time self-employment, studies show survival rates are much higher than for those who enter full-time self-employment straight from a waged job.

START-UP and Planning Issues

The first thing that entrepreneurs must do is to identify opportunities and possible competitive advantages. Once they've identified the opportunities, they're ready to start the venture by researching its feasibility and then planning for its launch. These start-up and planning issues are what we're going to look at in this section.

Identifying Opportunities

Opportunities are positive trends in external environmental factors. These trends provide unique and distinct possibilities for innovating and creating value. Entrepreneurs need to be able to pinpoint these pockets of opportunities that a changing context provides.¹³ After all, organizations do not see opportunities; individuals do. And they need to do so quickly, especially in dynamic environments, before those opportunities disappear or are exploited by others.

Entrepreneurs pay attention to the world around them and often see opportunities before others. When searching for an opportunity, an entrepreneur can look for pain points; that is, notice things that are problems for others or themselves. Another approach is to ask questions about processes or products. For example, asking “Could this process be faster?” or “Is there a more sustainable way to do this?” can help uncover opportunities.¹⁴

Researching the Venture's Feasibility: Ideas

It's important for entrepreneurs to research the venture's feasibility by generating and evaluating business ideas. Entrepreneurial ventures thrive on ideas. Generating ideas is an innovative, creative process. It's also one that will take time, not only in the beginning stages of the entrepreneurial venture, but also throughout the life of the business. Where do ideas come from?

GENERATING IDEAS Entrepreneurs cite unique and varied sources for their ideas. One survey, for instance, found the most common sources were “sudden insight or chance” and “following a passion.”¹⁵

What should entrepreneurs look for as they explore these idea sources? They should look for limitations of what's currently available, new and different approaches, advances and breakthroughs, unfilled niches, or trends and changes. A strong case can be made for using *design thinking* to generate ideas.¹⁶ This could include cognitive exercises like drawing associations between situations, transferring something that works in one situation to a totally different situation, and rethinking the use for a product or service. This was essentially the approach that the founders of Zipcar, the ride-sharing company, used as they reconceived the car as a means of transportation, not a possession. Similarly, video games didn't take off until upstart producers saw that they were in the entertainment industry and not the toy business.

EVALUATING IDEAS Evaluating entrepreneurial ideas revolves around personal and marketplace considerations. Each of these assessments will provide an entrepreneur with key information about the idea's potential. **Exhibit EV-1** describes some questions that entrepreneurs might ask as they evaluate potential ideas.

Personal Considerations	Marketplace Considerations
<ul style="list-style-type: none"> • Do you have the capabilities to do what you've selected? • Are you ready to be an entrepreneur? • Are you prepared emotionally to deal with the stresses and challenges of being an entrepreneur? • Are you prepared to deal with rejection and failure? • Are you ready to work hard? • Do you have a realistic picture of the venture's potential? • Have you educated yourself about financing issues? • Are you willing and prepared to do continual financial and other types of analyses? 	<ul style="list-style-type: none"> • Who are the potential customers for your idea: who, where, how many? • What similar or unique product features does your proposed idea have compared to what's currently on the market? • How and where will potential customers purchase your product? • Have you considered pricing issues and whether the price you'll be able to charge will allow your venture to survive and prosper? • Have you considered how you will need to promote and advertise your proposed entrepreneurial venture?

Exhibit EV-1
Evaluating Potential Ideas

A more structured evaluation approach that an entrepreneur should consider is a **feasibility study**—an analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility. Not only is a well-prepared feasibility study an effective evaluation tool to determine whether an entrepreneurial idea is a potentially successful one, it also can serve as a basis for the all-important business plan.

feasibility study
An analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility

A feasibility study should give descriptions of the most important elements of the proposed venture and the entrepreneur's analysis of the viability of these elements. It should cover an analysis of the environment and competition as well as accounting projections, sources of funds, personnel requirements, equipment needs, the target market, and legal considerations.

Researching the Venture's Feasibility: Competitors

Part of researching the venture's feasibility is looking at the competitors. What would entrepreneurs like to know about their potential competitors? Here are some possible questions:

- What types of products or services are competitors offering?
- What are the major characteristics of these products or services?
- What are their products' strengths and weaknesses?
- How do they handle marketing, pricing, and distribution?
- What do they attempt to do differently from other competitors?
- Do they appear to be successful at it? Why or why not?
- What are they good at?
- What competitive advantage(s) do they appear to have?
- What are they not so good at?
- What competitive disadvantage(s) do they appear to have?
- How large and profitable are these competitors?

Researching the Venture's Feasibility: Financing

Many entrepreneurs finance a new venture through bootstrapping, which means they use their own resources such as personal savings or credit cards. If more start-up funds are needed, the entrepreneur can get outside funds by seeking debt or equity financing. **Debt financing** means the entrepreneur borrows money with a promise to pay it back, often with interest. The entrepreneur may borrow from friends and family, or more formally through a bank. Another option is **equity financing**, which means the entrepreneur sells a percentage of ownership in the company. An entrepreneur may offer equity to friends and family or take on an investor such as a venture capitalist.¹⁷

debt financing
Borrowing money with a promise to pay it back with interest

equity financing
Selling a percentage of ownership in the company

Planning: Developing a Business Model

The most important step in getting a new venture off the ground is to just get started! Although it is important to do some planning, some entrepreneurs get stuck working on writing a formal business plan and miss out on the opportunity they identified. The Business Model Canvas (BMC), introduced in **Chapter 12** as a useful tool to work through an innovative idea, can also be used to start planning an entrepreneurial venture. The BMC is a quick-start chart to help the entrepreneur think through important aspects of the start-up such as the product or service, the target market, and the resources needed to launch.¹⁸

But to grow a business, at some point a formal business plan may be needed. A **business plan** is a written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited.¹⁹

A good business plan is valuable. It pulls together all of the elements of the entrepreneur's vision into a single coherent document. It serves as a blueprint and road map for operating the business. And the business plan should be a "living" document, guiding organizational decisions and actions throughout the life of the business, not just in the start-up stage, and also changing as the venture is shaped.

If an entrepreneur has completed a feasibility study, much of the information included in it becomes the basis for the business plan. A good business plan covers six major areas: executive summary, analysis of opportunity, analysis of the context, description of the business, financial data and projections, and supporting documentation.

EXECUTIVE SUMMARY The executive summary distills the key points that the entrepreneur wants to make about the proposed entrepreneurial venture. These points might include a brief mission statement; primary goals; a brief history of the entrepreneurial venture, maybe in the form of a timeline; key people involved in the venture; the nature of the business; concise product or service descriptions; brief explanations of market niche, competitors, and competitive advantage; proposed strategies; and key financial information.

ANALYSIS OF OPPORTUNITY In this section of the business plan, an entrepreneur presents the details of the perceived opportunity. Essentially, details include (1) sizing up the market by describing the demographics of the target market, (2) describing and evaluating industry trends, and (3) identifying and evaluating competitors.

ANALYSIS OF THE CONTEXT Whereas the opportunity analysis focuses on the opportunity in a specific industry and market, the context analysis takes a much broader perspective. Here, the entrepreneur describes the broad external changes and trends taking place in the economic, political-legal, technological, and global environments.

DESCRIPTION OF THE BUSINESS In this section, an entrepreneur describes how the entrepreneurial venture is going to be organized, launched, and managed. It includes a thorough description of the mission statement; a description of the desired organizational culture; marketing plans, including overall marketing strategy, pricing, sales tactics, and advertising and promotion tactics; product development plans with risks and costs; operational plans, including a description of proposed geographic location, facilities and needed improvements, equipment, and work flow; human resource plans including staffing, compensation, and training; and an overall schedule and timetable of events.

FINANCIAL DATA AND PROJECTIONS No business plan is complete without financial data and projections. Financial plans should cover at least three years and contain projected income statements, cash flow analysis, balance sheets, breakeven analysis, and cost controls. If major equipment or other capital purchases are expected, the items, costs, and available collateral should be listed.

business plan

A written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited

SUPPORTING DOCUMENTATION For this important component of an effective business plan, the entrepreneur should back up their descriptions with charts, graphs, tables, photographs, or other visual tools. In addition, it might be important to include information (personal and work-related) about the key participants in the entrepreneurial venture.

ORGANIZING **Issues**

Once the start-up and planning issues are complete, the entrepreneur is ready to begin the organizing stage. Three organizing issues should be addressed: the legal form of the organization, organizational design and structure, and human resource management.

Legal Forms of Organization

The first organizing decision that an entrepreneur must make is the form of legal ownership for the venture. The two primary factors affecting this decision are taxes and legal liability. An entrepreneur wants to minimize the impact of both of these factors. The right choice can protect the entrepreneur from legal liability as well as save tax dollars.

What alternatives are available? The three basic ways to organize an entrepreneurial venture are sole proprietorship, partnership, and corporation. However, when you include the variations of these basic organizational alternatives, you end up with six possible choices, each with its own tax consequences, liability issues, and pros and cons. These six choices are sole proprietorship, general partnership, limited liability partnership (LLP), C corporation, S corporation, and limited liability company (LLC). Let's briefly look at each one with their advantages and drawbacks. (**Exhibit EV-2** summarizes the basic information about each organizational alternative.)

Exhibit EV-2

Legal Forms of Business Organization

Structure	Ownership Requirements	Tax Treatment	Liability	Advantages	Drawbacks
Sole proprietorship	One owner	Income and losses "pass through" to owner and are taxed at personal rate	Unlimited personal liability	<i>Low start-up costs</i> <i>Freedom from most regulations</i> <i>Owner has direct control</i> <i>All profits go to owner</i> <i>Easy to exit business</i>	Unlimited personal liability <i>Personal finances at risk</i> Miss out on many business tax deductions <i>Total responsibility</i> May be more difficult to raise financing
General partnership	Two or more owners	Income and losses "pass through" to partners and are taxed at personal rate; <i>flexibility in profit-loss allocations to partners</i>	Unlimited personal liability	<i>Ease of formation</i> <i>Pooled talent</i> <i>Pooled resources</i> <i>Somewhat easier access to financing</i> <i>Some tax benefits</i>	<i>Unlimited personal liability</i> Divided authority and decisions <i>Potential for conflict</i> Continuity of transfer of ownership
Limited liability partnership (LLP)	Two or more owners	Income and losses "pass through" to partner and are taxed at personal rate; <i>flexibility in profit-loss allocations to partners</i>	Limited, although one partner must retain unlimited liability	Good way to acquire capital from limited partners	<i>Cost and complexity of forming can be high</i> Limited partners cannot participate in management of business without losing liability protection

(continued)

Exhibit EV-2 (Continued)

Structure	Ownership Requirements	Tax Treatment	Liability	Advantages	Drawbacks
C corporation	Unlimited number of shareholders; <i>no limits on types of stock or voting arrangements</i>	Dividend income is taxed at corporate and personal shareholder levels; <i>losses and deductions are corporate</i>	Limited	<i>Limited liability</i> Transferable ownership <i>Continuous existence</i> Easier access to resources	<i>Expensive to set up</i> Closely regulated <i>Double taxation</i> Extensive record keeping <i>Charter restrictions</i>
S corporation	Up to 75 shareholders; <i>no limits on types of stock or voting arrangements</i>	Income and losses “pass through” to partners and are taxed at personal rate; <i>flexibility in profit–loss allocation to partners</i>	Limited	<i>Easy to set up</i> Enjoys limited liability protection and tax benefits of partnership <i>Can have a tax-exempt entity as a shareholder</i>	Must meet certain requirements <i>May limit future financing options</i>
Limited liability company (LLC)	Unlimited number of “members”; <i>flexible membership arrangements for voting rights and income</i>	Income and losses “pass through” to partners and are taxed at personal rate; <i>flexibility in profit–loss allocations to partners</i>	Limited	Greater flexibility Not constrained by regulations on C and S corporations <i>Taxed as partnership, not as corporation</i>	Cost of switching from one form to this can be high <i>Need legal and financial advice in forming operating agreement</i>

sole proprietorship

A form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts

SOLE PROPRIETORSHIP A **sole proprietorship** is a form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts. The legal requirements for establishing a sole proprietorship consist of obtaining the necessary local business licenses and permits. In a sole proprietorship, income and losses “pass through” to the owner and are taxed at the owner’s personal income tax rate. The biggest drawback, however, is the unlimited personal liability for any and all debts of the business.

general partnership

A form of legal organization in which two or more business owners share the management and risk of the business

GENERAL PARTNERSHIP A **general partnership** is a form of legal organization in which two or more business owners share the management and risk of the business. Even though a partnership is possible without a written agreement, the potential and inevitable problems that arise in any partnership make a written partnership agreement drafted by legal counsel highly recommended.

limited liability partnership (LLP)

A form of legal organization consisting of general partner(s) and limited liability partner(s)

LIMITED LIABILITY PARTNERSHIP (LLP) The **limited liability partnership (LLP)** is a legal organization composed of general partner(s) and limited partner(s). The general partners actually operate and manage the business. They are the ones who have unlimited liability. At least one general partner is necessary in an LLP, but any number of limited partners are allowed. Limited partners are usually passive investors, although they can make management suggestions to the general partners. They also have the right to inspect the business and make copies of business records. The limited partners are entitled to a share of the business’s profits as agreed to in the partnership agreement and, very importantly, their risk is limited to the amount of their investment in the LLP.

corporation

A legal business entity that is separate from its owners and managers

C CORPORATION Of the three basic types of ownership, the corporation (also known as a C corporation) is the most complex to form and operate. A **corporation** is a legal business entity that is separate from its owners and managers. Many entrepreneurial ventures are organized as a **closely held corporation**, which, very simply, is a

closely held corporation

A corporation owned by a limited number of people who do not trade the stock publicly

corporation owned by a limited number of people who do not trade the stock publicly. Whereas the sole proprietorship and partnership forms of organization don't exist separately from the entrepreneur, the corporation does. The corporation functions as a distinct legal entity and, as such, can make contracts, engage in business activities, own property, sue and be sued, and of course, pay taxes. A corporation must operate in accordance with its charter and the laws of the state in which it operates.

S CORPORATION The **S corporation** (also called a subchapter S corporation) is a specialized type of corporation that has the regular characteristics of a corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met. The S corporation has been the classic organizing approach for having the limited liability of a corporate structure without incurring corporate tax. However, this form of legal organization must meet strict criteria. If any of these criteria are violated, a venture's S status is automatically terminated.

S corporation

A specialized type of corporation that has the regular characteristics of a corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met

LIMITED LIABILITY COMPANY (LLC) The **limited liability company (LLC)** is a hybrid between a partnership and a corporation. The LLC offers the liability protection of a corporation, the tax benefits of a partnership, and fewer restrictions than an S corporation. However, the main drawback of this approach is that it's quite complex and expensive to set up. Legal and financial advice is an absolute necessity in forming the LLC's **operating agreement**, the document that outlines the provisions governing the way the LLC will conduct business.

limited liability company (LLC)

A form of legal organization that's a hybrid between a partnership and a corporation

operating agreement

The document that outlines the provisions governing the way an LLC will conduct business

SUMMARY OF LEGAL FORMS OF ORGANIZATION The organizing decision regarding the legal form of organization is important because it can have significant control, tax, and liability consequences. An entrepreneur needs to think carefully about what's important, especially in the areas of flexibility, taxes, and amount of personal liability in choosing the best form of organization.

Organizational Design and Structure

At some point, successful entrepreneurs find that they can't do everything themselves. More people are needed. The entrepreneur must then decide on the most appropriate structural arrangement for effectively and efficiently carrying out the organization's activities. Without some suitable type of organizational structure, the entrepreneurial venture may soon find itself in a chaotic situation.

In many small firms, the organizational structure tends to evolve with little intentional or deliberate planning by the entrepreneur. For the most part, the structure may be simple—one person does whatever is needed. As the entrepreneurial venture grows and the entrepreneur finds it increasingly difficult to go it alone, employees are brought on board to perform certain functions or duties that the entrepreneur can't handle. These individuals tend to perform those same functions as the company grows. Then, as the entrepreneurial venture continues to grow, each of these functional areas may require managers and employees.

With the evolution to a more deliberate structure, the entrepreneur faces a new set of challenges: sharing decision-making and operating responsibilities. This transition is typically one of the most difficult things for an entrepreneur to do—letting go and allowing someone else to make decisions. *After all*, the entrepreneur reasons, *how can anyone know this business as well as I do?* Also, what might have been a fairly informal, loose, and flexible atmosphere that worked well when the organization was small may no longer be effective. Many entrepreneurs are greatly concerned about keeping that “small company” atmosphere alive even as the venture grows and evolves, requiring a more structured arrangement. But having a structured organization doesn't necessarily mean giving up flexibility, adaptability, and freedom. In fact, the structural design may be as fluid as the entrepreneur feels comfortable with and yet still have the rigidity it needs to operate efficiently. In **Chapter 10**, we review various forms of organization structure and consider each one's strengths and weaknesses. Many are well designed for use by entrepreneurs.

Human Resource Management

As an entrepreneurial venture grows, additional employees will need to be hired to handle the increased workload. As the need for more personnel increases, the entrepreneur faces numerous human resource management (HRM) issues. Two HRM issues of particular importance are employee recruitment and employee retention.

EMPLOYEE RECRUITMENT The ability of small firms to successfully recruit appropriate employees is consistently rated as one of the most important factors influencing organizational success.²⁰

In the early stages, entrepreneurs typically look for individuals who “buy into” the venture’s culture—individuals who have a passion for the business and fit with the personality of the founder. Unlike their corporate counterparts, who usually focus on filling a job by matching a person to the job requirements, entrepreneurs look to fill in critical skill gaps. They’re looking for people who are exceptionally capable and self-motivated, flexible, and multiskilled, and who can help grow the entrepreneurial venture.²¹ Entrepreneurs emphasize matching characteristics of applicants to the values and culture of the upstart organization.

EMPLOYEE RETENTION Once hired, the challenge is to keep new employees. Employee turnover is often higher in start-up ventures than other companies and can have more of an impact when staffing is already lean. Entrepreneurs need to focus on creating a motivating workplace culture and practice good management skills in order to ensure that employees’ talents are being used.²²

A major component of whether employees stay is compensation. Whereas traditional organizations are more likely to view compensation from the perspective of monetary rewards (base pay, benefits, and incentives), smaller entrepreneurial firms tend to take a wider view. For these firms, compensation encompasses psychological rewards, learning opportunities, and recognition in addition to monetary rewards.²³ However, as we see in many new high-tech start-ups, the potential to receive and eventually cash in stock options can be a powerful force in retaining employees.

LEADING Issues

As an entrepreneurial venture grows and people are brought on board, an entrepreneur takes on a new role—that of a leader. In this section, we want to look at what’s involved with the leading function. First, we’re going to look at the entrepreneurial mindset and then some of the unique personality characteristics of entrepreneurs. Then we’re going to discuss the important role entrepreneurs play in motivating employees through empowerment and leading the venture and employee teams.

Entrepreneurial Mindset

According to Reid Hoffman, co-founder of LinkedIn, the key to starting a business is to have an **entrepreneurial mindset**.²⁴ An entrepreneurial mindset can be defined as an inclination to discover, evaluate, and take advantage of opportunities. Having this mindset means a person has the curiosity to explore, the ability to make connections and find resources to take action, and an interest in creating value for others.²⁵ Having an entrepreneurial mindset is important because it impacts the thinking, actions, and feelings of an individual, leading them to better understand opportunities, take action when they see opportunities, and gain personal fulfillment from the work.²⁶

entrepreneurial mindset
Having an inclination to discover, evaluate, and take advantage of opportunities

Personality Characteristics of Entrepreneurs

Think of someone you know who is an entrepreneur. Maybe it’s someone you personally know, or someone you’ve read about like Mark Zuckerberg at Meta. How would you describe this person’s personality? One of the most researched areas of entrepreneurship has been the search to determine what—if any—psychological characteristics entrepreneurs have in common, what types of personality traits entrepreneurs

have that might distinguish them from nonentrepreneurs, and what traits entrepreneurs have that might predict who will be a successful entrepreneur.²⁷

Is there a general “entrepreneurial type”? No. However, this hasn’t stopped entrepreneurship researchers from listing common traits. For instance, one list of personality characteristics included the following: high level of motivation, abundance of self-confidence, ability to be involved for the long term, high energy level, persistent problem solver, high degree of initiative, ability to set goals, and moderate risk-taker. Another list of characteristics of “successful” entrepreneurs included high energy level, great persistence, resourcefulness, the desire and ability to be self-directed, and a relatively high need for autonomy. A Gallup survey of nearly 200 highly successful entrepreneurs found 10 strengths that all of them had in some quantity.²⁸ They’re listed in **Exhibit EV-3**.

Although there is no general entrepreneurial type, one of the more powerful predictors of entrepreneurial intent is the possession of a **proactive personality**—these are people who have a disposition toward taking intentional action to influence their situation or environment.²⁹ From an entrepreneurial perspective, they firmly believe that they control the fate of their business. In terms of specific characteristics, proactive types (1) don’t just see an opportunity, they take the initiative to act on it; (2) see obstacles as personal challenges to overcome; (3) strongly believe that they are masters of their own fate; (4) demonstrate persistence until they reach their goals; and (5) embrace and drive change.³⁰

proactive personality

A personality trait that describes individuals who have a disposition toward taking intentional action to influence their situation or environment

The Entrepreneur as Leader

Leadership is discussed at length in **Chapter 16**, but there are some unique challenges that are specific to the entrepreneur, especially in the early stages of a venture.³¹ Let’s begin with the recognition that the motivation to create a business and the possession of a good idea do not automatically translate into effective leadership. One of the most common causes for a new business’s failure is the inability for the entrepreneur to provide the required leadership. Regardless of how great the idea is, the financial backing, or the demand for the product or service, if the entrepreneur can’t exhibit the relevant leadership skills, the business is likely to fail. Unfortunately, the personality characteristics, skills, and motivation that it takes to lead a start-up business are rarely the same ones required to run a large, established organization.

It can help if you think of a new venture as proceeding through three stages: start-up, transition, and scaling. Each stage comes with specific challenges and leadership requirements.

At the *start-up stage*, the entrepreneur is defining the business: a general business plan is created, and the first hires are made. But the entrepreneur is the heart and soul of the business. There are no policies or procedures for new hires to follow. The entrepreneur/leader’s vision is in their head. And the leadership style is hands-on.

-
- Risk:** Can manage high-risk situations; mitigates risk rather than seeks it
 - Knowledge:** Strives to acquire in-depth information about the industry
 - Independence:** Can manage every aspect of their organization
 - Confidence:** Believes in themselves and their ability to succeed
 - Delegation:** Unafraid to assign tasks to others
 - Determination:** Strong work ethic; undeterred by failure
 - Relationships:** Able to build mutually beneficial relationships
 - Selling:** Speaks boldly on behalf of the organization; can influence others
 - Profitability:** Sets clear goals; measures progress; good judge of opportunities
 - Disruption:** Constantly has new ideas for products and services
-

Exhibit EV-3 Strengths of Entrepreneurs

Employees will look to the entrepreneur for guidance, and this will place increased demands on the entrepreneur's time. Meanwhile, the entrepreneur is nearly always in close proximity to "the action." They know everything that is going on and expect to make most of the decisions. And because there is no history or precedents, employees are apt to expect the founder to make most of the decisions. The organization can best be described as informal, flexible, and ambiguous.

The *transition stage* is when the venture moves from an informal and loosely structured start-up into a disciplined business that can adapt to rapid expansion. Jobs become specialized, and standardized policies are introduced. And this is when the entrepreneur must learn to delegate authority. Many entrepreneurs have difficulty making this transition from a "one person does it all" style to being part of a functionally organized, professional management team. This is because it requires the entrepreneur to give up some control, and this can be very hard—sometimes impossible—for the proactive personality.

Once a venture has progressed to the *scaling stage*, much of the "uniqueness" of entrepreneurship has disappeared. At this point, the concepts of management become fairly generalizable.

CONTROL Issues

Although all businesses need effective controls, a case can be made that this is more critical for new start-ups and small businesses. Why? Because they're more vulnerable to shocks or setbacks. They don't have the resources—financial, personnel, customer base—to withstand problems that large, established businesses can absorb. One slow-paying customer, a loss of a key employee, or a breakdown in the supply chain can literally put a young business on life support or even close down the venture.

Potential Control Problems and Actions

Common causes of small-business failures suggest areas that need close monitoring: inadequate cash reserves, new competitors, loss of a major customer, expanding too rapidly, poor hiring, and unwillingness to delegate. These should lead entrepreneurs to develop controls that address these potential problems. Here are some actions an entrepreneur can take to reduce risk of failure:

- **Keep a close eye on the numbers.** Entrepreneurs who lack expertise in accounting and finance need to make sure that someone—working internally or hired from the outside—is watching expenses, cash flow, inventory costs, sales orders, receivables, payables, and the like.
- **Monitor the competition and potential competition.** Competitive intelligence is as important to small businesses as it is to large corporations. The ability to respond quickly to the actions of the competition is critical to maintaining the new venture's viability.
- **Maintain regular contact with customers.** Are customers satisfied with your products or service? What are their complaints or concerns? Is your marketing attracting new customers?
- **Monitor employee performance.** Are employees performing as expected? What skills might they be lacking? What additional training do they need?
- **Monitor employee workloads.** Are important tasks being ignored or poorly performed? Is the founder or other key people trying to do too much?

Exiting the Venture

Getting out of an entrepreneurial venture may seem to be a strange thing for entrepreneurs to do. At some point, however, the entrepreneur is likely to decide that it's time to move on.

What are the exit options?³² There are essentially five:

1. **Merger or acquisition:** The entrepreneur sells their controlling interest in the business to the buying company.
2. **Sell to a friendly buyer:** This might be to a family member, a friend, or an acquaintance.
3. **Initiate an initial public offering (IPO):** If the business has grown and proven successful, an IPO allows the entrepreneur to sell shares of the business to the general public.
4. **Treat it as a cash cow:** Use profits to take a large salary and bonus. “Milk” the business for as long as possible.
5. **Liquidation:** Sell off assets and close down the business.

If the entrepreneur decides to sell, what should they use to establish a fair price? Valuation techniques generally fall into three categories: (1) asset valuations (assets less liabilities), (2) earnings valuations, and (3) cash flow valuations. For the latter two, the price is typically calculated at some multiple of earnings or cash flow. In many cases, the entrepreneur has sacrificed much for the business and sees it as their “baby.” Calculating the value of the business based on objective standards such as cash flow or some multiple of net profits can often feel to the founder like the business is undervalued. To obtain a fair-market price, it’s best to have a comprehensive business valuation prepared by professionals.

REVIEW AND DISCUSSION QUESTIONS

- | | |
|---|---|
| <p>EV-1. What do you think would be the hardest thing about being an entrepreneur? What do you think would be the most fun?</p> <p>EV-2. Why are entrepreneurs important to society?</p> <p>EV-3. Why should you consider social entrepreneurship?</p> <p>EV-4. Would a good manager be a good entrepreneur? Discuss.</p> | <p>EV-5. Why do you think many entrepreneurs find it hard to step aside and let others manage their business?</p> <p>EV-6. Do you think a person can be taught to be an entrepreneur? Why or why not?</p> <p>EV-7. Could developing an entrepreneurial mindset benefit you, even if you do not start a business?</p> <p>EV-8. What are some steps you can take to ensure a new business succeeds?</p> |
|---|---|

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PART 3 Management Practice

Continuing Case: Starbucks—Planning

Based on Starbucks's numerous achievements, there is no doubt that managers have done their planning. Let's take a look.

Company Plans

In 2023, Starbucks had over 36,000 stores worldwide. The combined stores in the United States and China represented 61 percent of the company's global footprint. In the second quarter, 464 new stores opened in North America. Starbucks globally increased sales and made improvements on nearly every measure of its operations; in the second quarter of 2023, North American Starbucks stores' sales increased by 12 percent, and international store sales increased by 7 percent. Starbucks Rewards loyalty program's active members in the United States increased to 30.8 million, up 15 percent year-over-year in 2023. Additionally, Starbucks's CEO, Laxman Narasimhan, reported these results as positive progress toward the Starbucks Reinvention Plan, which is targeting overall company growth of 7–9 percent annually from 2023 to 2025.¹

Leading a growth-focused company like Starbucks means seeking opportunities to add stores while modernizing the way business is done, adapting partner experiences to changes in customer behavior, and maintaining the core culture of Starbucks. For Starbucks, this means closing underperforming stores or locations where crime rates, remote work, or the closure of other retail centers have reduced foot traffic and customers.²

Although sales in North America increased, store sales in China increased by only 3 percent. Given the substantial size of the Chinese market, sales there are essential to Starbucks's long-term plan to grow the Chinese market to one day overtake the United States as the company's largest market. On September 26, 2022, Starbucks celebrated opening its 6,000th store in China and its 1,000th store in Shanghai. It expects to open 3,000 more stores across 300 cities in China by 2025, which equates to opening one new store every nine hours over the next three years. Expansion plans in China include operating 2,500 Greener Stores by 2025.³ A store is certified as a Greener Store when an auditor verifies 25 standards across eight environmental impact areas such as energy efficiency, water stewardship, and waste diversion are met. Globally, Starbucks plans to have 10,000 Greener Stores by 2025. Standard features like energy-efficient dishwashers and water-saving faucets are part of the Greener Store standards created in partnership with the World Wildlife Fund and SCS Global Services.⁴ Additionally, Starbucks's plans continue to address its ambition to rank among the world's most admired brands and maintain Starbucks's standing as one of the most recognized brands in the world.

Company Strategies

Starbucks has been considered a leading dynamic retail brand for several decades. It has risen above the commodity nature of its product and has become a global brand leader by reinventing the coffee experience. Tens of millions of times each week, a customer receives a product (hot drink, chilled drink, food, etc.) from a Starbucks partner somewhere in the world. This transaction reflects the success of Howard Schultz's vision to create something that never really existed in the United States—café life. And in so doing, he created a cultural phenomenon by changing what we eat and drink. It has shaped how we spend our time and money.

Starbucks has found a way to appeal to practically every customer demographic, as its customers cover a broad base. It is not just the affluent or the urban professionals, and it's not just the intellectuals or the creative types who frequent Starbucks. At Starbucks, you will find construction workers, Uber and Lyft drivers, bank tellers, and office assistants. And despite the high price of its products, customers pay it because they think paying a premium price is worth it. What they get for that price is some of the finest coffee available commercially, custom preparation, and, of course, that Starbucks ambiance—the comfy chairs, the music, the aromas, the hissing steam from the espresso machine—all evoking that warm feeling of community and connection that Schultz experienced on his first business trip to Italy and felt instinctively could work elsewhere.

Starbucks's loyalty program, Starbucks Rewards, is an integral part of its growth strategy. In 2023, Starbucks continued to see an increase (14 percent) in its Rewards program enrollment. That membership bump resulted in over 30 million Rewards members. On top of this impressive feat, the increased number of Rewards members was one way that Starbucks boosted same-store sales—an analytic Starbucks uses to gauge performance.

Besides its Rewards program, Starbucks focuses on technology as a key strategic emphasis. Starbucks, a mobile app pioneer, continually refines its mobile app, making it easier for customers to use and get their orders. It is available to anyone—even those who are not members of its Rewards program. Starbucks can boast that it has one of the most popular digital payment apps in the United States, and only recently fell behind other point-of-sale mobile apps like Apple Pay, Venmo, Google Pay, and Samsung Pay.⁵ In fact, for most retailers, Starbucks is the universal example to follow because the Starbucks app lets customers order ahead, pay contactless, and skip the line.⁶

Starbucks works with partners to retain talent and offer them training opportunities. In the 2022 fiscal year, the total partner turnover in North America (United States and

Canada) was approximately 65 percent, significantly lower than the accommodation and food services industry's average turnover rate of 85 percent.⁷ Even though Starbucks's annual staff turnover is lower than the industry's average, Starbucks plans to reduce turnover even more through big investments in its partners. Yet, regardless of what happens, technology will mean fewer employees per store.

Starbucks's growth strategy is linked with technology. Management tends to focus innovation on what is working, but process simplification is a priority when technology makes it possible. New machines for stores are often considered when they can cut the time it takes to make hot drinks and food items. As a result, the focus of technological improvements is to reduce the cost of operation, make the barista's job more manageable, and get drinks to customers faster. Automation may add an impersonal aesthetic to the store formats as the chain seeks to grow sales even quicker. Many experts believe a large portion of the new stores in coming years will be pure drive-throughs or delivery hubs rather than ones attached to walk-in cafés.⁸

Discussion Questions

- P3-1.** Describe whether Starbucks's plans are strategic or operational. Then, describe how these plans and environmental uncertainty might affect how the following employees do their job: (a) a store employee (a barista) in Seattle, London, or Shanghai; (b) a regional store manager; (c) the senior vice president of store development and design; (d) the senior vice president of talent and inclusion; and (e) the CEO.
- P3-2.** Discuss the types of competitive intelligence Starbucks should collect and how managers could collect the intelligence to improve the chances that its growth strategy will be successful. Be specific.
- P3-3.** Do stability or renewal strategies apply to Starbucks? Explain.
- P3-4.** Assess Starbucks using Porter's five forces model to understand the industry's competitive forces and determine the differentiation strategies best suited for Starbucks to maintain its competitive advantage. What kind of differentiation strategy should Starbucks use to continue to fend off competitors like Luckin Coffee (based in Beijing), Dunkin', and McDonald's?
- P3-5.** Complete a SWOT analysis for Starbucks. What strengths and opportunities are most distinctive? Which weaknesses and threats are most concerning?
- P3-6.** How should Starbucks's CEO, Laxman Narasimhan, ensure his objectives for Starbucks cascade down through the organization?
- P3-7.** Starbucks's plans for incorporating technology and automation into its process are entrepreneurial. How could its managers study the feasibility of their ideas before introducing them into the marketplace?

Practice Your Data Analysis Skills

A coffee business started by three friends caught on, and the business currently has 20 locations. At the business's Grand Rapids, Michigan, headquarters, they have set up a dashboard displaying three key performance indicators (KPIs) in real time from each location on a large, 70-inch LED TV mounted to the boardroom wall. These indicators are collected from the internet-enabled cash registers (i.e., the point-of-sale or point-of-purchase system used to complete a transaction). These include real-time numbers for each store since its opening on that day side by side with the numbers from the same store on the same day of the week of the previous year. These KPIs are 1) total sales, 2) total sales (coffee hot, coffee cold, other drinks, and bakery items), and 3) the number of orders received from the app. One of the founders monitors the KPIs daily based on an agreed-upon rotation. When one or more of the KPIs exceeds or falls below the historical number by a significant amount, the founder on duty contacts the regional manager for the store in question. The regional manager will then contact the store manager to resolve, monitor, or explain the operational issues at that store. At times, issues or better-than-expected results cannot be addressed or wholly understood in the moment. For those issues, the regional manager works with all five of the store managers to develop a way to prevent the issue from reoccurring, or they generate a plan for expanding new best practices to other stores.

P3-8. Are the founders using KPIs appropriately for operational planning purposes? Are they using the right KPIs?

P3-9. If it is appropriate to contact the regional manager when a store's numbers fall or rise by a significant amount above or below the historical number, what is the appropriate difference, as a percent (+ or -), a founder should use as a guide to determine when to call the store's regional manager? Explain your selection.

P3-10. Assume three stores' total sales as of 9 a.m. are:
Store A: \$2,375
Store B: \$750
Store C: \$500

For simplicity, also assume the total sales at each store on the same day and time of the previous year was \$1,250. Which of these numbers met your guideline for the founder to place a call to the regional manager? What plans should the founder discuss with the regional manager during the call(s), if a call or call(s) were made?

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Chapter 10

Designing Organizational Structure

Learning Objectives

- 10.1 Describe** six key elements in organizational design.
- 10.2 Contrast** mechanistic and organic structures.
- 10.3 Discuss** the contingency factors that favor either the mechanistic model or the organic model of organizational design.
- 10.4 Describe** traditional organizational design options.
- 10.5 Discuss** organizing for flexibility in the 21st century.
- 10.6 Explain** flexible work approaches for workers.

In 2020, Ford Motor Company announced a reorganization of the company structure to create a separate division for its electric vehicles (EVs). The company split off its internal combustion engine (ICE) business from the new EV business. The divisions, called Ford Blue and Ford Model e, operate independently but benefit from some shared resources such as distribution and manufacturing. This split allowed Ford Model e the needed focus and flexible approach to speed EV development. The profitable Ford Blue provides the financial resources and the assembly and sales support for Ford Model e, giving it an edge over other EV start-ups. The separation allows Ford Model e to move quickly as a smaller company, helping Ford work toward a goal of electric vehicles making up half of its total production of cars by 2030.¹

In this chapter, we present the basics of organizing. We define the key organizing concepts and their components and how managers use these to create a variety of structures. We'll also show what factors influenced Ford's restructuring decision.

Management Myth: As long as everyone knows who the boss is, companies don't need to worry about the company structure.

Management Reality: Organizational structure can impact not only the productivity and profitability of a company, but also employee engagement and retention.

SIX Elements of Organizational Design

LO10.1 Describe six key elements in organizational design.

Few topics in management have undergone as much change in recent years as that of organizing and organizational structure. Managers are reevaluating traditional approaches to find new structural designs that best support and facilitate employees doing the organization’s work—designs that can achieve efficiency but are also flexible.²

First, a few terms: In **Chapter 1**, we defined *organizing* as arranging and structuring work to accomplish organizational goals. **Organizational structure** is the formal arrangement of jobs within an organization. This structure, which can be shown visually in an **organizational chart**, serves many purposes. (See **Exhibit 10-1**.) When managers create or change the structure, they’re engaged in **organizational design**, a process that involves decisions about six key elements: work specialization, departmentalization, chain of command, span of control, centralization/decentralization, and formalization.

Work Specialization

Early in the 20th century, Henry Ford became rich by doing something unique: building automobiles using an assembly line. Every worker was assigned a specific, repetitive task, such as putting on the right front wheel or installing the left front door. By dividing jobs into small, standardized tasks that could be performed over and over, Ford was able to produce a car every 10 seconds, using employees with relatively limited skills.³

Work specialization, or *division of labor*, describes the degree to which activities in the organization are divided into separate jobs. The essence of work specialization is to divide a job into several steps, each completed by a separate individual. Specialization is a means of making the most efficient use of employees’ skills and even successfully improving them through repetition. Less time is spent changing tasks, putting away tools and equipment from a prior step, and getting ready for another.

Work specialization makes efficient use of the diversity of skills that workers have. In most organizations, some tasks require highly developed skills; others can be performed by employees with lower skill levels. If all workers were engaged in all the steps of, say, a manufacturing process, all would need the skills necessary to perform both the most demanding and the least demanding jobs. Thus, except when performing the most highly skilled or highly sophisticated tasks, employees would be working below their skill levels. Because skilled workers are paid more than unskilled workers and their wages tend to reflect their highest level of skill, it represents an inefficient usage of resources to pay highly skilled workers to do easy tasks.

organizational structure
The formal arrangement of jobs within an organization

organizational chart
The visual representation of an organization’s structure

organizational design
Creating or changing an organization’s structure

work specialization
Dividing work activities into separate job tasks



Lacing is one of 13 separate tasks involved in handcrafting a Wilson Sporting Goods football. The company uses work specialization in dividing job activities as an organizing mechanism that helps employees boost their productivity.

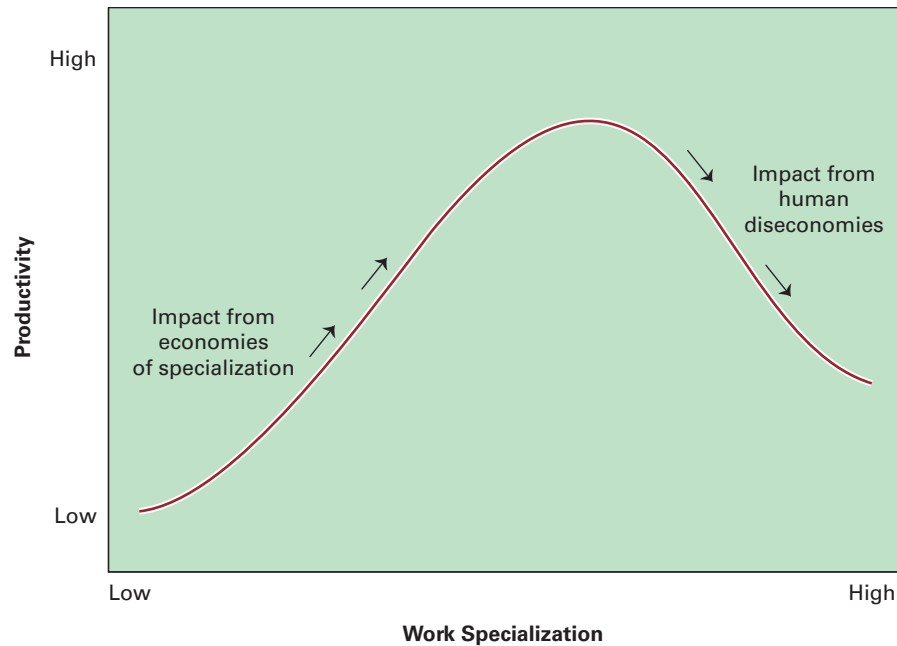
Source: Jim West/Alamy Stock Photo

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- | | |
|--|---|
| <ul style="list-style-type: none"> • Divides work to be done into specific jobs and departments • Assigns tasks and responsibilities associated with individual jobs • Coordinates diverse organizational tasks • Clusters jobs into units | <ul style="list-style-type: none"> • Establishes relationships among individuals, groups, and departments • Establishes formal lines of authority • Allocates and deploys organizational resources |
|--|---|
-

Exhibit 10-1 Purposes of Organizing

Exhibit 10-2

Economies and Diseconomies of Work Specialization



Early proponents of work specialization believed it could lead to great increases in productivity. At the beginning of the 20th century, that generalization was reasonable. Because specialization was not widely practiced, its introduction almost always generated higher productivity. But, as **Exhibit 10-2** illustrates, a good thing can be carried too far. At some point, the human diseconomies from division of labor—boredom, fatigue, stress, low productivity, poor quality, increased absenteeism, and high turnover—exceed the economic advantages.

TODAY'S VIEW Most managers today continue to see work specialization as important because it helps employees be more efficient. For example, McDonald's uses high work specialization to get its products made and delivered to customers efficiently and quickly—that's why it's called "fast" food. One person takes orders at the drive-through window, others cook and assemble the hamburgers, another works the fryer, another bags orders, and so forth. Such single-minded focus on maximizing efficiency has contributed to increasing productivity. In fact, at many McDonald's, you'll see a clock that times how long it takes employees to fill the order; look closer, and you'll probably see posted somewhere an order fulfillment time goal. At some point, however, work specialization no longer leads to increased productivity. That's why companies such as Avery Dennison, Ford Australia, Hallmark, and American Express use minimal work specialization and instead give employees a broad range of tasks to do.

Departmentalization

Does your college have a department of student services or financial aid? Are you taking this course through a management department? After deciding what job tasks will be done by whom, common work activities need to be grouped back together so work gets done in a coordinated and integrated way. How jobs are grouped together is called **departmentalization**. Five common forms of departmentalization are used, although an organization may develop its own unique classification. (For instance, a hotel might have departments such as front desk operations, sales and catering, housekeeping, and maintenance.) **Exhibit 10-3** illustrates each type of departmentalization as well as the advantages and disadvantages of each.

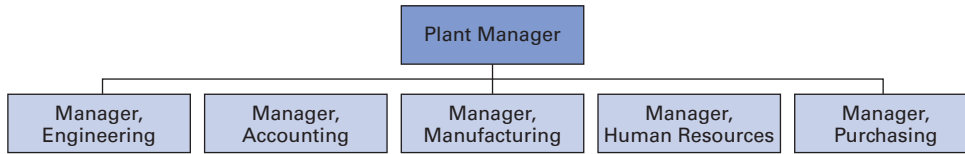
departmentalization

The basis by which jobs are grouped together

TODAY'S VIEW Most large organizations continue to use combinations of most or all of these types of departmentalization. For example, General Electric organizes its corporate staff along functional lines, including public relations, legal, global research,

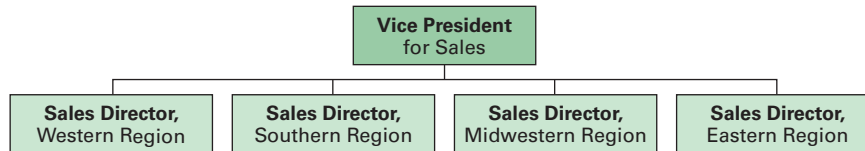
Exhibit 10-3
The Five Common Forms of Departmentalization

FUNCTIONAL DEPARTMENTALIZATION—Groups Jobs According to Function



- + Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations
- + Coordination within functional area
- + In-depth specialization
- Poor communication across functional areas
- Limited view of organizational goals

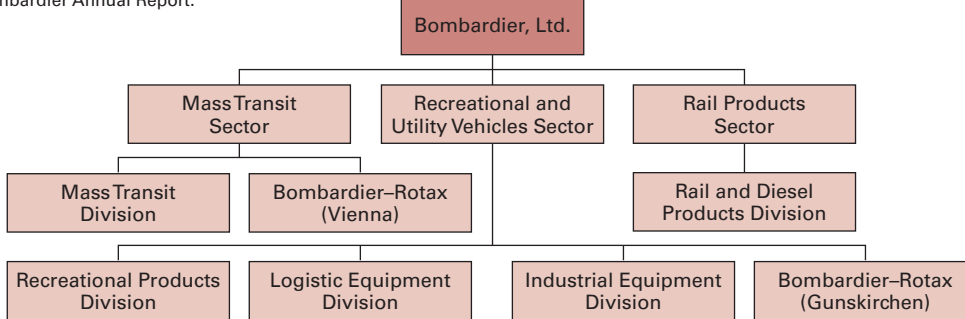
GEOGRAPHICAL DEPARTMENTALIZATION—Groups Jobs According to Geographic Region



- + More effective and efficient handling of specific regional issues that arise
- + Serve needs of unique geographic markets better
- Duplication of functions
- Can feel isolated from other organizational areas

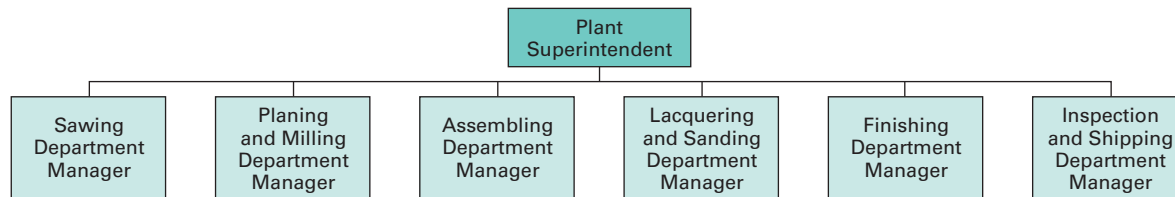
PRODUCT DEPARTMENTALIZATION—Groups Jobs by Product Line

Source: Bombardier Annual Report.



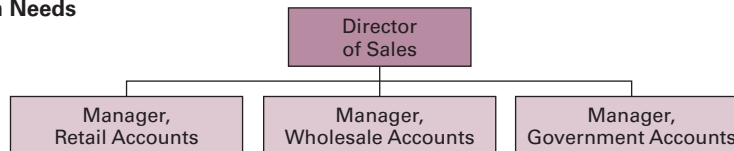
- + Allows specialization in particular products and services
- + Managers can become experts in their industry
- + Closer to customers
- Duplication of functions
- Limited view of organizational goals

PROCESS DEPARTMENTALIZATION—Groups Jobs on the Basis of Product or Customer Flow



- + More efficient flow of work activities
- Can only be used with certain types of products

CUSTOMER DEPARTMENTALIZATION—Groups Jobs on the Basis of Specific and Unique Customers Who Have Common Needs



- + Customers' needs and problems can be met by specialists
- Duplication of functions
- Limited view of organizational goals

human resources, and finance. Pearson Education, publisher of this text, arranges its business by educational market segment (Pre-K–12, higher education, and professional) and its customers (students, professors, and workplace educators) and arranges its sales function around customers and geographic regions (for example, the United States, Europe, and Asia). Procter & Gamble relies on product departmentalization, organizing around five product categories: fabric care and home care; baby, feminine, and family care; beauty; grooming; and healthcare. One popular departmentalization trend is the increasing use of customer departmentalization. This approach works well because it emphasizes monitoring and responding to changes in customers' needs.

Chain of Command

Suppose you were at work and had a problem with an issue that came up. What would you do? Who would you ask for help? People need to know who their boss is. That's why the chain of command is important. The **chain of command** is the line of authority extending from upper organizational levels to lower levels, which clarifies who reports to whom. To understand the chain of command, you have to understand three other important concepts: authority, responsibility, and unity of command.

Authority refers to the rights inherent in a managerial position to tell people what to do and to expect them to do it.⁴ The early management writers distinguished between two forms of authority: line authority and staff authority. **Line authority** entitles a manager to direct the work of an employee. It is the employer–employee authority relationship that extends from the top of the organization to the lowest echelon, following the chain of command.

As organizations get larger and more complex, line managers find that they do not have the time, expertise, or resources to get their jobs done effectively. In response, they create **staff authority** functions to support, assist, advise, and generally reduce some of their informational burdens. For instance, a human resource management director who cannot effectively handle managing all the activities the department needs creates a recruitment department, performance management department, and compensation and rewards department, which are staff functions.

When managers use their authority to assign work to employees, those employees take on an obligation to perform those assigned duties. This obligation or expectation to perform is known as **responsibility**. And employees need to be held accountable for their performance. Assigning work authority without responsibility and accountability can create opportunities for abuse. Likewise, no one should be held responsible or accountable for work tasks that they have no authority to complete.

Finally, the **unity of command** principle (one of Fayol's 14 management principles—see **Chapter 2**) states that a person should report to only one manager. Without unity of command, conflicting demands from multiple bosses can occur.

TODAY'S VIEW Although early management theorists believed that chain of command, authority (line and staff), responsibility, and unity of command were essential, times have changed. Those elements are far less important today. Information systems allow employees to access information that used to be available only to managers in a matter of a few seconds. It also means that employees can communicate with anyone else in the organization without going through the chain of command. In addition, many employees, especially in organizations where work revolves around projects, find themselves reporting to more than one boss, thus violating the unity of command principle.⁵

Span of Control

How many employees can a manager efficiently and effectively manage? That's what **span of control** seeks to answer. The traditional view was that managers could not—and should not—directly supervise more than five or six subordinates. Any more and a manager would be overwhelmed.

chain of command

The line of authority extending from upper organizational levels to the lowest levels, which clarifies who reports to whom

authority

The rights inherent in a managerial position to tell people what to do and to expect them to do it

line authority

Authority that entitles a manager to direct the work of an employee

staff authority

Positions created to support, assist, and advise those holding line authority

responsibility

The obligation or expectation to perform assigned duties

unity of command

The management principle that each person should report to only one manager

span of control

The number of employees a manager can efficiently and effectively manage

WORKPLACE CONFIDENTIAL Coping with Multiple Bosses

Sue Lee was complaining about her job at a large property development company. “I work for Ted in our marketing department. But I’ve been assigned to help promote our new luxury condo project on Park Avenue. The project manager, Xu Xiang, thinks she’s my boss. She is constantly giving me things to do, priorities, and deadlines. Meanwhile, I’m getting text messages, emails, and phone calls from Ted with conflicting requests. I wish these two would talk to each other. I only have so many hours in my day. I can’t do two jobs at once. What do I do? Whose directives get priority? Did I mention that I spend most of my time on Xu’s project, but Ted does my annual performance review?”

Sue’s complaint is not unique. An increasing number of people are finding themselves reporting to more than one boss. In some cases, the problem is a poorly designed organization where the lines of authority aren’t clearly defined and the unity-of-command principle is broken. In other cases, especially small or family-run businesses, it can be blurred authority lines with overlapping roles. In still other cases, it might be the formation of temporary teams where people report to multiple bosses. But more often, nowadays, the culprit is a matrix organization structure. As noted later in this chapter, organizations are increasingly imposing project structures on top of functional departments to better manage specific businesses, regions, or product lines. In so doing, they create overlapping responsibilities. If you find yourself in one of these situations, you very well may need to deal with bosses who have different management styles or who impose conflicting directives, vague communications, or unrealistic workloads.

Multiple bosses can create multiple headaches, but three challenges stand out. First is dealing with an excessive workload. Multiple bosses often aren’t aware of what others are asking of you. Whether deliberate or not, each may treat you as if you are solely working for them and have no other responsibilities. So two bosses might result in your having twice the workload. With three or more bosses, of course, the problem might only increase. Second is the challenge of conflicting messages. Different bosses have different expectations and different leadership styles. What do you do when you have multiple bosses wanting you to meet their deadlines “ASAP”? Finally, there is the issue of loyalty. Who do you give first priority to? Reporting to more than one person may require you to negotiate between competing demands for your time, goals, and priorities.

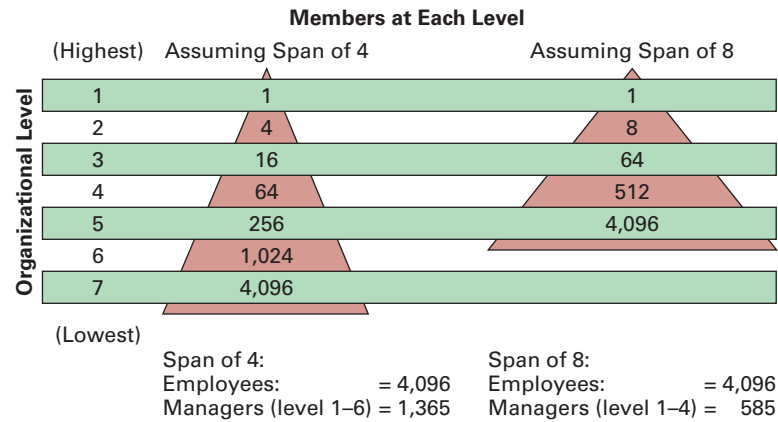
So what can you do if you find yourself having to cope with multiple bosses? Here are some suggestions:

- **Prioritize your bosses.** Like it or not, you need to choose to whom your first loyalty lies. Who is more powerful, and who would hurt you the least? Make sure you know who your ultimate boss is and make sure they are satisfied with your work. The person who completes your reviews and decides on your compensation is typically the person who should never be ignored. Consistent with our discussion of organizational politics in **Chapter 1**, you want to support your boss and, when you have more than one, give first priority to the one with the most power.
- **Be proactive about your workload.** It’s your responsibility to make sure your multiple bosses are kept up to date on your workload. That includes telling each what the others have asked of you. When the load exceeds your capacity, share this information with each boss and ask for their suggestions regarding priorities.
- **Prioritize your workload and list.** Make a list of all your ongoing tasks and projects, prioritize them, and then share this list with your bosses. The list needs to be updated regularly and communicated in weekly check-in meetings. These meetings are your best opportunity to anticipate and reconcile potential conflicts.
- **Set boundaries.** Don’t be afraid to set limits. Identify how many hours you can devote to each boss’s project and how you’ve allocated priorities. If your bosses know ahead of time what the boundaries are, you can eliminate a lot of potential conflicts.
- **Get your bosses to communicate with each other.** Try to avoid becoming the vehicle through whom they communicate. It’s not your job to represent each boss’s agenda to the other. When there are conflicts that are directly affecting you, bring your bosses together, explain the conflicts, and encourage them to come to a resolution.
- **Look at the bright side.** There is a positive side to multiple bosses. First, the fact that two or more bosses want you working for them says that you have valuable skills and that they trust you. Second, the complexity and ambiguity created by the absence of a single boss can allow you to expand your autonomy and influence. When you set the boundaries and define priorities, you take control over variables typically held by a boss. Finally, there is the opportunity to play one boss off against another: “Like a kid playing parents off each other, ask the person who you know will give you the answer you want.”⁶

Determining the span of control is important because, to a large degree, it determines the number of levels and managers in an organization—an important consideration in how efficient an organization will be. All other things being equal, the wider or larger the span, the more efficient the organization. Here’s why.

Exhibit 10-4

Contrasting Spans of Control



Assume two organizations both have approximately 4,100 employees. As **Exhibit 10-4** shows, if one organization has a span of four and the other a span of eight, the organization with the wider span will have two fewer levels and approximately 800 fewer managers. At an average manager's salary of \$85,000 a year, the organization with the wider span would save \$68 million a year! Obviously, wider spans are more efficient in terms of cost. However, at some point, wider spans may reduce effectiveness if employee performance worsens because managers no longer have the time to lead effectively.



Apple CEO Tim Cook has a wide span of control, with 17 direct reports.
 Source: Sipa USA/Alamy Stock Photo

TODAY'S VIEW The contemporary view of span of control recognizes there is no magic number. Many factors influence the number of employees a manager can efficiently and effectively manage. These factors include the skills and abilities of the manager and the employees, as well as the characteristics of the work being done. The trend in recent years has been toward larger spans of control, which is consistent with managers' efforts to speed up decision making, increase flexibility, get closer to customers, empower employees, and reduce costs. Managers are beginning to recognize that they can handle a wider span when employees are trained and experienced in their jobs and have coworkers to help with problems or questions. New technologies are also allowing organizations to widen spans by allowing managers to interact with and monitor a larger number of employees.

Centralization and Decentralization

Centralization versus decentralization seeks to answer: "At what organizational level are decisions made?" **Centralization** is the degree to which decision making takes place at upper levels of the organization. If top managers make key decisions with little input from below, then the organization is more centralized. On the other hand, the more that lower-level employees provide input or actually make decisions, the more **decentralization** there is. Keep in mind that centralization–decentralization is not an either-or concept. The decision is relative, not absolute—that is, an organization is never either centralized or decentralized.

Early management writers proposed that the degree of centralization in an organization depended on the situation, but they favored centralization because it maintains top-management control. Traditional organizations were structured in a pyramid, with power and authority concentrated near the top of the organization. Given this structure, historically, centralized decisions were the most prominent, but organizations today have become more complex and responsive to dynamic changes in their environments. As such, many managers believe decisions need to be made

centralization

The degree to which decision making is concentrated at upper levels of the organization

decentralization

The degree to which lower-level employees provide input or actually make decisions

More Centralization	More Decentralization
<ul style="list-style-type: none"> • Environment is stable. • Lower-level managers are not as capable or experienced at making decisions as upper-level managers. • Lower-level managers do not want a say in decisions. • Decisions are relatively minor. • Organization is facing a crisis or the risk of company failure. • Company is small. • Effective implementation of company strategies depends on managers retaining say over what happens. 	<ul style="list-style-type: none"> • Environment is complex, uncertain. • Lower-level managers are capable and experienced at making decisions. • Lower-level managers want a voice in decisions. • Decisions are significant. • Corporate culture is open to allowing managers a say in what happens. • Company is geographically dispersed. • Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

Exhibit 10-5
Centralization or Decentralization

by those individuals closest to the problems, regardless of their organizational level. **Exhibit 10-5** lists some of the factors that affect an organization’s use of centralization or decentralization.⁷

TODAY’S VIEW Today, managers often choose the amount of centralization or decentralization that will allow them to best implement their decisions and achieve organizational goals. What works in one organization, however, won’t necessarily work in another, so managers must determine the appropriate amount of decentralization for each organization and work units within it.

As organizations have become more flexible and responsive to environmental trends, there’s been a distinct shift toward decentralized decision making.⁸ This trend, also known as **employee empowerment**, gives employees more authority to make decisions. (We’ll address this concept more thoroughly in our discussion of leadership in **Chapter 16**.) In large companies especially, lower-level managers are “closer to the action” and typically have more detailed knowledge about problems and how best to solve them than top managers. For instance, Gore-Tex fabric maker W.L. Gore and Associates, known for its self-managed teams and decentralized decision making, has long been recognized as a top employer with a remarkably low employee turnover rate of just 3 percent, which suggests that empowering employees has a positive impact.⁹



The span of control identifies how many people a manager can effectively supervise. All other things equal, the wider the span, the flatter the organization structure.
Source: Fotogestoeber/Alamy Stock Photo

employee empowerment
Giving employees more authority to make decisions

Formalization

Formalization refers to how standardized an organization’s jobs are and the extent to which employee behavior is guided by rules and procedures. In highly formalized organizations, there are explicit job descriptions, numerous organizational rules, and clearly defined procedures covering work processes. Employees are given little discretion over what’s done, when it’s done, and how it’s done. However, where there is less formalization, employees have more discretion in how they do their work. Traditional management theorists favored high formalization. It was believed that work could be accomplished most efficiently when employees had extensive rules and procedures to guide them.

formalization
How standardized an organization’s jobs are and the extent to which employee behavior is guided by rules and procedures

TODAY’S VIEW Although some formalization is necessary for consistency and control, many organizations today rely less on strict rules and standardization to guide and regulate employee behavior. High formalization works well when the workplace is characterized by stability and consistency. This allows rules, for instance, to be applied

in a fair and consistent manner. But high formalization doesn't work very effectively in times of rapid change. And today's workplace increasingly requires coping with a dynamic and changing environment.

MECHANISTIC and Organic Structures

LO10.2 Contrast mechanistic and organic structures.

Basic organizational design revolves around two organizational forms, described in **Exhibit 10-6**.¹⁰

mechanistic organization

An organizational design that's rigid and tightly controlled

The **mechanistic organization** (or bureaucracy) was the natural result of combining the six elements of structure. Adhering to the chain-of-command principle ensured the existence of a formal hierarchy of authority, with each person controlled and supervised by one superior. Keeping the span of control small at increasingly higher levels in the organization created tall, impersonal structures. As the distance between the top and the bottom of the organization expanded, top management would increasingly impose rules and regulations. Because top managers couldn't control lower-level activities through direct observation and ensure the use of standard practices, they substituted rules and regulations. The early management writers' belief in a high degree of work specialization created jobs that were simple, routine, and standardized. Further specialization through the use of departmentalization increased impersonality and the need for multiple layers of management to coordinate the specialized departments.¹¹



The US Navy is a mechanistic organization with a clear chain of command and formal, rigid structure.

Source: US Navy Photo/Alamy Stock Photo

organic organization

An organizational design that's highly adaptive and flexible

knowledge workers

Trained professionals who use high-level knowledge to develop products or services

The **organic organization** is a highly adaptive form that is as loose and flexible as the mechanistic organization is rigid and stable. Rather than having standardized jobs and regulations, the organic organization's loose structure allows it to change rapidly, as needs require. Companies with more organic structures include Patagonia, Zappos, Alphabet, Netflix, and Spotify.¹² Organic structures have a division of labor, but the jobs people do are not standardized. Many employees in organic organizations are **knowledge workers**, who are trained professionals who use high-level knowledge to develop products or services, with a significant use of technology.¹³ Knowledge workers can operate without structured supervision; for instance, a petroleum engineer doesn't need to follow specific procedures on how to locate oil sources miles offshore.

The organic organization is low in centralization so that the professional can respond quickly to problems and because top-level managers cannot be expected to possess the expertise to make necessary decisions. The holacracy organizational structure introduced in **Chapter 1** is an example of an organic structure.

No organization is purely mechanistic or organic, and although many organizations today lean toward organic, some bureaucracy is needed, particularly as a company grows. The word "bureaucracy" conjures up images of red tape and silos, as we think of the negative aspects of the mechanistic structure. This negative perception evolved from organizations that likely have other problems, such as poor

Exhibit 10-6

Mechanistic versus Organic Organizations

Mechanistic

- High specialization
- Rigid departmentalization
- Clear chain of command
- Narrow spans of control
- Centralization
- High formalization

Organic

- Cross-functional teams
- Cross-hierarchical teams
- Free flow of information
- Wide spans of control
- Decentralization
- Low formalization

communication, which are blamed on bureaucracy instead of poor management. Some level of bureaucracy is actually necessary to manage a large organization.¹⁴ For example, Nordstrom department store is known for its customer service, offering personal stylists and alterations just like a small retail boutique store. However, with more than 300 locations, Nordstrom has consistent policies and practices in place to ensure customers get the same experience at every store.

CONTINGENCY Factors Affecting Structural Choice

LO10.3 Discuss the contingency factors that favor either the mechanistic model or the organic model of organizational design.

When is a mechanistic structure preferable, and when is an organic one more appropriate? Let's look at the main contingency factors that influence this decision.

Strategy and Structure

An organization's structure should facilitate goal achievement. Because goals are an important part of the organization's strategies, it's only logical that strategy and structure are closely linked. Alfred Chandler initially researched this relationship.¹⁵ He studied several large US companies and concluded that changes in corporate strategy led to changes in an organization's structure that support the strategy.

Research has shown that certain structural designs work best with different organizational strategies.¹⁶ For instance, the flexibility and free-flowing information of the organic structure works well when an organization is pursuing meaningful and unique innovations, similar to Ford's Model e division. The mechanistic organization with its efficiency, stability, and tight controls works best for companies wanting to tightly control costs, like Ford Blue.



To improve employee engagement, IKEA uses a flat structure within stores.

Source: Meritza/Alamy Stock Photo

Size and Structure

There's considerable evidence that an organization's size affects its structure.¹⁷ Large organizations—typically considered to be those with more than 2,000 employees—tend to have more specialization, departmentalization, centralization, and rules and regulations than do small organizations. However, once an organization grows past a certain size, size has less influence on structure. Why? Essentially, once there are around 2,000 employees, it's already fairly mechanistic. Adding another 500 employees won't impact the structure much. On the other hand, adding 500 employees to an organization with only 300 employees is likely to make it more mechanistic.

Technology and Structure

Every organization uses some form of technology to convert its inputs into outputs. For instance, CloudDDM uses 3D printers to make prototypes and product parts for corporate customers. This technology has made it possible to conduct the work with few workers. According to CloudDDM's founder, "We'll have 100 high-tech 3D printers running 24 hours, 7 days a week. And it'll need just three employees: one for each of the eight-hour shifts."¹⁸

The initial research on technology's effect on structure can be traced to Joan Woodward, who studied small manufacturing firms in southern England to determine the extent to which structural design elements were related to organizational success.¹⁹ She couldn't find any consistent pattern until she divided the firms into three distinct

Exhibit 10-7**Woodward's Findings on Technology and Structure**

	Unit Production	Mass Production	Process Production
Structural characteristics:	Low vertical differentiation	Moderate vertical differentiation	High vertical differentiation
	Low horizontal differentiation	High horizontal differentiation	Low horizontal differentiation
	Low formalization	High formalization	Low formalization
Most effective structure:	Organic	Mechanistic	Organic

unit production

The production of items in units or small batches

mass production

The production of items in large batches

process production

The production of items in continuous processes

technologies that had increasing levels of complexity and sophistication. The first category, **unit production**, described the production of items in units or small batches. The second category, **mass production**, described large-batch manufacturing. Finally, the third and most technically complex group, **process production**, included continuous-process production. A summary of her findings is shown in **Exhibit 10-7**.

Other studies also have shown that organizations adapt their structures to their technology depending on how routine their technology is for transforming inputs into outputs.²⁰ In general, the more routine the technology, the more mechanistic the structure can be, and organizations with more nonroutine technology are more likely to have organic structures.

ARTIFICIAL INTELLIGENCE AI is impacting a wide variety of tasks and operations in organizations and leading to changing organizational structures. AI can automate non-routine tasks, allowing companies that traditionally were mechanistic to engage more organic structures and to shift the need for human labor.²¹ For example, a customer service function that shifts to using chatbots to engage with customers might cause workers to worry about job loss. The reality is that the use of chatbots will lead to a restructuring of the customer service function, likely creating new, more interesting, and higher-paying jobs. Instead of a staff of customer service representatives, the company can develop an automated customer service department that includes new jobs to manage the chatbots and the more complex customer inquiries not resolved by chatbots.²²

Environmental Uncertainty and Structure

Some organizations face stable and simple environments with little uncertainty; others face dynamic and complex environments with a lot of uncertainty. Managers try to minimize environmental uncertainty by adjusting the organization's structure.²³ In stable and simple environments, mechanistic designs can be more effective. On the other hand, the greater the uncertainty, the more an organization needs the flexibility of an organic design. The Ford Model e, as a separate structure, will allow for a more organic environment than the stable Ford Blue, where a mechanistic structure allows the company to produce vehicles efficiently.

The evidence on the environment–structure relationship helps explain why so many managers today are restructuring their organizations to be lean, fast, and flexible. Global competition, accelerated product innovation by competitors, and increased demands from customers for high quality and faster deliveries are examples of dynamic environmental forces. Mechanistic organizations are not equipped to respond to rapid environmental change and environmental uncertainty. As a result, we're seeing organizations become more organic.

TRADITIONAL Organizational Design Options

LO10.4 Describe traditional organizational design options.

When designing a structure, managers may choose one of the traditional organizational designs. These structures tend to be more mechanistic in nature. A summary of the strengths and weaknesses of each can be found in **Exhibit 10-8**.

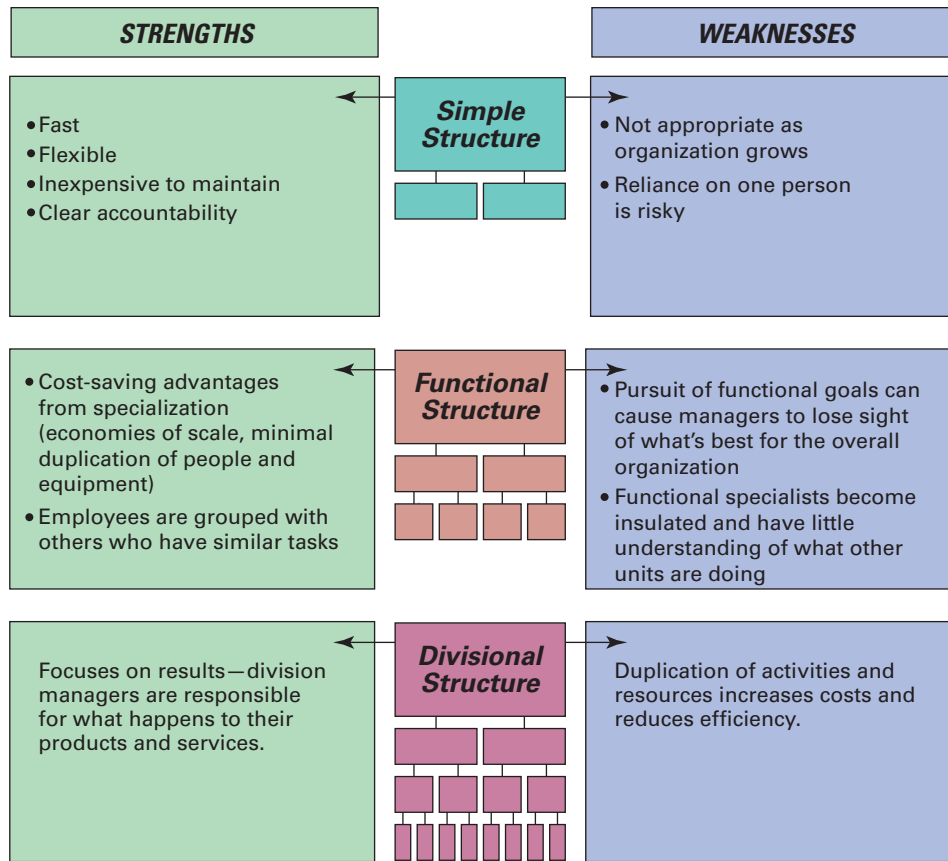


Exhibit 10-8
Traditional Organizational Designs

Simple Structure

Most companies start as entrepreneurial ventures using a **simple structure**, an organizational design with little departmentalization, wide spans of control, authority centralized in a single person, and little formalization.²⁴ As employees are added, however, most don't remain as simple structures. The structure tends to become more specialized and formalized. Rules and regulations are introduced, work becomes specialized, departments are created, levels of management are added, and the organization becomes increasingly bureaucratic. At this point, managers might choose a functional structure or a divisional structure.

An example of a simple structure is Mr. Mike's Surf Shop. A single-store operation, the business is made up of four people: Mike (the owner and manager) and three sales personnel. The lack of rules, hierarchy, specialization, or departments makes this business highly organic.

Functional Structure

A **functional structure** is an organizational design that groups similar or related occupational specialties together. You can think of this structure as functional departmentalization applied to the entire organization. For example, KeyBank is primarily organized into two divisions, its Consumer and Retail division and its Commercial Banking division.

Divisional Structure

The **divisional structure** is an organizational structure made up of separate business units or divisions. In this structure, each division has limited autonomy, with a division manager who has authority over their unit and is

simple structure
An organizational design with little departmentalization, wide spans of control, centralized authority, and little formalization



Mr. Mike's Surf Shop uses a simple structure because of the shop's few employees.
Source: Martin Berry/Alamy Stock Photo

functional structure

An organizational design that groups together similar or related occupational specialties

divisional structure

An organizational structure made up of separate, semiautonomous units or divisions

team structure

An organizational structure in which the entire organization is made up of work teams

matrix structure

An organizational structure that assigns specialists from different functional departments to work on one or more projects

responsible for performance. In divisional structures, however, the parent corporation typically acts as an external overseer to coordinate and control the various divisions, and often it provides support services such as financial and legal. For instance, the Coca-Cola company is organized by four geographic divisions: North America; Latin America; Asia-Pacific; and Europe, Middle East, and Africa.

ORGANIZING for Flexibility in the Twenty-First Century

LO10.5 Discuss organizing for flexibility in the 21st century.

Many organizations are finding that traditional organizational designs often aren't appropriate for today's increasingly dynamic and complex environment. These organizations seek to be lean, flexible, and innovative—that is, to be more organic. So managers are finding creative ways to structure and organize work.²⁵

Team Structures

Larry Page and Sergey Brin, cofounders of Google, created a corporate structure that organized projects around “small, tightly focused teams.”²⁶ A **team structure** is one in which the entire organization is made up of work teams that do the organization's work.²⁷ In this structure, employee empowerment is crucial because no line of managerial authority flows from top to bottom. Rather, employee teams design and do work in the way they think is best, but the teams are also held responsible for all work performance results in their respective areas. Google found that its best teams share five traits: psychological safety, dependability, structure and clarity, meaningful membership, and purpose.²⁸

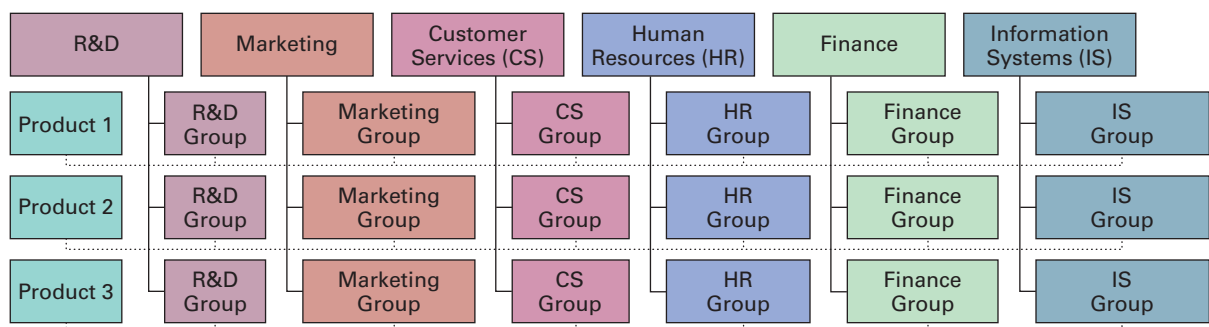
In large organizations, the team structure complements what is typically a functional or divisional structure and allows the organization to have the efficiency of a bureaucracy *and* the flexibility that teams provide. Companies such as Amazon, Boeing, Hewlett-Packard, Louis Vuitton, Motorola, and Xerox, for instance, extensively use employee teams to improve productivity.

Matrix and Project Structures

Other popular contemporary designs are the matrix and project structures. The **matrix structure** assigns specialists from different functional departments to work on projects led by a project manager. (See **Exhibit 10-9**.) One unique aspect of this design is that it creates a *dual chain of command* because employees in a matrix organization have two bosses, their functional area manager and their product or project manager, who share authority. The project manager has authority over the functional members who are part of their project team in areas related to the project's goals; however, any decisions about promotions, salary recommendations, and annual reviews typically remain the functional manager's responsibility.

Exhibit 10-9

Example of a Matrix Organization



The matrix design “violates” the unity-of-command principle, which says that each person should report to only one boss; however, it can—and does—work effectively if both managers communicate regularly, coordinate work demands on employees, and resolve conflicts together.²⁹ For instance, matrix structures are common in healthcare settings. Physical therapists could be assigned to different programs. Some may help geriatric patients recover from hip replacement surgery. Others may work with trauma patients who have lost one or more limbs. All of the therapists report to the director of physical rehabilitation and to directors of their specialties.

Many organizations use a **project structure**, in which employees continuously work on projects. Unlike the matrix structure, a project structure has no formal departments where employees return at the completion of a project. Instead, employees take their specific skills, abilities, and experiences to other projects. Also, all work in project structures is performed by teams of employees. For instance, at design firm IDEO, project teams form, disband, and form again as the work requires. Employees “join” project teams because they bring needed skills and abilities to that project. Once a project is completed, however, they move on to the next one.³⁰

Project structures tend to be more flexible organizational designs, without the departmentalization or rigid organizational hierarchy that can slow down making decisions or taking action. In this structure, managers serve as facilitators, mentors, and coaches. They eliminate or minimize organizational obstacles and ensure that teams have the resources they need to effectively and efficiently complete their work.

project structure

An organizational structure in which employees continuously work on projects

The Virtual Organization

Why own when you can rent? That question captures the essence of the **virtual organization** (also sometimes called the *network* or *modular* organization). It’s typically a small core of full-time employees that outsources its major business functions.³¹ The virtual organization is highly centralized, with little or no departmentalization.

The prototype of the virtual structure is today’s filmmaking organization. In Hollywood’s golden era, movies were made by huge, vertically integrated corporations. Studios such as MGM, Warner Bros., and 20th Century Fox owned large movie lots and employed thousands of full-time specialists—set designers, camera people, film editors, costumers, directors, and actors. Today, most movies are made by a collection of individuals and small companies who come together and make films project by project. This structural form allows each project to be staffed with the talent best suited to its demands rather than just with the people employed by the studio. It minimizes bureaucratic overhead because there is no lasting organization to maintain. It lessens long-term risks and their costs because there is no long term—a team is assembled for a finite period and then disbanded.

The major advantage of the virtual structure is its flexibility, which allows individuals with an innovative idea and little money to successfully compete against larger, more established organizations. The structure also saves a great deal of money by eliminating permanent offices and hierarchical roles for outsourced functions. The drawbacks have become increasingly clear as popularity has grown. Virtual organizations are in a state of perpetual flux and reorganization, which means roles, goals, and responsibilities are often unclear, setting the stage for increased political maneuvering for access to opportunities by participating individuals and businesses.

virtual organization

An organization that consists of a small core of full-time employees and outsources its major business functions

OFFERING Flexibility for Today’s Workforce

LO10.6 Explain flexible work approaches for workers.

Mandated quarantines during the COVID-19 pandemic led many organizations to quickly pivot to remote work or other flexible working arrangements. However, flexibility for workers is not a new concept, and technology has allowed for flexible work options for many years. The pandemic accelerated widespread adoption of flexible

work options, and post-pandemic more workers are taking advantage of flexibility if it is continuing to be offered. Managers that encourage flexibility can see returns in productivity and employee engagement. To reap those benefits, managers need to understand remote and flexible work options.³² Further, many organizations are looking for new ways to maximize organizational productivity and efficiency through alternate uses of staffing such as a reduced workweek or contingent workers.

telecommuting

A work arrangement in which employees work at home and are linked to the workplace by computer



An increasing number of workers are setting up home offices as more companies offer remote work options.

Source: kimberlywood/Shutterstock

Remote Work

As we introduced in **Chapter 1**, remote working arrangements are here to stay.

Telecommuting, an early version of remote work, allowed employees to work at home and be linked to the workplace by computer.³³ For employees it meant no commutes, no colleague interruptions, and an opportunity to better balance work and personal lives. Telecommuting work is typically asynchronous, and the employee works independently. Today, companies are offering broader remote work options. In some cases employees can work from anywhere, but often with the expectation of engaging synchronously through virtual meetings and using a variety of technical platforms to interact.

Remote work arrangements are attractive to both employees and employers. Employees value the flexibility remote work options offer, and early research suggests that they are more productive.³⁴ Further, employers can save nearly \$10,000 per employee on office-related expenses. Given these benefits, companies such as 3M and Spotify are committing to offer remote work permanently.³⁵ Overall, remote work options continue to grow. In 2023, about 35 percent of workers reported working entirely remotely, up from 7 percent in 2019.³⁶

HYBRID WORK Although many companies allowed remote work to continue post-pandemic, some companies sought to return workers fully to the office. As a compromise to workers who wanted to continue working remotely, many companies embraced a hybrid work option, requiring remote workers to come into the office a few days each week or month. In fact, 41 percent of workers who can work remotely report they are working in a hybrid arrangement.³⁷ However, many managers report that hybrid work arrangements are difficult to manage. This is often due to policies and practices that are not well thought out and managers that are not trained in managing remote workers.³⁸ For example, some companies require two or three in-person days but are not intentional about which days employees should work in the office. As a result, employees see the requirement as arbitrary, especially if they come into the office and end up in virtual meetings with colleagues working remotely because they don't share in-office workdays.

Flexible Work Schedules

A wide range of non-standard work schedules exist that go beyond the Monday through Friday, 9-to-5 workweek. Many aspects of the nonstandard workweek have been studied, including different types of work schedules and their effects on productivity, employee turnover, job satisfaction, and other factors. Although what works and what doesn't work is complex and many variables impact outcomes, a few things are clear. First, workers must be satisfied with their work schedule if they are going to be productive workers. Further, predictability and control over their schedule matters.³⁹ Here we will explore some variants of flexible work.

compressed workweek

A workweek where employees work longer hours per day but fewer days per week

COMPRESSED (OR REDUCED) WORKWEEK It has intuitive employee appeal: Work a day less each week for the same pay. That, essentially, is the **compressed workweek**—a workweek where employees work longer hours per day but fewer days

per week. The most common arrangement is four 10-hour days (a 4–40 program), with the day off most commonly being Friday, thus providing a three-day weekend.⁴⁰

Advocates of the compressed workweek propose that it allows workers extra time to pursue leisure activities and handle personal responsibilities while cutting commuting time and costs. For employees working in the office, they tend to arrive and leave at non-rush hour times, and commuting is reduced to four times a week. For employers, it can result in higher worker satisfaction, fewer absences, and less turnover.

Even more attractive to employees is a reduced workweek, where workers work four days a week, but only eight hours per day, dropping their standard workweek hours from 40 to 32 without a cut in pay. In 2022, 61 companies in the United Kingdom experimented with a reduced workweek. For six months, workers spent four days working each week instead of the traditional five-day schedule. The result? Not surprisingly, employees reported they were less stressed, less burned out, and more satisfied with their jobs. But interestingly, there were positive results for companies too. Overall profitability of the companies went up slightly and employee turnover was reduced, leading to no loss in productivity. In fact, 92 percent of companies plan to continue the reduced workweek.⁴¹ New York-based Kickstarter, a crowdfunding company, found implementing a four-day workweek has improved employee engagement and productivity has remained consistent. The company noted that although employees were motivated by the new schedule, productivity was also maintained because they focused on helping employees work more efficiently, starting with fewer meetings.⁴²

FLEXTIME Remote work allows workers to work *where* they want. Flextime is about allowing workers to work *when* they want. Although some workers cannot choose when they work—teachers, for example, need to be present during the school day—many workers don’t necessarily need to work at specific times. Further, some workers find that they are more productive at specific times of the day, such as early morning before the office is even open.⁴³

Flextime (short for flexible work time) is a scheduling system that requires employees to work a specific number of hours per week but allows them to vary their hours of work within limits.⁴⁴ In a typical flextime program, each day consists of a common core where everyone is working to ensure employees are able to interact

flextime

A scheduling system in which employees work a specific number of hours per week and can vary their hours of work within limits

Learning from

FAILURE Return to Office? Workers Say No Way!

In March 2020, companies around the world learned how to operate in a remote work environment due to the widespread government-required shutdowns caused by the COVID-19 pandemic. A year later, many CEOs began trying to get employees to return to the office. Even though companies had successfully continued to operate remotely, leaders believed that the in-person interactions were important to support innovation, problem-solving, and other collaborative work.

However, CEO demands for workers to return to the pre-pandemic “work in the office only” structure have for the most part been a failure. In some cases, workers have joined forces to fight back against demands to return to the office. For example, more than 2,300 Disney employees signed a petition to demand continuing remote work options after the company announced that workers needed to spend at least four days a week in the office. Even more

Amazon workers protested against return-to-office policies, with over 30,000 signing a petition. Although companies can forge ahead with their return-to-office policies, a recent study found that nearly 70 percent of remote workers surveyed would look for another job if their company demanded they return to the office.

And worker protests, in some cases, are working. Just months after X Corp. (formerly known as Twitter) demanded all workers return to the office, the company reversed course and announced several office closings and a new commitment to supporting remote work. Companies are also figuring out that with some intentional efforts, remote work does not have to hurt collaboration. Hybrid work with intentional in-person collaboration or appropriately structured virtual collaboration allows employees to innovate and solve problems together just as if they were in the office.⁴⁵

regularly and schedule meetings; for example, the core hours could be 9 a.m. to 3 p.m., when all employees are expected to be working, but they can start or end their workday at any time.

During the COVID-19 pandemic, many companies encouraged flextime to help reduce stress levels for employees working remotely, and employees started to appreciate the option. In fact, a 2022 survey of knowledge workers found that 95 percent wanted schedule flexibility. In response, many companies continued flextime as a practice. For example, cloud computing company Salesforce combined hybrid and remote work options with flextime to offer their employees full flexibility. There is no requirement for employees to come into the office, and they also do not have to work a specific eight hours a day. And it is working—in the first year Salesforce implemented flexible work, it experienced an increase in productivity.⁴⁶

JOB SHARING Introduced decades ago as a strategy to allow working mothers more flexibility, job sharing is becoming more popular, including at the executive level. **Job sharing** is the practice of two or more people dividing the duties of a full-time job. In 2020, US job-sharing arrangements reached an all-time high at nearly 1.7 million.⁴⁷ And although a job share is easier to manage at a more entry-level position in a company, more job shares are moving into the executive ranks on track for promotions. For example, Jolanta Coffey and Raffi Manoukian have shared an engineering role at the Ford Motor Co. for more than 10 years, receiving two promotions.⁴⁸

For employers, the appeal of offering job sharing is that it provides the opportunity to get two-for-the-price-of-one, gaining wider skills and experience than might be available in a single person. It also allows firms to attract skilled workers—for instance, retirees and parents with young children—who might not be available on a full-time basis. For employees, job sharing can increase motivation and satisfaction if they can work when they wouldn't normally be able to do so.

The Contingent Workforce

As noted in Chapter 1, employers are increasingly relying on the gig economy for workers. Uber has over 5 million people worldwide working for it—but only 30,000 of them are full-time employees. The rest are contingent workers—drivers who work on their own schedules.

Companies like Uber that rely on the gig economy use **contingent workers**—freelancers, independent contractors, consultants, or other outsourced and non-permanent workers who are hired on a temporary basis. This contingent-based organization has been described as the dominant form of the future's workforce.⁴⁹

As full-time jobs are eliminated to increase organizational flexibility and decrease costs, managers have increasingly relied on a contingent workforce to fill in as needed. A recent survey of top executives revealed that a majority of companies from a variety of industries are engaging contingent workers. For example, 81 percent of organizations in the healthcare industry use contingent workers.⁵⁰

One of the main issues businesses face with their contingent workers, especially those who are independent contractors or freelancers, is classifying who actually qualifies an independent contractor instead of being an employee. Often a worker wants to be an employee so they can receive benefits such as healthcare insurance. For instance, Uber's classification of drivers as independent contractors has caused battles in the courts. Uber drivers claim that they should be treated as employees because the company controls their work, sets compensation, and imposes vehicle standards. However, as of

2023, the courts have sided with companies like Uber and Lyft, allowing workers to continue to be independent contractors, keeping them from receiving company benefits.⁵¹

job sharing

The practice of having two or more people split a full-time job

contingent workers

Outsourced and non-permanent workers who are hired on a temporary basis



Companies such as Uber and Lyft rely on contingent workers to operate their business. Source: Ted Hsu/Alamy Stock Photo

Implications for Managers

It seems clear that organizational managers must explore and consider alternate working structures, locations, and schedules. Leaders need to identify what options are both desirable and feasible for their business and their employees. They also need to develop skills to manage in an alternate work environment. Early research on managing remote workers suggests that many managers struggle with the task; the virtual work environment in particular exposes many of managers' weaknesses in tracking and encouraging performance. Effective management for the future will require a more people-centered approach.⁵²

It is also important to consider that 61 percent of US workers are not able to work remotely due to the nature of their job.⁵³ Workers on an assembly line in a manufacturing facility are obviously not able to work remotely, and managing production would be impossible if all employees selected their own hours. However, managers can look for opportunities to improve the quality of life for these workers. Although research has yet to explore optimal flexibility for hourly workers, as we noted earlier, increasing the predictability and control over workers' schedules, such as utilizing technology to allow workers to pick their own shifts or allowing more time off to manage their personal lives, should help.⁵⁴

Chapter 10

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO10.1 DESCRIBE six key elements in organizational design.

The key elements in organizational design are work specialization, departmentalization, chain of command, span of control, centralization–decentralization, and formalization. Work specialization is dividing work activities into separate job tasks. Work specialization can help employees be more efficient. Departmentalization is how jobs are grouped together. Today, most large organizations use combinations of different forms of departmentalization. The chain of command and its companion concepts—authority, responsibility, and unity of command—were viewed as important ways of maintaining control in organizations. The contemporary view is that they are less relevant in today's organizations. The traditional view of span of control was that managers should directly supervise no more than five to six individuals. The contemporary view is that the span of control depends on the skills and abilities of the manager and the employees and on the characteristics of the situation. Centralization–decentralization is a structural decision about who makes decisions—upper-level managers or lower-level employees. Formalization concerns the organization's use of standardization and strict rules to provide consistency and control. Today, organizations rely less on strict rules and standardization to guide and regulate employee behavior.

LO10.2 CONTRAST mechanistic and organic structures.

A mechanistic organization is a rigid and tightly controlled structure. An organic organization is highly adaptive and flexible.

LO10.3 DISCUSS the contingency factors that favor either the mechanistic model or the organic model of organizational design.

An organization's structure should support its strategy. If the strategy changes, the structure also should change. An organization's size can affect its structure up to a certain point. Once an organization reaches a certain size (usually around 2,000

employees), it's fairly mechanistic. An organization's technology can affect its structure. An organic structure is most effective with unit production and process production technology. A mechanistic structure is most effective with mass production technology. The more uncertain an organization's environment, the more it needs the flexibility of an organic design.

LO10.4 DESCRIBE traditional organizational design options.

A simple structure is one with little departmentalization, wide spans of control, authority centralized in a single person, and little formalization. A functional structure groups similar or related occupational specialties together. A divisional structure is made up of separate business units or divisions.

LO10.5 DISCUSS organizing for flexibility in the 21st century.

In a team structure, the entire organization is made up of work teams. The matrix structure assigns specialists from different functional departments to work on one or more projects being led by project managers. A project structure is one in which employees continuously work on projects. A virtual organization consists of a small core of full-time employees and outside specialists temporarily hired as needed to work on projects.

LO10.6 EXPLAIN flexible work approaches for workers.

Remote work options are growing, with some employees working at any time from anywhere. Some companies offer hybrid work arrangements where employees work mostly remotely, but come into the office a few days each week. A compressed workweek allows employees to work 40 hours in four days, and some companies are offering a reduced workweek where employees work 32 hours in four days. Flextime allows employees to work varied hours, and job sharing allows two or more workers to share one job. Companies are also benefiting from the flexibility contingent workers allow. Managers need to learn how to manage in these flexible work arrangements and consider how to offer flexibility to hourly workers.

REVIEW AND DISCUSSION QUESTIONS

- 10-1. Describe a nurse's working experience in terms of the six elements of organizational design at a hospital adhering to the traditional view. How would work be different for a nurse at a hospital managed according to the contemporary view of organizational design?
- 10-2. Would you rather be a first-line supervisor in a mechanistic or an organic organization? Why?
- 10-3. Contrast the three traditional organizational designs.
- 10-4. With the availability of analytics, smartphones, email, and other advanced technologies that allow work to be done anywhere at any time, is a clear chain of command and unity of authority still needed? Why or why not?
- 10-5. How is managing in a matrix structure different from doing so in a project structure?
- 10-6. What organizational design issues might arise in managing employees' remote work arrangements? Think about what you have learned about organizational design. How might a narrow span of control, high formalization, and centralization help or hinder a manager attempting to address those issues?
- 10-7. How could flexible work schedules be made to increase employee effectiveness? What must job sharers and flextimers do to make the arrangement work?
- 10-8. Why do companies rely on contingent workers?

PREPARING FOR: My Career

ETHICS DILEMMA

Thomas Lopez, a pediatric nurse in the Miami area, was fired for leaving his assigned area to save a man having a heart attack at the city bus stop across the street from the doctor's office where he works. His employer, Medical Meadows Pediatrics, which works exclusively with children, said that by leaving his assigned work area and giving medical aid to an adult, Lopez opened the company up to possible legal action and malpractice claims. Lopez said he

had no choice but to do what he did. He was not putting his job rules first over being a good person. Helping someone desperately needing help is what it means to be a good human. "I'm going to do what I felt was right, and I did." After this story hit the media, Medical Meadows Pediatrics offered Lopez his job back, but he declined.

- 10-9. What do you think? What ethical concerns do you see in this situation?
- 10-10. What lessons can be applied to organizational design from this story?

SKILLS EXERCISE Developing Your Acquiring Power Skill

About the Skill

Power is a natural process in any group or organization, and to perform their jobs effectively, managers need to know how to acquire and use power.⁵⁵ Why is having power important? Because power makes you less dependent on others. When a manager has power, they are not as dependent on others for critical resources. And if the resources a manager controls are important, scarce, and nonsubstitutable, their power will increase because others will be more dependent on them for those resources. (See **Chapter 16** for more information on leader power.)

Steps in Practicing the Skill

You can acquire and use power more effectively if you use the following eight behaviors.

- **Frame arguments in terms of organizational goals.** To be effective at acquiring power means camouflaging your self-interest. Discussions over who controls what resources should be framed in terms of the benefits that will accrue to the organization; do not point out how you personally will benefit.
- **Develop the right image.** If you know your organization's structure, you already understand how formalized the organization is and whether you are empowered to make decisions or if decision making is centralized. You know how much authority the boss has and if you have one or multiple bosses to report to. This knowledge directs the friendships to cultivate and those to avoid, whether to appear risk taking or risk averse, the procedures in place to work well with others, and so forth. Because assessing your performance is not always a fully objective process, you need to adhere to how your organization's structure wants work to be accomplished.
- **Gain control of organizational resources.** Controlling organizational resources that are scarce and important is a source of power. Knowledge and expertise are particularly effective resources to control. They make you more valuable to the organization and therefore more likely to have job security, chances for advancement, and a receptive audience for your ideas.
- **Make yourself appear indispensable.** Because we're dealing with appearances rather than objective facts, you can enhance your power by appearing to be indispensable. You don't really have to be indispensable, as long as key people in the organization believe that you are.
- **Be visible.** If you have a job that brings your accomplishments to the attention of others, that's great. However, if you don't have such a job, you'll want to find ways to let others in the organization know what you're doing by highlighting successes in routine reports, having satisfied customers relay their appreciation to senior executives, being seen at social functions, being active in your professional associations, and developing powerful allies who speak positively about your accomplishments. Of course, you'll want to be on the lookout for those projects that will increase your visibility.
- **Develop powerful allies.** To get power, it helps to have powerful people on your side. Cultivate contacts with potentially influential people above you, at your own level, and at lower organizational levels. These allies often can provide you with information that's otherwise not readily available. In addition, having allies can provide you with a coalition of support—if and when you need it.
- **Avoid "tainted" members.** In almost every organization, there are fringe members whose status is questionable. Their performance and/or loyalty may be suspect. Keep your distance from such individuals.
- **Support your boss.** Your immediate future is in the hands of your current boss. Because they evaluate your performance, you'll typically want to do whatever is necessary to have your boss on your side. You should

make every effort to help your boss succeed, make them look good, support them if they are under siege, and spend the time to find out the criteria they will use to assess your effectiveness. Don't undermine your boss. And don't speak negatively of them to others.

Practicing the Skill

The following suggestions are activities you can do to practice the behaviors associated with acquiring power.

1. Keep a one-week journal of your behavior describing incidences when you tried to influence others around you. Assess each incident by asking: Were you successful

at these attempts to influence them? Why or why not? What could you have done differently?

2. Review recent issues of a business periodical (such as *Bloomberg Businessweek*, *Fortune*, *Forbes*, *Fast Company*, *Industry Week*, or the *Wall Street Journal*). Look for articles on reorganizations, promotions, or departures from management positions. Find at least two articles where you believe power issues are involved. Indicate if this power was gained in a mechanistic or organic organization structure. Using the content of the articles and your knowledge, explain if it would be easier to gain power in an organization with a mechanistic or organic structure.

WORKING TOGETHER Team Exercise

Many organizations today offer remote work as an option for employees. However, there are many challenges in managing virtual remote workers. It is useful for organizations to create guidelines to help address issues such as when and how to maintain communication with the office. Assume you are the manager of a small technology

firm and it has been decided you and your five-person team can work remotely three days a week. Consider some challenges you might face in managing yourself and your hybrid workers. Next, work in groups of three or four students to draft guidelines for hybrid work in your team. Be prepared to share your guidelines with the class.

MY TURN TO BE A MANAGER

- Find examples of an organizational chart for a company with a traditional view and another with a contemporary view of organizational design.. (A company's annual reports are a good place to look.) In a report, describe each of these. Try to decipher each organization's use of organizational design elements, especially departmentalization, chain of command, centralization-decentralization, and formalization.
- Survey at least five different managers as to how many employees they supervise. Also ask them the most employees they would feel comfortable supervising and the fewest they would be allowed. Graph your survey results and write a report describing what you found. Draw some deeper conclusions about the span of control by calculating the headcount of supervisors, managers, and executives in an organization with 500 hourly employees. Use the smallest and largest spans of control reported by the managers surveyed to complete your calculations.
- Using current business periodicals, research matrix structures used by companies. Choose three examples of businesses using this and describe and evaluate what each is doing.
- Visit the When Work Works website at www.whenworkworks.org. This organization works to bring research on workplace flexibility into practice. Visit the "Find Solutions" page of the website and review the guidance provided for employers. What resources are available for managers looking to create more flexible work arrangements?
- Research the term "digital nomad" and how to become one. Also, visit the Working Nomads at <https://www.workingnomads.com/jobs/>. Report the feasibility of starting your career as a digital nomad and if your thoughts on the growing contingent workforce or viability of virtual organizations has changed.
- Search online for infographics on vocabulary like remote and hybrid work, flexible work arrangements or flex time, span of control, contingent workers, or virtual organizations. Select an infographic relevant to managers, professionals, or one you find interesting and bring it to class for discussion.

CASE APPLICATION 1**Making a Flat Organization Work at Punchkick**

If you get a job at Punchkick Interactive—a digital agency that designs and builds software in Chicago—you won’t have a boss. You’ll not be shown an organizational chart of who reports to whom, because such a chart doesn’t exist. You also will be asked to choose your own job title. Why did Punchkick choose to forgo organizational charts and job descriptions? Growing up without a curfew taught cofounder Zak Dabbas the importance of trust and respect. He believed giving autonomy to smart people and trusting them is more likely to lead to the right decisions.

Not having managers or a hierarchy worked well when there were about eight people in the company. Once the company grew to more than 20 employees, however, Punchkick’s founders realized that they needed to find ways to improve how people work together. Dabbas still believed that having a flat organizational structure would be a key ingredient to their success as long as that structure was transparent. “Everyone knows what our goals are every month and how we’re tracking toward them,” Dabbas explained.

Punchkick rolled out an “advice channel,” which allows employees to share expertise. So, if employees are experiencing a challenge with a client project, they can reach out to the entire company through the advice channel and ask who has encountered a similar problem before. The company also asked employees to be sure to “touch base” with anyone who might be impacted by a decision they’re making. This is not the same as getting permission—it’s more about ensuring that communication has occurred before any challenges arise. Employees are evaluated by other employees via a feedback channel instead of being evaluated by only a manager.

Job titles sometimes emerge as part of using the advice channel. For instance, Abby Gartner was the “go-to” person for handling clients. She was the first person employees went to about how to address client needs. According to Dabbas, “Eventually, we said, ‘Abby, let’s face it; you’re our head of customer experience.’”⁵⁶

Punchkick is prospering, whereas other companies without official bosses have experienced problems. Valve, a computer game development company in Seattle, officially had no bosses, but as one former employee stated, “There is actually a hidden layer of powerful management structure in the company... which made it feel a lot like high school.”⁵⁷ Another ex-employee at Valve explained, “To succeed at Valve you need to belong to the group that has more decisional power and, even when you succeed temporarily, be certain that you have an expiration date.”

DISCUSSION QUESTIONS

- 10-11. How would you describe Punchkick Interactive in terms of the elements of organizational design?
- 10-12. What are the strengths and potential areas of concern at Punchkick?
- 10-13. What makes a flat, “no boss” structure like Punchkick’s work effectively? In what situations (e.g., industries, organizational sizes, employee characteristics) would this structure not work as well?
- 10-14. What advice would you give to Punchkick to ensure it doesn’t experience the problems that Valve has had?

CASE APPLICATION 2

Life as a Digital Nomad in Foreign Cities

Slightly more than 20 percent of US employees in a 2022 Gallup poll indicated their work could be done from anywhere. Yes, remotely work from home. Yet, why not work from the beach, an Italian village, or somewhere in Portugal? Savana Rose Woods learned about Malta's long-term visa program and said, "I was just sitting in front of my computer and thinking: Are you going to sit here in front of your computer for the rest of your life?"⁵⁸ Many European countries, and even islands in the Caribbean, offer long-term visas and tax breaks to attract the special type of remote workers known as digital nomads. A digital nomad is a worker that combines work and travel by working by computer from anywhere in the world. Some thrive on living in a foreign city for a month. They meet and live with the locals and go back home at the end of the month or go on to the next country. Others have plans to stay longer or even indefinitely. Like other countries, Spain has programs to attract this particular type of workers. In Spain, nomads are not just courted to work in large cities. The National Network of Welcoming Villages for Remote Workers was created for those looking to live off the beaten path. In Pontremoli, Italy, a village of 7,300, the group Start Working Pontremoli, formed by two locals, offers free tours to remote workers considering the option to work from there. Unsettled helps solo travelers and workers navigate living and working in far-off places. Its Nomad List ranks destinations that are good matches for the nomad lifestyle.

Nomads are a natural consequence of employers' tendency to rely more on freelancers and independent contractors. These contingent workers are hired temporarily, but they can choose how to work, hours to work, ways of working, and where they work. Because contingent workers are judged primarily on their work quality, their autonomy comes at the cost of job security. They can be let go or just not be renewed at any time and often without warning. However, companies have also bought into the trend by allowing full-time workers to become digital nomads. Cisco Systems' Venywhere program attracts workers to live and work in Venice, Italy. Roam, another company, offers communal living areas and coworking space for nomads who are increasingly full-time employees living the nomad lifestyle while working at companies like Google or Boston Consulting Group. Technology has made it so many workers do not need day-to-day managers. "Why insist that they be in an office when it simply doesn't matter?" says Mohammed Chahdi, the global human resources services director at Dell.⁵⁹

Some nomads run into issues with poor internet connectivity and higher-than-expected living costs as a destination becomes a hot spot for remote workers. Homes bought by Americans in Spain jumped by 88 percent from 2019 to 2022, and approximately 10,000 American citizens lived in Portugal in 2022. Not all locals are excited by the arrival of digital nomads. Because they are willing to pay higher rent and housing prices, they are driving prices up to levels exceeding what is affordable for the residents. In Greece, half of all renters struggle to pay rent, and based on Athens graffiti reading "Athens Is Not for Sale" and "No Airbnb," they are not afraid to voice their resentment about foreigners driving up the prices.⁶⁰

DISCUSSION QUESTIONS

- 10-15. What are the advantages of digital nomad workers for a) companies, b) the workers themselves, and c) the locations they choose to work?
- 10-16. What are the most important problems you see with being a digital nomad?
- 10-17. Do you think digital nomads make the reality of virtual organizations being widely available more or less likely in the future? Describe how the possibility of working for a virtual organization or as a digital nomad matches your career aspirations.
- 10-18. Do you think the experiences of contingent workers and regular employees would have a better chance of being more similar to one another in a mechanistic or an organic organizational structure? Explain the reasons for your answer.

ENDNOTES

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Chapter 11

Managing Human Resources

Learning Objectives

- 11.1** *Explain the importance and process of managing human resources.*
- 11.2** *Describe the external influences that affect the human resource management process.*
- 11.3** *Discuss the tasks associated with identifying and selecting competent employees.*
- 11.4** *Explain how companies develop workplace talent.*
- 11.5** *Describe strategies for retaining competent, high-performing employees.*

Did you know that Domino's Pizza will pay you to pick up your order? Facing a staffing shortage across the restaurant industry, Domino's attempted to reduce the company's reliance on delivery drivers by incentivizing customers to pick up their own pizza. The company started the promotion shortly before the 2022 Super Bowl, the busiest day of the year for pizza. The company also contracted with a third-party call center to take orders to free up staff to focus on making pizza and serving customers instead of answering the phone. Domino's staffing challenges are likely to continue as long as the unemployment rate remains low because workers have many other options besides restaurant work.¹

As companies establish their policies and practices in managing their people, they need to remain flexible to respond to the current environment. In this chapter, we are going to explore those practices that companies engage in to attract, manage, and retain workplace talent.

Management Myth: The human resource department exists to process paperwork.

Management Reality: Strategic human resource management helps companies achieve success.

WHY **Managing Human Resources Is Important**

LO11.1 Explain the importance and process of managing human resources.

Management experts regularly state the importance of the role that effective human resource management (HRM) policies and practices play in an organization's performance.² Why is HRM important? There are at least three reasons.

First, employees can be a significant source of competitive advantage.³ A business that has effective HRM practices is more likely to hold an advantage over competitors because it has better skilled and more productive employees.

Second, HRM is an important part of organizational strategies.⁴ Outside the HR department, achieving competitive success through people means managers must change how they think about their employees and how they view the work relationship. They must work with people and treat them as partners, not just as costs to be minimized or avoided. That’s what people-oriented organizations such as HubSpot and W.L. Gore do.

Finally, the way organizations treat their people has been found to significantly impact organizational performance.⁵ Employees that are treated well and are happy are more productive and contribute more significantly to an organization’s success.⁶

Keep in mind that an understanding of HRM is not just the domain of people who work in an organization’s human resource department. HR departments don’t exist in the majority of businesses, which are small and don’t have defined HR specialists. HR departments tend to exist in large firms. As a result, in smaller firms, HR activities tend to be undertaken by line managers. Additionally, even in large corporations and government organizations, most managers need to be skilled in basic HR practices such as knowledge and interpretation of labor laws and conducting employee selection interviews and performance evaluations.



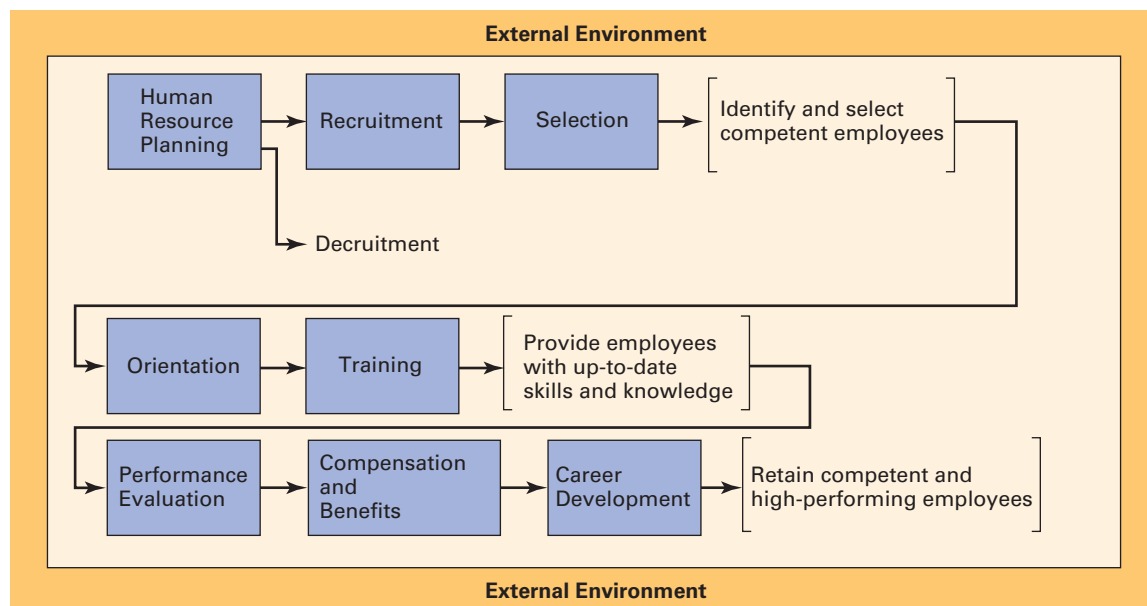
Walmart incorporates virtual reality into its employee training programs. Here, Jeanelle Bass, an assistant store manager, wears virtual reality goggles while participating in an interactive session at the Walmart Academy training facility.

Source: Julio Cortez/AP Images

The Human Resource Management Process

To ensure that an organization has qualified people to perform the work that needs to be done, specific HRM activities need to be performed. These activities compose the HRM process. **Exhibit 11-1** shows the eight activities in this process. The first three activities ensure that competent employees are identified and selected, the next two involve providing employees with up-to-date knowledge and skills, and the final three ensure that the organization retains competent and high-performing employees. Before we discuss those specific activities, we need to look at external factors that affect the HRM process.

Exhibit 11-1
HRM Process



EXTERNAL Factors That Affect the Human Resource Management Process

LO11.2 Describe the external influences that affect the human resource management process.

A strong economy makes it difficult for Employer X to find people with the skills it needs. Company Y faces a walkout by its unionized workforce over a contract dispute. And although the US federal minimum wage is \$7.25 an hour, fast-food Employer Z in San Francisco is required to raise its minimum wage to \$15 after new legislation is passed by the city. These are examples of how the HRM process is influenced by the external environment. In this section, we look more closely at these influences.

The Economy

In 2023, the unemployment rate in the United States dropped to 3.4 percent, the lowest rate in more than 50 years.⁷ Although this is good news for workers, it creates a challenging environment for businesses struggling to recruit new employees. Just like Domino's in the chapter opening, many companies are faced with staff shortages because workers have more employment options. Interestingly, just a few years earlier, in April 2020, the COVID-19 pandemic drove the unemployment rate up to 14.4 percent, the highest it had been in more than 70 years.⁸

As this illustrates, the ebb and flow of the economy—with changes in the business cycle—directly affect an organization's human resources. In downturns, management is often forced to reduce staff, cut pay, and reorganize work activities. In strong economies and tight labor markets, management has to raise wages, improve benefits, and explore long-term strategies such as offering flexible work options to attract and keep qualified people.⁹



In 2020, the Supreme Court in *Bostock v. Clayton County* held that protection against discrimination by Title VII of the Civil Rights Act extends to persons who are gay or transgender. Plaintiffs Donald Zarda, Aimee Stephens, and A. J. Celento arrive together at the courthouse before the decision. Source: Patsy Lynch/MediaPunch Inc./Alamy Live News/Alamy Stock Photo

Laws and Rulings

Tesla was ordered by a court to pay over \$3 million to a former employee for racial discrimination and harassment. The employee in a Fremont, California, assembly plant was repeatedly exposed to racial slurs and other actions that created a hostile working environment, and the company was held liable for the harassment that the employee experienced.¹⁰

HRM practices are governed by a country's laws, and not following those laws can be costly. (See **Exhibit 11-2** for some of the important US laws that affect the HRM process.) Decisions regarding who will be hired, which employees will be chosen for a training program, or what an employee's compensation will be must be made without regard to race, sex, religion, age, color, national origin, pregnancy, or disability. Exceptions can occur only in special circumstances. For instance, a community fire department can deny employment to a firefighter applicant who uses a wheelchair; but if that same individual is applying for a desk job, such as a dispatcher, the disability cannot be used as a reason to deny employment.

HRM laws and regulations clearly affect organizational practices. And because workplace lawsuits are increasingly targeting supervisors, as well as their organizations, all managers need to know what they can and cannot do by law.¹¹

SEXUAL AND OTHER FORMS OF HARASSMENT Although sexual and other forms of harassment were deemed to be forms of discrimination under the Civil Rights Act decades ago, harassment in the workplace continues to exist. As

Exhibit 11-2
Major HRM Laws

LAW OR RULING	YEAR	DESCRIPTION
Equal Employment Opportunity and Discrimination		
■ Equal Pay Act	1963	Prohibits pay differences for equal work based on gender
■ Civil Rights Act, Title VII	1964 (amended in 1972)	Prohibits discrimination based on race, color, religion, national origin, or gender
■ Age Discrimination in Employment Act	1967 (amended in 1978)	Prohibits discrimination against employees 40 years and older
■ Vocational Rehabilitation Act	1973	Prohibits discrimination on the basis of physical or mental disabilities
■ Americans with Disabilities Act	1990	Prohibits discrimination against individuals who have disabilities or chronic illnesses; also requires reasonable accommodations for these individuals
Compensation/Benefits		
■ Worker Adjustment and Retraining Notification Act	1990	Requires employers with more than 100 employees to provide 60 days' notice before a mass layoff or facility closing
■ Family and Medical Leave Act	1993	Gives employees in organizations with 50 or more employees up to 12 weeks of unpaid leave each year for family or medical reasons
■ Health Insurance Portability and Accountability Act	1996	Permits portability of employees' insurance from one employer to another
■ Lilly Ledbetter Fair Pay Act	2009	Changes the statute of limitations on pay discrimination to 180 days from each paycheck
■ Patient Protection and Affordable Care Act	2010	Penalizes employers with 50 or more employees who don't offer coverage or do not offer coverage that meets minimal value and affordability standards.
Health/Safety		
■ Occupational Safety and Health Act (OSHA)	1970	Establishes mandatory safety and health standards in organizations
■ Privacy Act	1974	Gives employees the legal right to examine personnel files and letters of reference
■ Consolidated Omnibus Reconciliation Act (COBRA)	1985	Requires continued health coverage following termination (paid by employee)

Sources: US Equal Employment Opportunity Commission, www.eeoc.gov; US Department of Labor, www.dol.gov; US Occupational Safety and Health Administration, www.osha.gov.

noted in **Chapter 1**, the #MeToo movement in 2017 built public awareness of the prevalence of unreported harassment and challenged businesses to act to put an end to workplace harassment. Emboldened by the movement, complaints to the Equal Employment Opportunity Commission (EEOC) spiked 14 percent in 2018. Employer responses are having an effect; by 2021, the number of complaints had dropped 26 percent.¹²

What exactly is **sexual harassment**? The EEOC defines sexual harassment this way: “Unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature constitute sexual harassment when this conduct explicitly or implicitly affects an individual’s employment, unreasonably interferes with an individual’s work performance, or creates an intimidating, hostile or offensive work environment.”¹³

sexual harassment

Any unwanted action or activity of a sexual nature that explicitly or implicitly affects an individual’s employment, performance, or work environment

What can an organization do to protect itself against harassment claims? A program made up of seven elements has been suggested: (1) a clear antiharassment policy, (2) an explicit statement of prohibited behaviors that can be considered harassment, (3) a complaint procedure that encourages employees to come forward, (4) protections

for complainants and witnesses against retaliation, (5) an investigative strategy that protects the privacy interests of both the alleged victim and the accused offender, (6) ongoing management training and employee awareness programs, and (7) measures and processes to ensure prompt corrective action to stop ongoing harassment and appropriate disciplinary actions for offenders.¹⁴

Demographics

By the year 2040, the average age in the United States will be 38.6 years, meaning more than half of the workforce will be age 40 and over.¹⁵ Why does that matter to businesses? The aging workforce means that every year businesses will lose workers to retirement. As more people are retiring each year than are joining the workforce, eventually there will be a shortage of workers available.

However, there is a growing population of older workers delaying retirement, which helps employers address worker shortages. Employers that want to encourage later retirements should consider strategies to encourage older, experienced workers to stay longer; for example, they could offer career breaks or sabbaticals to give workers a chance to take some time away to recharge and return to work more motivated. Employers can also leverage older workers' experience by offering a phased retirement, allowing them to work longer on a part-time basis.¹⁶

The growth of women in the workforce is another demographic trend impacting companies. According to the Pew Research Center, women now account for more than half (50.7 percent) of the college-educated workforce.¹⁷ The challenge for businesses is removing barriers for women to hold leadership positions. Women hold just 8.2 percent of CEO positions in the S&P 500, which makes it clear that although women are equally represented in the workforce, they are not at top levels in companies.¹⁸

CEO jobs aside, we only see women in 24 percent of other executive-level positions. Further, although there are more women at lower-level management positions, they are held mostly by white women (32.6 percent), with Latina and Black women holding 4.3 percent each, and Asian women holding just 2.7 percent of manager roles.¹⁹ Human resource practices that are needed to help women overcome barriers to advancement include programs that provide mentorship and training for women. Training for men in power on how to serve as allies also is supportive.²⁰

Social and Cultural Factors

Companies operate within a society, and societal trends can impact a company's human resource management practices. For example, in **Chapter 1** we discussed the current emphasis for employers to focus on the well-being of employees. Responses to this include flexible work arrangements (as discussed in **Chapter 10**) and also a growth in a wide variety of wellness-related programs in workplaces. Research suggests that the emphasis on well-being at work has positive returns for employers because businesses with engaged workers report on average 23 percent higher profits than those with unhappy workers; however, businesses have a long way to go. According to Gallup, 44 percent of workers today experience high levels of stress at work, and only 21 percent of workers report being engaged at work.²¹ Over time, other societal factors will emerge to shift priorities for companies and their human resource management practices.

Labor Unions

A three-day strike in 2023 by nurses in two New York City hospitals caused significant costs to the hospitals as they struggled to stay open and provide care by using expensive temporary workers and having administrative staff take on nonpatient work. Although pay was an issue, the main demand from the nurses was increased staffing levels. The negotiated agreement that ended the strike provided assurance that enough nurses will be scheduled to provide safe patient care.²²

A **labor union** is an organization that represents workers and seeks to protect their interests through collective bargaining. In unionized organizations, many HRM

labor union

An organization that represents workers and seeks to protect their interests through collective bargaining

decisions are dictated by collective bargaining agreements, which usually define things such as recruitment sources; criteria for hiring, promotions, and layoffs; training eligibility; and disciplinary practices.

Union participation rates in the United States peaked in the mid-1950s, when approximately 35 percent of all wage and salary workers belonged to a union. Over the last several years union membership has remained around 11 percent. However, in 2022 the National Labor Relations Board recorded a 53-percent increase in union election petitions, signaling that unions aren't going away anytime soon.²³

Further, even though a minority of workers are in unions now, unions continue to hold dominant positions in certain businesses—for instance utilities, transportation, and warehousing—and represent a third of all workers in the public sector (including teachers, police officers, firefighters, and government workers).²⁴ Additionally, there is an indirect effect on nonunion workers. When unions negotiate higher salaries, expanded benefits, or enhanced job security for their members, they influence labor practices for nonunion organizations that have to compete against unionized firms. For instance, a new contract that increases unionized truck drivers' salaries in Buffalo by \$4 an hour is likely to lead to higher wages for all truck drivers in the Buffalo area. Finally, we need to recognize that labor union membership is often considerably higher outside the United States. In Italy, 32 percent of the total labor force belongs to unions. In Canada, it's 29 percent. And in Iceland, it's over 90 percent!²⁵

IDENTIFYING and Selecting Competent Employees

LO11.3 Discuss the tasks associated with identifying and selecting competent employees.

The HRM process begins by assessing what human resources are needed, finding potential candidates who could fill those needs, and then culling the applicant pool down to identify the best candidates. Referring back to Exhibit 11-1, this involves three tasks: human resource planning, recruitment, and selection.

Human Resource Planning

Human resource planning is the process by which managers ensure that they have the right number and kinds of capable people in the right places and at the right times. Through planning, organizations avoid sudden people shortages and surpluses. HR planning entails two steps: (1) assessing current human resources and (2) meeting future HR needs.

human resource planning

Ensuring that the organization has the right number and kinds of capable people in the right places and at the right times

CURRENT ASSESSMENT Managers begin HR planning by inventorying data on current employees. This inventory usually includes information on each employee such as name, education, training, prior employment, languages spoken, special capabilities, and specialized skills. Sophisticated databases make getting and keeping this information quite easy.

An important part of a current assessment is **job analysis**, a process that defines a job and the behaviors necessary to perform it. For instance, what are the duties of a level 3 accountant who works for General Motors? What minimal knowledge, skills, and abilities are necessary to adequately perform this job? How do these requirements compare with those for a level 2 accountant or for an accounting manager? Information for a job analysis is gathered by directly observing individuals on the job, interviewing employees individually or in a group, having employees complete a questionnaire or record daily activities in a diary, or having job “experts” (usually managers) identify a job's specific characteristics.

job analysis

A process that defines jobs and the behaviors necessary to perform them

Using this information from the job analysis, managers develop or revise job descriptions and job specifications. A **job description** (or *position description*) is a

job description (position description)

A written statement that describes a job

job specification

A written statement of the minimum qualifications a person must possess to perform a given job successfully

written statement describing a job—typically job content, environment, and conditions of employment. A **job specification** states the minimum qualifications that a person must possess to successfully perform a given job. It identifies the knowledge, skills, and aptitudes needed to do the job effectively.



Job interviews are the most common selection tool used by employers. Hiring managers can improve the effectiveness of interviews by using a structured set of questions.

Source: Shutterstock

recruitment

Locating, identifying, and attracting capable applicants

decruitment

Reducing an organization's workforce

MEETING FUTURE HR NEEDS Future HR needs are determined by the organization's mission, goals, and strategies. Demand for employees results from demand for the organization's products or services. After assessing both current capabilities and future needs, managers can estimate areas in which the organization will be understaffed or overstaffed. Then they're ready to proceed to the next step in the HRM process.

Recruitment and Decruitment

If employee vacancies exist, managers should use the information gathered through job analysis to guide them in **recruitment**—that is, locating, identifying, and attracting capable applicants.²⁶ On the other hand, if HR planning shows a surplus of employees, managers may want to reduce the organization's workforce through **decruitment**.²⁷

RECRUITMENT Companies often need to get creative when attracting new employees. The tech company Slack took a creative approach to find new coders while also addressing a challenge in society. The company created the nonprofit organization Next Chapter, which helps individuals with criminal records get technical training, mentorship, and connections to job opportunities. Other companies have engaged with Next Chapter, including Best Buy, PepsiCo, and McDonald's, creating a pipeline of talent to fill their growing number of technical positions.²⁸

Exhibit 11-3 lists different recruiting sources managers can use to find potential job candidates. Of these, two deserve elaboration—*referrals* because of their effectiveness, and *social media* because of its increased importance.²⁹

Exhibit 11-3
Recruiting Sources

Source	Advantages	Disadvantages
Internet	Reaches large numbers of people; can get immediate feedback	Generates many unqualified candidates
Employee referrals	Knowledge about the organization provided by current employee; can generate strong candidates because a good referral reflects on the recommender	May not increase the diversity and mix of employees
Company website	Wide distribution; can be targeted to specific groups	Generates many unqualified candidates
College recruiting	Large centralized body of candidates	Limited to entry-level positions
Professional recruiting organizations	Good knowledge of industry challenges and requirements	Little commitment to specific organization
Social media	Takes advantage of current employees' connections; particularly effective at reaching younger candidates	Requires investment of time to build brand and connections

WORKPLACE CONFIDENTIAL Job Search

Finding the right job is a complex task, but investing time in building your network can significantly increase your chances for success. We'll first look at how you can approach building your network. After that, we'll discuss the importance of choosing the right organization.

As we noted earlier, referrals from employees are a preferred source of candidates for companies. From a job search perspective, referrals from a current employee of an organization tend to provide accurate and realistic information—the kind of information you're not likely to get from a company recruiter. As a result, referrals tend to reduce unrealistic expectations.

How can you get referred to jobs that are a good match for you? You need to build your social network! How can you build your network? You need to be intentional and have a plan to meet new people at companies that interest you. Following are three strategies to start your networking.

First, many professional organizations offer programs or events specifically for networking. Professional organizations serving such varied occupations as human resource management, industrial engineering, psychology, accounting, and law allow students to attend events and conferences. In fact, they typically offer discounts for students to attend. If you aren't sure about what professional organizations exist in your field, talk to a professor in your major.

Next, doing research on social media sites, LinkedIn especially, can help you identify potential connections. You can search specific companies that interest you or search through mutual connections to identify potential new contacts. Comment on their posts or ask a connection for an introduction. If you are active on LinkedIn, you might find that new connections find you. Share articles you find interesting or repost items of interest from your connections.

Finally, utilize the career services office at your college to connect with alumni. Take advantage of networking events at your college where alumni are invited. Connecting

with alumni is a great way to build your network because they typically have an affinity for their alma mater and are open to helping you in your job search.

Once you meet new people, you need to cultivate those connections. That means you need to get to know them and make sure they know you. Someone is not going to refer you to a job just because you met them for a few minutes at an event. Invite your new connection to have coffee or follow you on social media so they can get to know you and learn about your interests and accomplishments.

Now we turn to our other concern regarding a job search: making sure that a job vacancy is right for you. Specifically, even if the job looks great and an employer extends an offer, is the organization a good match for you?

We've discussed organizational culture in several previous Workplace Confidential boxes (see **Chapters 4** and **9**). Consistent with those discussions, no job search can be called successful if you end up with a great job but in an organization where you don't fit. So how do you find out what an organization is really like before you actually start working there? During your interviews, read between the lines. Listen to the stories people tell about how management handled setbacks, rule breakers, nonconformists, or creative types. Does the company, for instance, reward risk taking or punish it? Listen and observe rituals that indicate what employees believe are important. And look for artifacts and symbols that can give you clues as to the kind of employee behaviors that are considered appropriate. As legendary baseball player and coach Yogi Berra said, "You can observe a lot just by watching."

After you've sized up the organization, ask yourself: Do my personality and beliefs fit with what this organization values? In job searches, too often we focus on the title, position, and salary. They're obviously important, but finding a culture that is the right fit will significantly increase the chances that you'll be happy and successful in your job.³⁰

Employee referrals top the list as the best source for finding strong applicants because referred candidates tend to have desirable job attitudes and behaviors.³¹ Why are referrals such effective sources? Because current employees know both the job and the person being recommended, they tend to refer applicants who are well qualified. Also, current employees often feel their reputation is at stake and refer others only when they're confident that the person will not make them look bad.

Is there a downside to referrals? Yes. Because people tend to befriend, and hence recommend, people like themselves, referrals aren't likely to enhance diversity. As a case in point, to the degree that Silicon Valley companies rely heavily on current employees for referrals, new employees are likely to mirror current ones—that is, young, white males.

Social media is now the fastest growing source for job applicants.³² LinkedIn, for instance, was built for recruiting and networking. The appeal of social media lies in its ability to expand the applicant pool, its ease for finding rich profiles on potential applicants, and the power of online connections. Using their social media connections, employees can alert their personal networks about possible job openings in their organizations.

Exhibit 11-4
Decruitment Options

Option	Description
Firing	Permanent involuntary termination
Layoffs	Temporary involuntary termination; may last only a few days or extend to years
Attrition	Not filling openings created by voluntary resignations or normal retirements
Transfers	Moving employees either laterally or downward; usually does not reduce costs but can reduce intraorganizational supply–demand imbalances
Reduced workweeks	Having employees work fewer hours per week, share jobs, or perform their jobs on a part-time basis
Early retirements	Providing incentives to older and more senior employees for retiring before their normal retirement date
Job sharing	Having employees share one full-time position

DECRUITMENT The other approach to controlling labor supply is decruitment, which is not a pleasant task for any manager. Decruitment options are shown in **Exhibit 11-4**. Although employees can be fired, other choices may be better. However, no matter how you do it, it’s never easy to reduce an organization’s workforce.

Selection

Once you have a pool of candidates, the next step in the HRM process is **selection**—screening job applicants to determine who is best qualified for the job. Managers need to “select” carefully because hiring errors can have significant implications.³³ Former Zappos CEO Tony Hsieh once estimated bad hires had cost his company “well over \$100 million.”³⁴ These costs include everything from disrupting a well-functioning team to encouraging talented colleagues to leave to the cost of hiring a replacement.

WHAT IS SELECTION? Selection involves predicting which applicants will be successful if hired.³⁵ As shown in **Exhibit 11-5**, any selection decision can result in four possible outcomes—two correct and two errors.

A decision is correct when the applicant was predicted to be successful and proved to be successful on the job, or when the applicant was predicted to be unsuccessful and was not hired. In the first instance, we have successfully accepted; in the second, we have successfully rejected.

Problems arise when errors are made in rejecting candidates who would have performed successfully on the job (reject errors) or accepting those who ultimately perform poorly (accept errors). Given today’s HR laws and regulations, reject errors can cost more than the additional screening needed to find acceptable candidates. Why? Because they can expose the organization to discrimination charges, especially if applicants from protected groups are disproportionately rejected. For instance, employment assessments used by Target Corporation were found to have disproportionately screened out Black, Asian, and female applicants for exempt-level

selection
Screening job applicants to ensure that the most appropriate candidates are hired

Exhibit 11-5
Selection Decision Outcomes

		Selection Decision	
		Accept	Reject
Later Job Performance	Successful	Correct Decision	Reject Error
	Unsuccessful	Accept Error	Correct Decision

professional positions.³⁶ The Equal Employment Opportunity Commission said that Target violated Title VII of the Civil Rights Act because the tests were not sufficiently job related and consistent with business necessity.

On the other hand, the costs of accept errors include the cost of training the employee, the profits lost because of the employee's incompetence, the cost of severance, and the subsequent costs of further recruiting and screening. The major emphasis of any selection activity should be reducing the probability of reject errors or accept errors while increasing the probability of making correct decisions. Managers do this by using selection tools that are both valid and reliable.

VALIDITY AND RELIABILITY A **valid selection device** is characterized by a proven relationship between the selection device and some relevant criterion. For instance, federal employment laws prohibit managers from using a test score to select employees unless clear evidence shows that, once on the job, individuals with high scores on this test outperform individuals with low test scores. The burden is on managers to support that any selection device they use to differentiate applicants is validly related to job performance.

A **reliable selection device** measures the same thing consistently. On a test that's reliable, any single individual's score should remain fairly consistent over time, assuming that the characteristics being measured are also stable. No selection device can be effective if it's not reliable. Using such a device would be like weighing yourself every day on an erratic scale. If the scale is unreliable—randomly fluctuating, say, five to 10 pounds every time you step on it—the results don't mean much.

TYPES OF SELECTION TOOLS The best-known selection tools include application forms, written and performance-simulation tests, interviews, background investigations, and in some cases, physical exams. **Exhibit 11-6** lists the strengths and weaknesses of each.

valid selection device

A selection device characterized by a proven relationship to some relevant criterion

reliable selection device

A selection device that measures the same thing consistently

Application Forms

- Almost universally used
- Most useful for gathering information
- Can predict job performance but not easy to create one that does

Written/Online Tests

- Must be job-related
- Include intelligence, aptitude, ability, personality, and interest tests
- Are popular (e.g., personality tests, aptitude tests)
- Some are relatively good predictor for supervisory positions

Performance-Simulation Tests

- Use actual job behaviors
- Work sampling—test applicants on tasks associated with that job; appropriate for routine or standardized work
- Assessment center—simulate jobs; appropriate for evaluating managerial potential

Interviews

- Almost universally used
- Must know what can and cannot be asked
- Can be useful for managerial positions

Background Investigations

- Used for verifying application data—valuable source of information
- Used for verifying reference checks—not a valuable source of information

Physical Examinations

- Are for jobs that have certain physical requirements
 - Mostly used for insurance purposes
-

Exhibit 11-6
Selection Tools

Job interviews continue to be one of the most popular selection tools. Few jobs are obtained without an interview. Unfortunately, the overwhelming evidence indicates that they're not very reliable, and yet they carry a disproportionate amount of influence in the final selection decision.³⁷ The major problem is that most interviews tend to be unstructured—short, casual, and made up of random questions. The data gathered is typically biased and often only modestly related to future job performance. Without structure, interviewers tend to favor applicants who share their attitudes, give undue weight to negative information, and allow the order in which applicants are interviewed to influence their evaluations.³⁸ The good news is that structured interviews, where all candidates receive a standardized set of questions, can significantly increase reliability.³⁹

One of the most reliable and valid tools for predicting an applicant's future job performance is having the candidate perform actual job-related skills.⁴⁰ Performance-simulation tests include work samples and assessment centers. **Work sample tests** are hands-on simulations of part or all the work that workers in the job routinely must perform. Each work sample element is matched with a job-performance element to measure applicants' knowledge, skills, and abilities with more specificity than written aptitude or personality tests.⁴¹ A more elaborate set of performance-simulation tests, specifically designed to evaluate a candidate's managerial potential, is administered in **assessment centers**. Line executives, supervisors, and/or trained psychologists evaluate candidates as they go through one to several days of exercises that simulate real problems they would confront on the job.⁴²

work sample tests

Hands-on simulations of part or all the work that workers in a job routinely must perform

assessment centers

A set of performance-simulation tests designed to evaluate a candidate's managerial potential

REALISTIC JOB PREVIEWS When recruiters and interviewers describe their organization and the job a potential prospect will be doing, there is a tendency to focus on the positive. The logic is that a good prospect is less likely to accept a job if they hear negatives. The problem is that if applicants are told only the good aspects, they are likely to be disenchanted when reality sets in.⁴³ Bad things can happen when the information an applicant receives is excessively inflated. First, mismatched applicants probably won't self-select themselves out of the selection process. Second, inflated information builds unrealistic expectations, so new employees may quickly become dissatisfied and leave the organization. Third, new hires become disillusioned and less committed to the organization when they face the unexpected harsh realities of the job. Finally, individuals who feel they were misled during the hiring process may become problem employees.

To increase employee job satisfaction and reduce turnover, managers should consider a **realistic job preview (RJP)**, one that includes both positive and negative information about the job and the company. For instance, in addition to the positive comments typically expressed during an interview, the job applicant might be told there are limited opportunities to talk to coworkers during work hours, that promotional advancement is unlikely, or that work hours are erratic and they may have to work weekends. The evidence indicates that applicants who receive an RJP have more realistic expectations about the jobs they'll be performing and are better able to cope with the frustrating elements than applicants who receive only inflated information.

realistic job preview (RJP)

A preview of a job that provides both positive and negative information about the job and the company

Technology in the Hiring Process

In recent decades, organizations have used technology to improve their hiring processes. For example, the internet has changed how applicants learn about job opportunities, and most selection tests like those discussed above are offered online. Here we will explore more recent developments that will continue to evolve the hiring process: artificial intelligence and social media.

ARTIFICIAL INTELLIGENCE From writing job postings to screening applicant résumés to analyzing video interviews, AI is significantly impacting the hiring process. For example, artificial intelligence (AI) is often used to screen a large volume of résumés or to search for niche skill sets.⁴⁴ Southwest Airlines is using the AI-powered hiring

platform Phenom to speed up its recruiting process. The platform tracks applicants who come to the airline's website but don't apply because they don't see an open position of interest. When a new job is posted, the AI finds and connects with applicants who showed interest in Southwest and encourages them to apply. The platform also schedules and records video interviews with applicants.⁴⁵

Companies should pay particular attention to ethics when using AI in the hiring process. As noted earlier, AI can amplify biases in data; therefore, businesses should ensure that the development of AI selection tools includes steps to mitigate bias. Further, companies should be transparent about their use of AI tools and, where appropriate, get consent from candidates if their data will be screened by AI tools to comply with any privacy laws.⁴⁶

SOCIAL MEDIA As noted previously, social media can be a good source to recruit candidates. In fact, many businesses today hire digital marketing experts to utilize social media in the recruitment process. Collaborating with marketing departments, company recruiters can use the company's brand image to build interest in working at the company. Recruiters can also build relationships with potential candidates through interaction, with LinkedIn being the most popular platform for job seekers.⁴⁷

Caution is advised, however, in using social media in the selection process. Some companies conduct a social media screen to help inform the hiring process, looking for professionalism and screening for offensive or concerning behavior; however, there is little evidence that this type of screening is correlated with job performance. Further, it can cause companies problems with potential discrimination because this type of screening makes companies aware of characteristics such as religion or age.⁴⁸

TRAINING and Developing Employees

LO11.4 Explain how companies develop workplace talent.

Even the most qualified new hires need to adjust to their work group and become acquainted with their new organization's culture. And, given today's rapidly changing work environment, current employees need to keep their skills up-to-date. Toward these ends, HRM uses orientation, socialization, and training programs.

orientation

Introducing a new employee to their job and the organization

Orientation and Socialization

Did you participate in some type of organized "introduction to college life" when you started school? If so, you may have been told about your school's rules and the procedures for activities such as applying for financial aid or registering for classes, and you were probably introduced to some of the college administrators. A person starting a new job needs the same type of introduction to their job and the organization. This introduction is called **orientation**.

There are two types of orientation. *Work unit orientation* familiarizes employees with the goals of the work unit, clarifies how their job contributes to the unit's goals, and includes an introduction to new coworkers. *Organization orientation* informs new employees about the company's goals, history, philosophy, procedures, and rules. It should also include relevant HR policies and maybe even a tour of the facilities.

Beyond just introducing new employees to an organization, management should consider its various options for helping new employees adapt to the organization's culture. As introduced in **Chapter 4**, these options fall under the process called *socialization*. **Exhibit 11-7** lists management's options. These options can be bundled in ways to encourage employees to exhibit restrictive and regimented behavior or to be independent and creative.⁴⁹ The more management relies on formal, collective, fixed,



New Fort McCoy employees participate in the installation's new onboarding process at the Army's facility in Wisconsin. During this session, they were receiving a briefing about the Fort McCoy strategic planning process and about the installation's mission, vision, and motto from Jobi Spolum of the Fort McCoy Plans, Analysis, and Integration Office.

Source: Operation 2023/Alamy Stock Photo

Exhibit 11-7

Entry Socialization Options

Formal vs. Informal The more a new employee is segregated from the ongoing work setting and differentiated in some way to make explicit their role as a newcomer, the more socialization is formal. Specific orientation and training programs are examples. Informal socialization puts new employees directly into the job, with little or no special attention.

Individual vs. Collective New members can be socialized individually. This describes how it's done in many professional offices. Or they can be grouped together and processed through an identical set of experiences, as in military boot camp.

Fixed vs. Variable This refers to the time schedule in which newcomers make the transition from outsider to insider. A fixed schedule establishes standardized stages of transition. This characterizes rotational training programs where new hires might spend three months in each of a half-dozen departments before final assignment. Variable schedules give no advance notice of their transition timetable. This describes the typical promotion system, where one isn't advanced to the next stage until one is "ready."

Serial vs. Random Serial socialization is characterized by the use of role models who train and encourage the newcomer. Apprenticeship and mentoring programs are examples. In random socialization, role models are deliberately withheld. New employees are left on their own to figure things out.

Investiture vs. Divestiture Investiture socialization assumes that the newcomer's qualities and qualifications are the necessary ingredients for success, so these qualities and qualifications are confirmed and supported. Divestiture socialization tries to strip away certain characteristics of the recruit. Fraternity and sorority "pledges" go through divestiture rituals to shape them into the proper role.

and serial socialization programs while emphasizing divestiture, the more likely newcomers' differences will be stripped away and replaced by standardized, predictable behaviors. These *institutional* practices are common in police departments, fire departments, and other organizations that value rule following and order. Programs that are informal, individual, variable, and random while emphasizing investiture are more likely to give newcomers an innovative sense of their roles and methods of working. Creative fields such as research and development, advertising, and filmmaking rely on these *individual* practices.

It's in the best interests of both the organization and the new employee to get the person up and running in the job as soon as possible. Successful socialization results in an outsider-insider transition that makes the new employee feel comfortable, improves engagement with work, and reduces the probability of a premature resignation.⁵⁰

Employee Training

While you might think of Etsy as just a good website to pick up a personalized coffee mug, the company is on a growth trajectory, with more than \$2 billion in annual revenue. The company's more than 1,400 employees meet the demands of the growing company through ongoing training to help them thrive in their roles. The company develops training programs based on research on psychology, sociology, and adult learning theory and delivers a variety of training, including online resources and formal training programs.⁵¹

Employee training is a key HRM activity. As job demands change, employee skills have to change with them. In 2021, US business firms spent \$92.3 billion on formal employee training.⁵² Managers, of course, are responsible for deciding what type of training employees need, when they need it, and what form that training should take.⁵³



Etsy uses a research-based approach to designing training programs for its more than 1,400 employees.

Source: Robert K. Chin - Storefronts/Alamy Stock Photo

Management or supervisory
 Onboarding or new hire
 Interpersonal skills
 Profession or industry-specific
 Executive development
 Information technology or systems
 Customer service
 Mandatory compliance (e.g., cybersecurity, sexual harassment)

Exhibit 11-8 Types of Training

Source: "2022 Training Industry Report," *Training Magazine*, November 16, 2022, <https://trainingmag.com/2022-training-industry-report/>.

TYPES OF TRAINING Exhibit 11-8 describes the major types of training that organizations provide. Some of the most popular types include profession/industry-specific training, management/supervisory skills, mandatory/compliance information (such as sexual harassment, safety, etc.), and customer service training. For many organizations, employee interpersonal skills training—communication, conflict resolution, team building, customer service, and so forth—is a high priority. For example, until recently, medical schools did not teach students how to communicate with patients. Many hospitals have now taken on this responsibility as patient satisfaction becomes more important. For instance, the University of Rochester Medical Center provides one-on-one coaching to help doctors improve communication with patients.⁵⁴



A US Navy air traffic controller 2nd class uses an on-the-job training approach at the Naval Air Facility Atsugi Air Traffic Control Tower.
 Source: Mil image/Alamy Stock Photo

TRAINING METHODS Many organizations are relying more on technology-based training methods because of their accessibility, cost, and ability to deliver information. Exhibit 11-9 provides a description of the various traditional

Traditional Training Methods

On-the-job—Employees learn how to do tasks simply by performing them, usually after an initial introduction to the task.

Job rotation—Employees work at different jobs in a particular area, getting exposure to a variety of tasks.

Mentoring and coaching—Employees work with an experienced worker who provides information, support, and encouragement; also called apprenticeships in certain industries.

Experiential exercises—Employees participate in role-playing, simulations, or other face-to-face types of training.

Workbooks/manuals—Employees refer to training workbooks and manuals for information.

Classroom lectures—Employees attend lectures designed to convey specific information.

Technology-Based Training Methods

Videos/podcasts—Employees listen to or watch selected media that convey information or demonstrate certain techniques.

Synchronous video programs—Employees listen to or participate as information is conveyed or techniques demonstrated.

E-learning—Employees participate in multimedia simulations or other interactive modules online.

Mobile learning—Employees learn via mobile devices.

Virtual reality (VR)—Employees use VR headsets and customized software to learn through simulated practice.

Exhibit 11-9 Training Methods

Exhibit 11-10

Training and Development at Microsoft

Training and Development

Demonstrating its commitment to training and developing its employees, Microsoft offers diverse learning and development opportunities. The company philosophy of providing the “right learning, at the right time, in the right way,” means Microsoft offers more than formal instruction. Examples include the following:

- Creating personalized learning opportunities through Microsoft Learning and LinkedIn Learning
- Offering in-person classes with opportunities to share learning online with other employees
- Opportunities to learn on-the-job to prepare for future jobs
- Frequent promotion opportunities
- Encouraging employee interactions with their managers for career guidance
- Training managers on coaching and mentoring
- Providing thorough employee orientation covering company values, company culture, and other expected behaviors

Source: Adapted from “Our commitment and approach: Training and development,” Microsoft Corporate Social Responsibility page

and technology-based training methods that managers might use. Of all these training methods, experts believe that organizations will increasingly rely on e-learning, mobile applications, and virtual reality to deliver important information and to develop employees’ skills.

Developing Employees

Whereas training programs focus on developing skills for your current job, employee development activities are focused on preparing you for your future roles within the company. We discussed careers—from your perspective—in the “Workplace Confidential” box in **Chapter 9**. Here we want to briefly focus on the organization’s responsibility.

Why should a company invest in your career development? On average, people will hold 12 jobs in their career, and it benefits a company if you can hold those jobs within that company.⁵⁵ Research suggests that investing in developing employees leads to improved satisfaction and commitment.⁵⁶

Employee development activities could include formal education, assessments of skills, mentoring programs, or networking opportunities. Development might also include job experiences such as special projects to stretch skills or even formal job rotation programs; for example, Microsoft provides a range of development activities, as outlined in **Exhibit 11-10**. However, although employers may provide specific resources, in today’s companies, employees are expected to be their own talent agents, taking responsibility for their own career development. For example, Mindtree Limited, a global telecommunications company, created a social networking and knowledge-sharing platform called Konnect that provides employees a multitude of resources such as videos, discussion boards, podcasts, and document repositories. But it is up to employees to take advantage of the resources provided, and much of the learning is through interactions with other employees.⁵⁷

RETAINING Competent, High-Performing Employees

LO11.5 Describe strategies for retaining competent, high-performing employees.

Providing employees feedback on their work not only leads to improved performance but also helps companies retain workers. Further, companies can design compensation, including pay and benefits, in a way to build a loyal and committed workforce.

In fact, a recent global survey by LinkedIn found that compensation and benefits are the top priority for workers when considering what they want from their work.⁵⁸

Performance Feedback

Evaluating employee performance has long been a basic element in HR practices. The annual review, for instance, has traditionally provided feedback to management on how well employees are doing their jobs, formed the basis for performance-based compensation decisions, and identified areas where employees might need additional supervision or training to improve performance.

But many companies have learned that the annual review process is not timely enough to make an impact. Immediate feedback and smaller steps toward improvement are more realistic and can lead more quickly to better performance. In fact, many companies are engaging in strategies to provide continuous feedback to employees.⁵⁹ For instance, at software company Revinat, managers use goal-setting programs and apps to rate workers' progress in real time. As the senior director of customer success put it, team members receive “bite-size feedback, and lots of it.”⁶⁰ Other companies—like Adobe Systems, PricewaterhouseCoopers, and Lumeris Healthcare Outcomes—are following suit. The availability of digital employee-assessment tools and the employment of younger workers who are accustomed to instant gratification and desire ongoing feedback make short, constant reviews an attractive option.

And although research has not yet caught up with practice to determine if replacing the annual review with more frequent feedback yields the expected results, it does resonate with workers. Years of research on performance reviews indicate giving employees feedback is important, and many organizations still use formal performance ratings to support decisions such as promotions.⁶¹ Traditional performance evaluation methods are described in **Exhibit 11-11** with their advantages and disadvantages.

We should note that, even where formal reviews are conducted, technology is changing how performance data is collected. Increasingly, especially in jobs that are done on computers, observation by a supervisor is being replaced by **electronic performance monitoring**.⁶² This is the use of electronic instruments or devices to collect, store, analyze, and report individual or group performance. For instance, this technology is being widely used in call centers where supervisors can continually track and analyze an employee's workflow in real time. Electronic monitoring systems can continually collect information on performance metrics like the average call handling time, total number of calls handled, and time on breaks. This allows supervisors to do formal performance reviews with objective data to support the evaluation. Additionally, these digital monitoring systems alert supervisors almost immediately to performance problems and allow for rapid corrective action. This is a big improvement over the annual review where supervisors may be addressing problems that occurred six or nine months ago.

electronic performance monitoring
Using electronic instruments or devices to collect, store, analyze, and report individual or group performance

Compensation and Benefits

Unless we're doing volunteer work, we expect to receive compensation from our employer. And developing an effective and appropriate compensation system is an important part of the HRM process. It's a key component in any organization's effort to attract and retain competent and talented individuals.

Organizational compensation can include many different types of rewards and benefits, including base wages and salaries, wage and salary add-ons, incentive payments, and other benefits and services.⁶³ Employee benefits commonly include offerings such as retirement benefits, health insurance, and paid time off.



A 401(k) matching program is one way a company can attract and retain quality employees. Lowe's offers a competitive 401(k) package to its employees, matching the first 3 percent employees save each pay period at 100 percent; 4–5 percent at 50 percent, and 6 percent at 25 percent.

Source: Randy Duchaine/Alamy Images

Exhibit 11-11

Performance Evaluation Methods

Written Essay

Evaluator writes a description of employee's strengths and weaknesses, past performance, and potential; provides suggestions for improvement.

- + Simple to use
- May be better measure of evaluator's writing ability than of employee's actual performance

Critical Incident

Evaluator focuses on critical behaviors that separate effective and ineffective performance.

- + Rich examples, behaviorally based
- Time-consuming, lacks quantification

Graphic Rating Scale

Popular method that lists a set of performance factors and an incremental scale; evaluator goes down the list and rates employee on each factor.

- + Provides quantitative data, not time-consuming
- Doesn't provide in-depth information on job behavior

Behaviorally Anchored Rating Scale (BARS)

Popular approach that combines elements from critical incident and graphic rating scale; evaluator uses a rating scale, but items are examples of actual job behaviors.

- + Focuses on specific and measurable job behaviors
- Time-consuming, difficult to develop

Multiperson Comparison

Employees are rated in comparison to others in work group.

- + Compares employees with one another
- Difficult with large number of employees, legal concerns

Management by Objectives (MBO)

Employees are evaluated on how well they accomplish specific goals.

- + Focuses on goals, results oriented
- Time-consuming

360-Degree Appraisal

Utilizes feedback from supervisors, employees, and coworkers.

- + Thorough
- Time-consuming

How do managers determine who gets paid what? Several factors influence the compensation and benefit packages that different employees receive. **Exhibit 11-12** summarizes these factors, which are job-based and business- or industry-based.

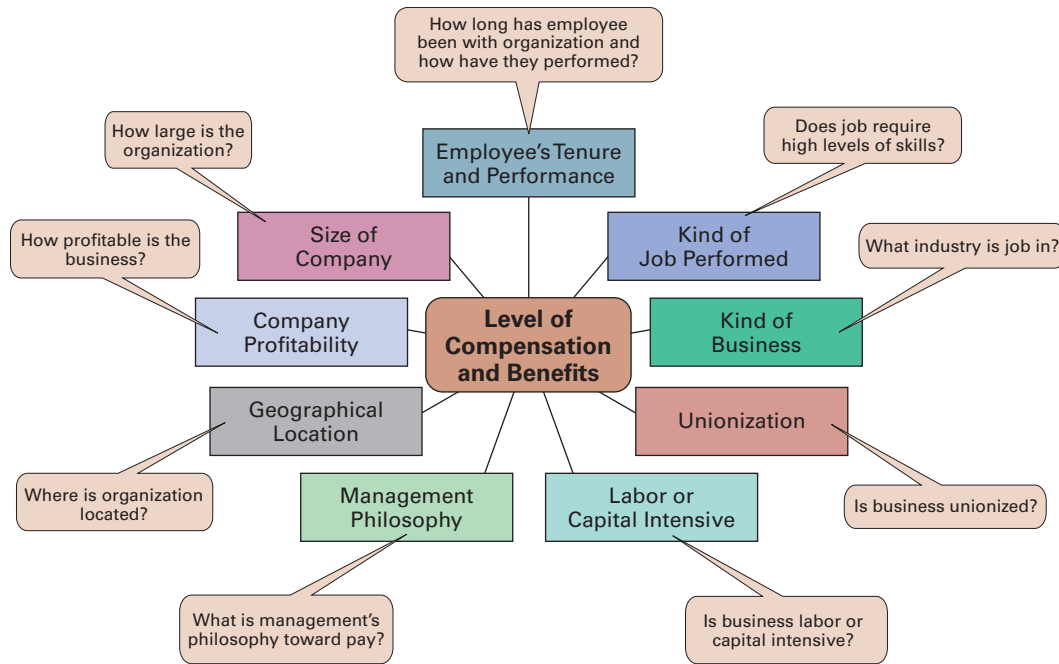
In the following sections we look at three contemporary compensation issues: skill-based vs. variable pay, bonuses vs. annual pay increases, and pay secrecy vs. transparency. Then we briefly look at benefit options and which options employees indicate they prefer.

SKILL-BASED VS. VARIABLE PAY **Skill-based pay** systems reward employees for the job skills and competencies they can demonstrate. Under this type of pay system, an employee's job title doesn't define their pay category; skills do. A wide variety of employers have established skill-focused pay programs. Many of the companies known to be using this kind of pay program operate in manufacturing. How well do these programs work? One study found that a skill-based pay plan in a manufacturing setting increased plant productivity by 58 percent, lowered labor cost per part

skill-based pay

A pay system that rewards employees for the job skills they can demonstrate

Exhibit 11-12
What Determines Pay and Benefits



by 16 percent, and generated favorable quality outcomes.⁶⁴ On the other hand, many organizations use **variable pay** systems, in which an individual's compensation is contingent on performance—nearly 80 percent of US organizations use some type of variable pay plan.⁶⁵ In **Chapter 14**, we'll discuss variable pay systems further as they relate to employee motivation.

variable pay
A pay system in which an individual's compensation is contingent on performance

Although many factors influence the design of an organization's compensation system, flexibility is a key consideration. The traditional approach to paying people reflected a more stable time when an employee's pay was largely determined by seniority and job level. Given the dynamic environments that many organizations now face, the trend is to make pay systems more flexible and to reduce the number of pay levels.

BONUSES VS. ANNUAL PAY INCREASES The annual pay raise has been the norm in the United States for a century. But is it the best way to compensate people? Some companies and pay experts expand on the variable pay concept to propose replacing annual pay raises with one-time bonuses for select, high-performing individuals.⁶⁶

Much of the motivating potential of a pay raise is lost when mediocre performers get a 3 percent raise while top performers get 5 percent. Given that the pool of funds for pay raises is limited, giving increases to everyone means less for the best performers. Instead of spreading the wealth, why not give it where it will do the most good? At Novitex Enterprise Solutions, top-performing employees have earned increases of 10 percent or more. An added plus, says Novitex's service-delivery manager: "You are going to experience some healthy turnover" among low performers.⁶⁷

PAY SECRECY VS. TRANSPARENCY Although it is illegal under the National Labor Relations Act to forbid employees from talking about their pay, historically, employers have not publicized pay ranges and pay levels for employees. However, laws are shifting in several states to require companies to publish salary ranges to address pay inequity concerns. These laws level the salary negotiation playing field for all, attempting to address pay gaps between different groups such as men and women by everyone knowing what pay is within reason to request.⁶⁸ Many companies are voluntarily sharing their pay ranges and have seen positive effects. For example, a recent survey found that 82 percent of respondents are more likely to apply for a job that lists the pay range.⁶⁹

BENEFIT OPTIONS Employee compensation isn't just about pay. A key factor in attracting and retaining good employees is the organization's benefit programs. Surveys of employees confirm this: 57 percent report benefits being among their top considerations in weighing a job offer; 80 percent said they would prefer additional benefits to a pay raise; and 87 percent said the right benefit package would make them less likely to leave their jobs.⁷⁰

But what benefits do most employees want? What programs should managers be focusing on to maximize the value of these benefits? Traditional benefit offerings such as healthcare insurance and retirement benefits (such as 40(k) savings plans) are expected by employees; in **Chapter 10** we explored the emergence of flexible work options, and this is clearly a desired benefit. A survey of US workers in 2022 found that more than half of respondents indicated that flexible work is just as important as other benefits such as retirement and paid time off.⁷¹ Additional benefits should reflect factors like the interests of employees, the organization's culture, and even a firm's location. For instance, tech giant Cisco, who was number one on *Fortune's* 2023 Best Companies to Work For list, offers paid time off to volunteer in the community.⁷²

IT'S YOUR CAREER

Nailing the Behavior-Based Interview

A common approach to interviewing is what is called the behavior-based interview. Based on the idea that past behavior is the best predictor of future behavior, the behavior-based interview asks you to share past experiences to demonstrate your skills and competencies. You know you are in a behavior-based interview when the questions start with "Tell me about a time when..." or "Give me an example of..." and then ask for you to share an experience that demonstrates a specific skill or ability. "Tell me about a time you had to manage a difficult customer" is an example of a behavior-based interview question.

The key to succeeding in a behavior-based interview is preparation! Start by making a list of the skills, abilities, or competencies that the job might require. The job posting is a good place to start to determine these. It is likely to list skills such as communication, teamwork, time management, and creativity.

Next, think about stories you can tell to share your experiences that demonstrate you have those skills. For example, did you write a persuasive email

that convinced your boss to try your idea? Did you create a time management process that helps you deliver assignments on time? And remember, not every experience has to be a success for you to learn from it. For example, maybe you had a team project that was a disaster, but through the project you learned how to better work in teams.

Finally, practice responding to the questions you think you will need to answer. The STAR method is a good way to focus your question responses to make sure you tell the interviewer what they need to know, without going on too long. You can organize your story to share the **Situation**, **Task**, **Action**, and **Result**.

- **Situation:** Share some context around the challenge you faced. Where were you working? What was your job?
- **Task:** What was the specific problem you solved, opportunity you took advantage of, or challenge you responded to?
- **Action:** Explain exactly what you did to resolve the problem, or what action you took in response to the challenge. Make sure you use "I" and not "we" to emphasize your role, even if it was a team project.
- **Result:** What was the outcome? Did you save a customer? Get an A on the project? If you are sharing a failure, what did you learn?⁷³

Chapter 11

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO11.1 EXPLAIN the importance and process of managing human resources.

HRM is important for three reasons. First, it can be a significant source of competitive advantage. Second, it's an important part of organizational strategies. Finally, the way organizations treat their people has been found to significantly impact organizational performance. To meet these objectives, managers rely on eight activities (Exhibit 11-1) that comprise the HRM process.

LO11.2 DESCRIBE the external influences that affect the human resource management process.

The external factors that most directly affect the HRM process are the economy, legal environment, demographic trends, social and cultural factors, and labor unions. The economy affects how employees view their work and has implications for how an organization manages its human resources. HRM practices are governed by a country's laws, and not following those laws can be costly. Demographic trends such as the aging workforce and the growing number of women in the workforce have implications for HRM practices, as do social and cultural factors such as a growing emphasis on well-being. A labor union is an organization that represents workers and seeks to protect their interests through collective bargaining. In unionized organizations, HRM practices are dictated by collective bargaining agreements.

LO11.3 DISCUSS the tasks associated with identifying and selecting competent employees.

Human resource planning is the process by which managers ensure they have the right number and kinds of capable people in the right places at the right times. A job analysis is part of the assessment process that defines a job and the behaviors necessary to perform it. A job description is a written statement describing a job and typically includes job content, environment, and conditions of employment. A job specification is a written statement that specifies the minimum qualifications a person must possess to successfully perform a given job.

Employers must cautiously screen potential job applicants. Recruitment is the process of locating, identifying, and attracting capable applicants. Decruitment involves reducing the workforce when there is a surplus in the labor supply.

Selection involves predicting which applicants will be successful if hired. A valid selection device is characterized by a proven relationship between the selection device and some relevant criterion. A reliable selection device indicates that it measures the same thing consistently. The different selection devices include application forms, written and performance-simulation tests, interviews, background investigations, and in some cases physical exams.

A realistic job preview is important because it gives an applicant more realistic expectations about the job, which in turn should increase employee job satisfaction and reduce turnover.

LO11.4 EXPLAIN how companies develop workplace talent.

Orientation is important because it results in an outsider-insider transition that makes the new employee feel comfortable and fairly well adjusted, lowers the likelihood of poor work performance, and reduces the probability of an early surprise resignation. The most popular types of training include profession/industry-specific training, management/

supervisory skills, mandatory/compliance information, and customer service training. This training can be provided using several different methods, from in-person to online. Finally, employers can help prepare employees for future roles by providing employee development opportunities such as formal education and mentoring programs.

LO11.5 DESCRIBE strategies for retaining competent, high-performing employees.

A performance management system establishes performance standards used to evaluate employee performance. The different performance appraisal methods are written essays, critical incidents, graphic rating scales, BARS, multiperson comparisons, MBO, and 360-degree appraisals.

The factors that influence employee compensation and benefits include the employee's tenure and performance, kind of job performed, kind of business/industry, unionization, whether it is labor or capital intensive, management philosophy, geographic location, company profitability, and size of company.

Skill-based pay systems reward employees for the job skills and competencies they can demonstrate. In a variable pay system, an employee's compensation is contingent on performance. Some companies provide one-time bonuses for high-performing individuals instead of using annual pay raises. Benefits that have the greatest impact on employee satisfaction are health insurance, vacations, and paid time off.

REVIEW AND DISCUSSION QUESTIONS

- | | |
|--|---|
| <p>11-1. Describe how human resource management practices can be a source of competitive advantage for a company.</p> <p>11-2. Describe the external environmental factors that most directly affect the HRM process.</p> <p>11-3. Why should HR complete a job analysis and update the job description before they screen and interview job candidates? Which selection devices work best for different professional jobs?</p> <p>11-4. What are the benefits and drawbacks of realistic job previews? (Consider this question from the</p> | <p>perspective of both the organization and the employee.)</p> <p>11-5. Describe the different types of orientation and training and if each can be effectively provided virtually.</p> <p>11-6. List the factors that influence employee compensation and benefits.</p> <p>11-7. Describe the different performance appraisal methods.</p> |
|--|---|

PREPARING FOR: My Career

ETHICS DILEMMA

It's one thing to place security cameras in the workplace or to monitor business-related emails in order to prevent intellectual property theft.⁷⁴ But there are now so many other ways that employees can be electronically monitored at work. Software can monitor how much time is spent on social media sites and take screenshots of what workers have on-screen. There even are badges that track the tone and length of conversations between coworkers, health

trackers, and fingerprint scanners.⁷⁵ There is a lack of consistent laws about what constitutes legal employee monitoring, so many companies engage in electronic monitoring without letting employees know they are being watched. Employers don't legally need to tell employees that they are under video surveillance.⁷⁶ If they do let employees know, it is often buried in a lengthy document in legal language that employees don't understand.

- 11-8. What are the positives and negatives of monitoring employees electronically?
- 11-9. How might employee electronic monitoring affect employee retention, engagement, and productivity?
- 11-10. If employers want to monitor employees electronically, how should they do it ethically? How should they decide whether a specific monitoring practice is appropriate or is going too far?

SKILLS EXERCISE Developing Your Interviewing Skills

About the Skill

One human resource practice that most managers must master is using structured interviews to interview candidates in the hiring process. As a manager, you need to develop your interviewing skills. The following discussion highlights the key behaviors associated with this skill.

Steps in Practicing the Skill

- **Review the job description and job specification.** Reviewing pertinent information about the job provides valuable information about how to assess the candidate's knowledge, skills, abilities, experiences, and so forth. Furthermore, relevant job requirements help to eliminate interview bias.
- **Prepare a structured set of questions to ask all applicants for the job.** Having a bunch of prepared questions, with a scoring guide on how you will classify if an answer to a question is poor, average, or excellent, will ensure that the information you wish to elicit is appropriately evaluated during the interview. Furthermore, if you ask all applicants similar questions, you can better compare their answers against a common base.
- **Before meeting an applicant, review their application form and résumé.** Doing so helps you to understand the applicant's work history in terms of what is represented on the résumé or application and what the job requires. As you refamiliarize yourself with the knowledge, skills, abilities, and experiences on the résumé relevant to the job in your organization, it will become clear why that applicant was selected for an interview. Areas essential for the job are the focal point of questions answered by the applicant.
- **Open the interview by putting the applicant at ease and by providing a brief preview of the topics to be discussed and the organization's culture and structure.** Interviews are stressful for job applicants. By opening with small talk (e.g., the weather), you give the person time to adjust to the interview setting, but giving them insights into the organization's culture and structure or even offering a tour of the facility helps them become engaged with the possibility of taking a job at the company. By previewing topics to come, you are giving the applicant an agenda that allows them to understand what the beginning, middle, and end of the interview will be like, and they will know when they can ask their questions.
- **Ask your questions and listen carefully to the applicant's answers.** Score the applicant's responses as the applicant answers the questions. Select follow-up questions that naturally flow from the answers given. Focus on the responses relating to the information you need to ensure that the applicant meets the requirements of the job. Those with less experience, knowledge, skills, or abilities should receive lower scores.
- **Close the interview by telling the applicant what's going to happen next.** Applicants are anxious about the status of your hiring decision. Be honest with the applicant regarding others who will be interviewed and the remaining steps in the hiring process. If you plan to make a decision in two weeks, let the individual know what you intend to do. In addition, tell the applicant how you will contact them (e.g., by email or phone) to let them know about your decision.
- **Write your evaluation of the applicant while the interview is still fresh in your mind.** Do not wait until the end of your day, after interviewing several applicants, to write your analysis of each one. Memory can fail you, and the scores assigned during the interview should hold substantial weight in how the candidates are ranked in terms of fit for the job and organization. The sooner you complete your write-up after an interview, the better chance you have of accurately recording what occurred in the interview.

Practicing the Skill

Preparing to interview candidates for jobs in a student organization is a responsibility of a student organization president. Assume you are the president of a successful student organization at your school and need to interview three students for the treasurer role in your organization. Practice preparing for the interview. Begin by researching the typical responsibilities of a student organization treasurer to become familiar with the skills and qualifications that need to be assessed during the interview. Next, write three questions and create examples of poor, average, and excellent answers for each question. Build these questions so they can be used to rate the applicant's potential to succeed on the job. Ensure you have questions the applicants will judge as relevant to the job, targeting the skills and qualifications needed to do the job well. Vet these questions and answers by reviewing them with another student, preferably a student who performed the same job presently or in the recent past.

WORKING TOGETHER Team Exercise

New-hire onboarding or organizational socialization is an essential human resource management practice. Take a few minutes and consider the welcome you received at your last job. Write down some notes about the steps management took to make you feel welcome on the first day and during the first week. Was the socialization formal or informal? Did you learn about the organization's culture or just the work you were expected to perform each day? Did anyone help you get to know your coworkers? How long did it take to learn the boss's expectations for the way they wanted the work to be done? What else would have been

helpful to learn or do during the first day and week? If you have not held a job related to your major, think about a job or internship you might be qualified to apply for in the near future. Make some notes about what you would need to learn during the socialization for that job. Get together in groups of three or four students and share your expectations for future onboarding experiences. Next, list your group's recommended onboarding program "dos and don'ts" for companies. Be prepared to share your list with the class.

MY TURN TO BE A MANAGER

- Studies show that women's salaries still lag behind men's, and even with equal opportunity laws and regulations, women are paid about 82 percent of what men are paid. Minority women earned even less of a percentage of what men are paid, at 58 percent for Hispanic or Latina women and 63 percent for Black women. However, women ages 25 to 34 earned 92 percent of what men in the same age group were paid.⁷⁷ Do some research on designing a compensation system that would address this issue. Write up your findings in a bulleted list format.
- The American Federation of Labor and Congress of Industrial Organizations (AFL/CIO) is a national trade union center and the largest federation of unions in the United States. Visit the organization's website at www.aflcio.org. Explore the website and identify issues that are of current concern for today's labor unions.
- The US approval of labor unions is at its highest level since 1965. Approval is particularly high among younger workers.⁷⁸ Collect some information to uncover why opinions of unions have been changing, and write up your findings so you can present them to your class.
- Go to the Society for Human Resource Management website (www.shrm.org) and look for the "HR News" page. Pick one of the news stories to read. (Note: Some may be available only to SHRM members, but others should be generally available.) Write a summary of the information. At the end of your summary, discuss the topic's implications for managers.
- Find *Fortune's* "Best Companies to Work For" list online. Read the profiles of the top companies. Identify the types of benefits and other company characteristics that are common among these companies. Collect this information in a formal report you can present to your class.
- Visit an online job board and learn about how a company posts a job. Pick any online job board, such as www.monster.com, www.careerboard.com, www.indeed.com, the career services site at your school, or a local job board. Click on the "Employers" tab and read about the process employers are asked to go through to post a job.
- Work on your résumé. If you don't have one, research what a good résumé should include. If you have one already, make sure it provides specific information that explicitly describes your work skills and experience rather than meaningless phrases such as "results oriented."
- Set up a profile on LinkedIn. Make sure you use a professional photo and provide a complete profile. Go on YouTube and watch a video or two on how to use LinkedIn for Business to get a perspective on how companies can use LinkedIn in the hiring process.
- Search for human resources analytics videos, training, certification, or degree programs online. How could an organization use one or some of the ideas presented to make a difference in the workplace?

CASE APPLICATION 1**Employees with Side Hustles: It's No Secret**

The director of sales, social media, and marketing for a medium-sized electronics company looked over his shoulder in the break room and saw a familiar IT employee coming his way. Undoubtedly, he was about to hear the results of the latest barbecue product launched on the IT employee's social media site. Everyone knew the day-time IT employee worked a night hustle on nights and weekends to launch their own line of barbecue sauces. This side hustle, which the employee called their true calling, was designed to grow large enough for them to quit their full-time IT job.

Initially, the director wondered if brainstorming about another business with the employee during work hours was allowed at the electronics company that employed them both. Clearly, the IT employee's job had nothing to do with the barbecue business or the festivals, competitions, and online sales often filling their conversations. Although initially apprehensive, the director gradually became willing to offer his perspectives on online marketing. These conversations offered the chance to think through new ideas he often considered using on the electronics company's social media site. However, some IT employees complained to HR that the employee was running the barbecue business while they were paid to work at the electronics company. The complaint stipulated it was inappropriate for the IT employee to promote his product and communicate with his barbecue customers on social media during regular work hours.

The HR manager addressed the situation by reminding everyone that a company policy was in place to manage employees pursuing side hustles. First, the company encouraged entrepreneurial thinking and supported employees' desire to seek, find, and follow a fulfilling life. Employees are not prohibited from taking a second job so long as it does not directly compete with their responsibilities at the electronics company. Similarly, employees cannot work for or share insights with competitors. In other words, as long as employees complete their required work, no steps would be taken to restrict employees from working a second job or pursuing a side hustle.

Based on the employee complaints, the HR manager privately met with the IT employee to discuss these issues. The IT employee agreed to commit fully to their job at the electronics company during work hours. The HR manager mentioned that checking the barbecue business's social media accounts during breaks and lunch was acceptable. Also, so long as it was not a frequent distraction, the employee was allowed to discuss ideas about their business with employees at the electronics company. They also agreed to check in with each other occasionally to see if any new ideas from the barbecue business could be adopted to improve operations at the electronics company. They both hoped this side hustle and the employee's motivation could lead to higher work quality and more engagement with their work at the electronics company.

In truth, the HR manager knew the excitement of side hustles often energizes employees and gives them opportunities to develop new skills. In a survey, 40 percent of employees reported having a side hustle. Some employees need to work multiple jobs to make ends meet, but others, like this IT employee who works full-time in person, hope to launch a business with more flexible work hours, work-from-home options, and the chance to select their projects and follow their passions. Work quality and absences can be a problem with some employees with multiple jobs. Still, the HR manager found that proactively checking in with this type of employee was generally enough to prevent these issues. Surveys suggest that 69 percent of fully remote US workers have a second job, with nearly half of those holding two full-time jobs, so the IT employee should be able to balance both.⁷⁹

DISCUSSION QUESTIONS

- 11-11. Do you agree with how the HR manager addressed the employee complaints? Are there any challenges that this approach fails to address?
- 11-12. What are the advantages and disadvantages of in-person, hybrid, and virtual employees also working side hustles and second jobs?
- 11-13. Is it a good practice to hire an employee with a side business? What evidence would be needed to justify your position?
- 11-14. Should HR take additional steps to ensure the salaries of the director of sales, social media, and marketing and the IT employee are high enough? Justify your response.

CASE APPLICATION 2**Keeping Dealership Sales Staff from Leaving at Nissan**

Nissan considered it good news that its overall sales were up,⁸⁰ but executives wondered how many sales it missed due to the persistently high turnover rates in its dealerships' sales positions within the same year.⁸¹ This industry-wide issue has been a trend in most auto dealerships, where turnover in sales jobs has been consistently high for years, while US auto sales have generally been good.

Part of the issue is that car dealerships rely on younger workers for many of their hires. Millennials and Generation Z often have more debt than earlier generations and seek stable pay with work schedule flexibility.⁸² How do car dealerships usually pay salespeople? Their income can be inconsistent at times and typically based on commission. Commissions tend to be about 12 percent of the car's selling price. Younger workers also think of working sales at a dealership as requiring a lot of nights and weekends haggling with customers, an aspect of the job that does not usually excite these prospective hires.

One way dealerships are starting to address these issues is by changing how employees are paid. Salespeople at some dealerships are paid by how many vehicles they sell per month. Other dealers are increasing commission-based pay and offering monthly sales bonuses. Benefits like free college tuition for employees who do not leave the company and shorter workdays have been put in place by dealers hoping to keep salespeople on the job. And others set "no-negotiation low prices" on all vehicles to remove the need for salespeople to haggle with customers.

High turnover means many salespeople at dealerships are not only new to their jobs but also younger and lack work experience. Selling cars for them means learning about what it means to be a salesperson and about the vehicles they sell. Technology integration with the latest cars means there is always more to learn about each new vehicle arriving in the dealership. Dealerships offer online training for salespeople to quickly bring new employees up-to-date so the potential buyers will not know more about the cars than the salespeople themselves.

DISCUSSION QUESTIONS

- 11-15. What HRM process should owners of car dealerships address to continue to minimize the impact of salespeople turnover?
- 11-16. Several of the compensation issues described in this chapter could be applied to this case. Which are they, and how do they apply?
- 11-17. Which of the dealerships' attempts at reducing turnover seems most promising? What other jobs might the dealership focus on to ensure turnover there will not become a problem too?
- 11-18. Would converting the dealership to online sales and selling to customers through a digital kiosk at the dealership be an effective way to resolve staffing issues?

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Chapter 12

Managing Change and Innovation

Learning Objectives

- 12.1 Describe** making the case for change.
- 12.2 Compare** and contrast views on the change process.
- 12.3 Classify** areas of organizational change.
- 12.4 Explain** how to manage change.
- 12.5 Compare** different types of innovation.
- 12.6 Describe** how managers can stimulate innovation.

In the 1880s, Thomas Edison turned to glassmaker Corning to produce the glass for his lightbulb. One hundred years later, your grandparents likely listed Pyrex cookware produced by Corning on their wedding registry. Another 30 years later, Corning Gorilla Glass started keeping iPhones protected. Corning also has created fiber-optic solutions for the telecommunications industry and automotive glass solutions for car interior dashboards. When we think about innovation in the world of technology, we often think of the end product, such as the iPhone. But it is the innovation by critical suppliers such as Corning that helps move products forward. Many companies with innovative products come and go, but Corning has built a culture of innovation that has allowed it to evolve its products to meet changing societal needs.¹

The ability to innovate and evolve requires a company with the capacity to change. In this chapter we look at the change process, why people resist it, and what managers can do to overcome that resistance. Then we turn our attention to innovation—specifically, how to drive it in organizations.

Management Myth: Change is easy.

Management Reality: Intentional change and innovation require an effective management approach.



For more than 150 years, Corning has innovated in the glass industry. From cookware to iPhones, Corning has evolved to meet current needs.

Source: (left) Jennie Barclay/Shutterstock; (right) Al Medwedsky/Alamy Stock Photo

THE CASE for Change

LO12.1 Describe making the case for change.

When we use the term **organizational change**, we mean any alteration of people, structure, or technology.² And organizational changes need someone to act as a catalyst and assume the responsibility for managing the change process—this is a **change agent**. Internally, change agents can come in many forms—top executives, middle managers, project managers, team leaders, or specialists within human resources. For major changes, organizations often hire outside consultants to provide advice and assistance. As outsiders, they can provide an objective perspective that insiders may lack. But outside consultants typically have a limited understanding of the organization's history, culture, operating procedures, and people. They're also more likely to initiate drastic changes because they don't have to deal with the repercussions after the changes are implemented. In contrast, internal change agents may be more thoughtful, but possibly overly cautious, because they have to live with the consequences of their decisions.

A shift in leadership at Netflix signaled a commitment to leadership capable of leading change. As cofounder Reed Hastings stepped down as CEO in 2023, the company appointed co-CEOs Ted Sarandos and Greg Peters, both experienced at leading change. Sarandos led the initiative to begin developing original content for Netflix, and Peters led efforts to expand Netflix into international markets. Appointing these change agents to lead the company is critical at a time when change will be needed to address challenges, including an increasing presence of strong competitors such as Disney and Amazon and other uncertainties in the streaming content market.³

Living with VUCA

The leadership at Netflix recognizes the reality of today's unpredictable and dynamic world. It's what military planners have called **VUCA**—an environment of nonstop volatility, uncertainty, complexity, and ambiguity.⁴ It's a world where “change is the only constant.”

If managers had their choice, they almost certainly would opt for a static and predictable world, for if it weren't for change, a manager's job would be relatively easy. Planning would be simple because tomorrow would be no different from today. The issue of effective organizational design would also be resolved because the environment would be static and there would be no need to redesign the structure. Similarly, decision making would be dramatically streamlined because the outcome of each alternative could be predicted with almost certain accuracy. But that's not the way it is. Organizations face change because of external and internal forces (see **Exhibit 12-1**).

External Forces for Change

External forces from change come from influences outside of the company. They include consumer needs and wants, new governmental laws, technology, and the economy.

organizational change

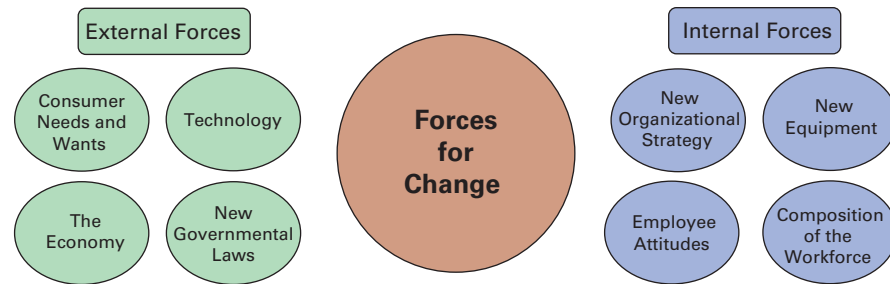
Any alteration of people, structure, or technology in an organization

change agent

Someone who acts as a catalyst and assumes the responsibility for managing the change process

VUCA

An acronym describing an environment of nonstop volatility, uncertainty, complexity, and ambiguity

Exhibit 12-1**External and Internal Forces for Change**

CONSUMER NEEDS AND WANTS The Walt Disney World resort in Florida knows that customer loyalty helps to secure the company's future. Each year, Disney adds new rides and experiences, examines food options, and makes upgrades to resorts based on customer feedback. But sometimes a company may make changes that fail to meet customer preferences. For example, after managing customer concerns around its visit registration process, Disney rolled back some registration requirements to make it easier for customers to plan their visits.⁵ Such reversals often require companies to change their workflows and processes, and possibly even staffing structures.

NEW GOVERNMENTAL LAWS Governmental laws require changes in how managers must conduct business. Five broad categories of governmental laws include truth in advertising, employment and labor fair practices, environmental protection, privacy, and safety and health. For example, the US Environmental Protection Agency (EPA) enforces several laws, including the Clean Air Act, which is aimed at protecting the environment and public welfare. Management must ensure that harmful emissions into the atmosphere do not exceed safe levels set forth by the EPA. Safety and health is promoted by the US Occupational Safety and Health Act, which requires that companies provide safe and healthful working conditions.

TECHNOLOGY Emerging technologies require businesses to make many changes, from workflows and processes to product offerings. For example, artificial intelligence has changed consumer expectations for customer service. Chatbots allow customers to solve problems quickly without calling in to a customer service center. Companies such as Uber and Lyft now use chatbots to quickly resolve most customer problems. Although the shift to chatbot-supported customer service saves money in hiring staff and improves the customer experience, it requires companies to restructure their customer service function and establish new protocols and processes.⁶

THE ECONOMY Managers must respond to changes in economic forces. Consider the impact of an economic recession. Recessions are characterized by a general slowdown in economic activity, a downturn in the business cycle, and a reduction in the amount of goods and services produced and sold.⁷ As the United States emerged from the COVID-19 pandemic, the economy slowed and, as we noted in **Chapter 11**, the labor market tightened, which in some cases led companies to make operational changes to address ongoing staff shortages. Marriott International, for instance, changed the cleaning protocols at its hotels, no longer cleaning guest rooms every day during a guest's stay, so it needs to hire fewer housekeepers.⁸

Internal Forces for Change

Internal forces for change come from decisions or influences within the company. They include new organizational strategies, a different workforce composition, new equipment, and changing employee attitudes.

NEW ORGANIZATIONAL STRATEGY When top management changes its organization's strategy, it can affect all segments of the business. A shift in strategy often starts with new leadership, as is the case with Bath and Body Works, the retail chain known

for its fragrant skin care products and candles. In 2022 the company appointed new CEO Gina Boswell, who brought significant experience in the beauty and personal care industry. Her appointment was followed by other leadership changes, including the addition of two key, newly created leadership roles: a chief customer officer and a chief digital and technology officer. These leadership changes will likely lead to other operational changes for the company as it focuses its strategy on the customer experience and a growing interest in direct-to-consumer sales in addition to the retail store focus.⁹

COMPOSITION OF THE WORKFORCE Through the decades, the US workforce has become more diverse. In **Chapter 5** we saw the challenges managers face when managing a workforce that is diverse based on surface-level variables, including age and race, as well as deep-level variables, including differences in values, personality, and work preferences. A key challenge entails orchestrating these differences to maintain an inclusive culture that focuses on productivity.

NEW EQUIPMENT In 1983, American engineer Charles Hull invented the first three-dimensional (3-D) printer, which is based on the technology of transforming liquid polymers into solid objects.¹⁰ Only recently has this technology become highly refined. Now, more and more companies are using 3D printers to create product prototypes.¹¹ For example, the medical industry more easily creates customized prosthetics and implants, and Apple uses 3D printer technology to create the casings for its laptops.

Technological changes are particularly making their marks on healthcare. These technologies include advances in genomics, biotechnology, robotics, connected care, and artificial intelligence. Advances in robotic technology, for example, are changing how surgeons perform some surgical procedures. As a case in point, the Cleveland Clinic offers robotically assisted heart surgery. This technology enables cardiothoracic surgeons to use computer consoles to control surgical instruments and minimize the invasiveness of some surgeries.

EMPLOYEE ATTITUDES Employee attitudes at organizations going through significant changes tend to be less favorable than at more stable companies.¹² Where change is happening, the largest differences are in attitudes toward company leadership and company image. But not all employees in changing organizations have less favorable attitudes. Those who prefer stability are less likely to try new technology or embrace change than employees who are open to change. Changing attitudes challenge managers to adopt methods to support employees through organizational changes.



Architectural design firms benefit from new 3D printing equipment by dramatically reducing the time it takes to create handmade building models. The equipment produces accurate, highly detailed, and full-color physical 3D models printed from digital data that help architects, contractors, and clients envision building projects.

Source: Stockbroker/MBI/Alamy Stock Photo

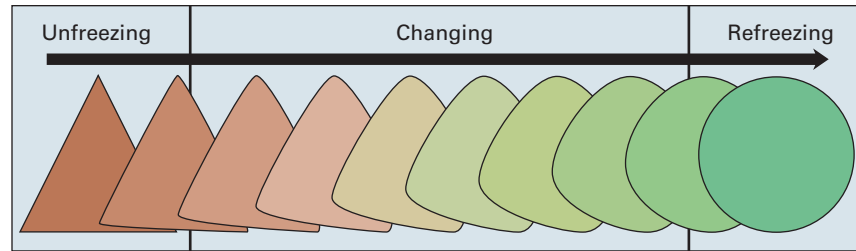
THE CHANGE **Process**

LO12.2 Compare and contrast views on the change process.

Two very different metaphors can be used to describe the change process.¹³ One metaphor envisions the organization as a large ship crossing a calm sea. The ship's captain and crew know exactly where they're going because they've made the trip many times before. Change comes in the form of an occasional storm, a brief distraction in an otherwise calm and predictable trip. In this "calm waters" metaphor, change is seen as an occasional disruption in the normal flow of events. In another metaphor, the organization is seen as a small raft navigating a raging river with uninterrupted white-water rapids. Aboard the raft are half a dozen people who have never worked together before, who are totally unfamiliar with the river, who are unsure of their

Exhibit 12-2

The Three-Step Change Process



eventual destination, and who, as if things weren't bad enough, are traveling at night. In the "white-water rapids" metaphor, change is normal and expected, and managing it is a continual process. These two metaphors present very different approaches to understanding and responding to change. Let's take a closer look at each one.

The Calm Waters Metaphor

At one time, the calm waters metaphor was fairly descriptive of the situation managers faced. It's best understood by using Kurt Lewin's **three-step change process**.¹⁴ (See **Exhibit 12-2**.)

According to Lewin, successful change can be planned and requires *unfreezing* the status quo, *changing* to a new state, and *refreezing* to make the change permanent. The status quo is considered equilibrium. To move away from this equilibrium, unfreezing is necessary. Unfreezing can be thought of as preparing for the needed change. It can be done by increasing the *driving forces*, which are forces pushing for change; by decreasing the *restraining forces*, which are forces that resist change; or by combining the two approaches.

Once unfreezing is done, the change itself can be implemented. However, merely introducing change doesn't ensure that it will take hold. The new situation needs to be *refrozen* so that it can be sustained over time. Unless this last step is done, there's a strong chance that employees will revert back to the old equilibrium state—that is, the old ways of doing things. The objective of refreezing, then, is to stabilize the new situation by reinforcing the new behaviors.

Lewin's three-step process treats change as a move away from the organization's current equilibrium state. It's a calm waters scenario where an occasional disruption (a "storm") means planning and implementing change to deal with the disruption. Once the disruption has been dealt with, however, things continue on under the new changed situation. This type of environment isn't what most managers face today.

The White-Water Rapids Metaphor

An expert on weather patterns has said, "There are some times when you can predict weather well for the next 15 days. Other times, you can only really forecast a couple of days. Sometimes you can't predict the next two hours." Today's business climate is turning out to be a lot like that two-hour weather scenario. "The pace of change in our economy and our culture is accelerating... and our visibility about the future is declining."¹⁵

Here's what managing change might be like for you in a white-water rapids environment. The college you're attending has the following rules: Courses vary in length. When you sign up, you don't know how long a course will run. It might go for 2 weeks or 15 weeks. Furthermore, the instructor can end a course at any time with no prior warning. If that isn't challenging enough, the length of the class changes each time it meets: sometimes the class lasts 20 minutes; other times, it runs for 3 hours. And the time of the next class meeting is set by the instructor during this class. Oh, and there's one more thing: All exams are unannounced, so you have to be ready for a test at any time. To succeed in this type of environment, you'd have to respond quickly to changing conditions. Students who are overly structured or uncomfortable with change wouldn't succeed.

three-step change process
Unfreezing the status quo, changing to a new state, and refreezing to make the change permanent

Increasingly, managers are realizing that their job is much like what a student would face in such a college. The stability and predictability of the calm waters metaphor don't exist. Disruptions in the status quo are not occasional and temporary, and they are not followed by a return to calm waters. Many managers never get out of the rapids.

AREAS of Change

LO12.3 Classify areas of organizational change.

The need for change in organizations has accelerated over the last several years. From the shift to remote work and the need for digital transformation to responding to labor shortages and supply chain challenges, businesses managed on average 10 planned changes in 2022, compared to only two in 2016.¹⁶ Managers primarily focus on five areas of change: strategy, structure, culture, technology, and people (see **Exhibit 12-3**).

Strategy

Failure to change strategy when circumstances dictate can undermine a company's success. Consider the example of Ryanair, which is a regional airline based in Europe. In 1984, the airline started out with a strategy to differentiate itself from the competition by offering low-cost fares. Lower fares came with spartan cabin decor and hefty fees for baggage handling, snacks, and the use of the restroom facilities while onboard. The airline developed a poor reputation for customer service. Through the years, this strategy undermined the airline's reputation and financial performance because of competitors who didn't skimp on amenities. With new, aggressive competitors, the company realized that a change in strategy was essential. At the center of the new strategy was raising customer service quality, including cutting out many extra fees. Michael O'Leary, Ryanair's CEO, admitted: "If I had only known that being nicer to our customers was good for business I would have done it years ago."¹⁷ Had the company maintained its original strategy, Ryanair probably would no longer exist.

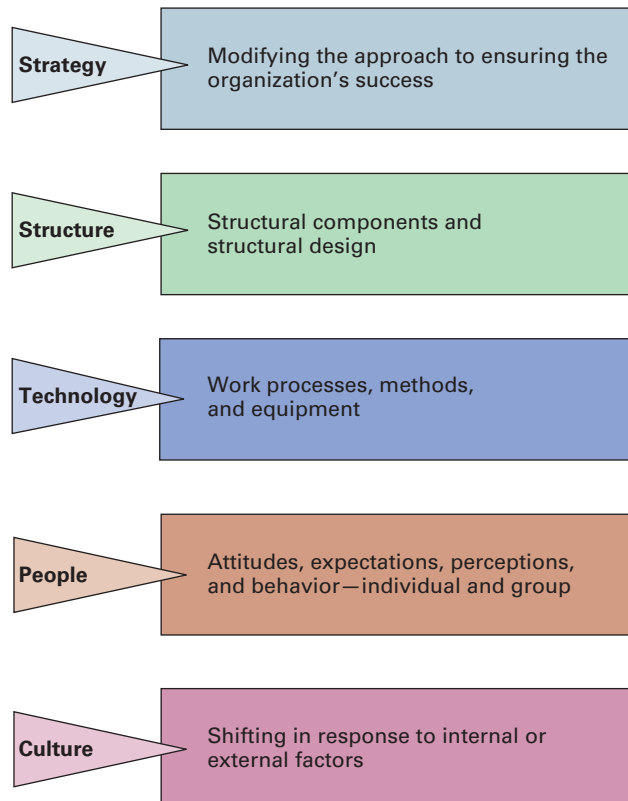


Exhibit 12-3
Five Types of Change



Vera Bradley announced an organizational restructuring in 2023 focused on ensuring long-term profitability.

Source: Helen/Alamy Stock Photo

Structure

Any organizational change comes with risk. But changes in an organization's structure is often one of the surest ways to shake up a struggling firm. When it works, it can set the organization on the path to future success. When it doesn't, chaos can ensue. Lifestyle brand company Vera Bradley Inc., maker of fashion handbags and Pura Vida jewelry, announced a corporate and leadership restructuring in 2023. The company sought to capture cost savings by eliminating 25 corporate positions and launching Project Restoration, an initiative focused on four pillars—consumer, brand, product, and channel. The initiative is focusing on long-term profitability by targeting \$12 million in cost reductions through staffing and operational changes.¹⁸

Changes in the external environment or in organizational strategies often lead to changes in the organizational structure. Because an organization's structure is defined by how work gets done and who does it, managers can alter one or both of these *structural components*. For instance, departmental responsibilities can be combined, organizational levels can be eliminated, or the number of persons a manager supervises can be increased. More rules and procedures can be implemented to increase standardization. Or employees can be empowered to make decisions so decision making could be faster.

Another option would be to make major changes in the actual *structural design*. For instance, when Dow Chemical and DuPont merged to create DowDuPont, the goal was to cut \$3 billion in costs, combine common product lines, and reorganize into three separate and more focused companies.¹⁹ The reorganization set apart Dow, which houses products aimed at packaging, infrastructure, and consumer care; DuPont, which will focus on electronics, food additives, biochemicals, military protection, and safety consulting; and Corteva, whose businesses relate to agriscience products and services.

Culture

Let's begin with the bad news: an organization's culture is very difficult to change.²⁰ The fact that it's made up of relatively stable and permanent characteristics tends to make it resilient to change efforts. Add in the fact that established organizations have tended to hire people who fit well with the current culture means people are well matched and comfortable with the status quo and resist change. This helps explain why it took decades to change AT&T's corporate culture after the government broke up its monopoly of the US phone business. AT&T employees had long been used to a relaxed workplace where there was no competition.²¹

Acknowledging that organizational cultures are hard to change doesn't mean that they can't be changed. They can. But successfully changing an organization's culture should be looked at as a process that can take years. And certain cultures are easier to change than others. Let's look at some of the relevant factors.

What "favorable conditions" facilitate cultural change? One is that *a dramatic crisis occurs*, such as an unexpected financial setback, the loss of a major customer, or a dramatic technological innovation by a competitor. Such a shock can weaken the status quo and make people start thinking about the relevance of the current culture. Another condition is when *leadership changes hands*. New top leadership can provide an alternative set of key values and may be perceived as more capable of responding to the crisis than the old leaders were. Another is that *the organization is young and small*. The younger the organization, the less entrenched its culture. And it's easier for managers to communicate new values in a small organization than in a large one. Finally, change favors *weak cultures*. Weak cultures are more receptive to change than strong ones because they're not as deeply rooted.²²

Exhibit 12-4 Changing Culture

- **Set the tone through management behavior;** top managers, particularly, need to be positive role models.
- Create **new stories, symbols, and rituals** to replace those currently in use.
- Select, promote, and support employees who **adopt** the new values.
- **Redesign socialization processes** to align with the new values.
- To encourage acceptance of the new values, **change the reward system.**
- Replace unwritten norms with **clearly specified expectations.**
- **Shake up current subcultures** through job transfers, job rotation, and/or terminations.
- Work to get consensus through **employee participation** and creating a **climate with a high level of trust.**

If conditions are right, how do managers change culture? No single action is likely to have the impact necessary to change something ingrained and highly valued. Managers need a strategy for managing cultural change, as described in **Exhibit 12-4**. These suggestions focus on specific actions that managers can take.²³ Following them, however, is no guarantee that the cultural change efforts will succeed. Organizational members don't quickly let go of values that they understand and that have worked well for them in the past. As we previously noted, change, if it comes, will be slow. Also, managers must stay alert to protect against any return to old, familiar traditions.

Technology

Managers can also change the technology used to convert inputs into outputs. Most early management studies dealt with changing technology. For instance, scientific management techniques involved implementing changes that would increase production efficiency. Today, technological changes usually involve the introduction of new equipment, tools, or methods; automation; or computerization.

The **Internet of Things (IoT)** is a network of physical objects embedded with sensors and software that allows connections and sharing of data across systems and other devices over the internet. Boeing has engaged IoT technology to change manufacturing processes in building airplanes; for example, a mechanic now uses a wireless device to collect wing measurements instead of having to climb onto the airplane, and painters have a vest sensor to remind them to secure their safety harness. Although this technology allows improved efficiency and effectiveness, the company needed to change operations and employee behaviors to implement it.²⁴

People

Changing people involves changing attitudes, expectations, perceptions, and behaviors. The popular term used to describe change methods that focus on people and the nature and quality of interpersonal work relationships is **organizational development (OD)**.²⁵ Specifically, OD is a collection of change methods that try to improve organizational effectiveness and employee well-being. OD techniques value human and organizational growth, collaborative and participative processes, and a spirit of inquiry. The most popular OD techniques are described in **Exhibit 12-5**.

OD interventions are typically led by internal human resource specialists or outside consultants. And what might some of these interventions look like? Consultants, working with companies like Uber, Facebook, and Salesforce, have utilized a number of games and exercises as team-building experiences.²⁶ The focus is on building trust by allowing employees to be vulnerable

Internet of Things (IoT)

A network of physical objects embedded with sensors and software that allows connections and sharing of data across systems and other devices over the internet

organizational development (OD)

Change methods that focus on people and the nature and quality of interpersonal work relationships

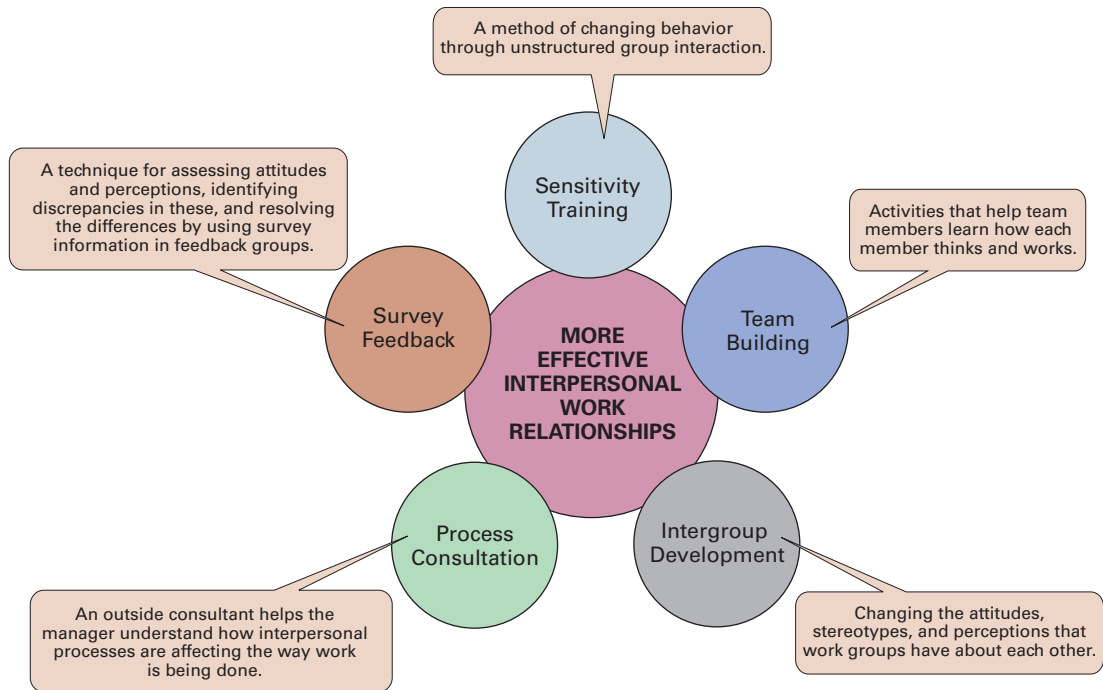


Managers at a firm in Austria use a team-building competition as an organizational development method for helping employees learn to work more effectively together.

Source: Volkerpreusser/Alamy Stock Photo

Exhibit 12-5

Popular OD Techniques



in a low-stakes environment and to try out new ideas without the fear of criticism or rejection. These consultants rely heavily on fun activities to make the team-building exercises motivational and relevant. Examples include karaoke sessions, music video competitions, and even taking over an island and turning it into a fortress of fun.

MANAGING **Change**

LO12.4 Explain how to manage change.

Change is often a threat to people in organizations. The fact that organizations create job descriptions, rules, standard operating procedures, and lines of authority all reinforce maintenance of the status quo. So organizations tend to build up inertia that motivates people to resist change. Add to this people's preference for routine and predictability, and you have the ingredients for resistance to change. Let's look at why people resist change and what can be done to minimize their resistance.

Why Do People Resist Change?

Why do people resist change? The main reasons include uncertainty, habit, concern over personal loss, and the belief that the change is not in the organization's best interest.²⁷

Change replaces the known with uncertainty. No matter how much you may dislike attending college, at least you know what's expected of you. When you leave college for the world of full-time employment, you'll trade the known for the unknown. Employees in organizations are faced with similar uncertainty; for example, when quality control methods based on statistical models are introduced into manufacturing plants, many quality control inspectors have to learn the new methods. Some may fear that they will be unable to do so and may develop a negative attitude toward the change or behave poorly if required to use them.

Another cause of resistance is that we do things out of habit. Every day when you go to school or work, you probably go the same way, if you're like most people. We're creatures of habit. Life is complex enough—we don't want to have to consider the full range of options for the hundreds of decisions we make every day. To cope with this complexity, we rely on habits or programmed responses. But when confronted with change, our tendency to respond in our accustomed ways becomes a source of resistance.

The third cause of resistance is the fear of losing something already possessed. Change threatens the investment you’ve already made in the status quo. The more people have invested in the current system, the more they are likely to resist change. Why? They fear the loss of status, money, authority, friendships, personal convenience, or other benefits they value. For instance, the Mayo Clinic in Rochester, Minnesota, implemented the use of radio-frequency identification technology (RFID) to track the location of patients, equipment, and caregivers, including doctors and nurses within the facility’s emergency department.²⁸ The goal was to improve patient care. However, hospital management learned that some of the caregivers expressed concern with the use of RFID technology. Their concerns centered on how the data would be used in performance reviews.

A final cause of resistance is a person’s belief that the change is incompatible with the goals and interests of the organization. For instance, an employee who believes that a proposed new job procedure will reduce product quality can be expected to resist the change. This type of resistance actually can be beneficial to the organization if expressed in a positive way.

Techniques for Reducing Resistance to Change

When managers see resistance to change as dysfunctional, what can they do? Several strategies have been suggested in dealing with resistance to change.²⁹ These approaches include education and communication, participation, facilitation and support, negotiation, manipulation and co-optation, and coercion. These tactics are summarized here and described in **Exhibit 12-6**. Managers should view these techniques as tools and use the most appropriate one(s), depending on the type and source of the resistance.

Education and communication can reduce resistance to change by helping employees see the logic of the change effort. This technique, of course, assumes that much of the resistance lies in misinformation or poor communication. Social media might be useful as part of an overall communication plan. A study found that 55 percent of participants who had experienced change in the workplace expressed a desire that their employer provide more social media engagement.³⁰ In addition, 42 percent preferred

Technique	When Used	Advantage	Disadvantage
Education and communication	When resistance is due to misinformation	Clear up misunderstandings	May not work when mutual trust and credibility are lacking
Participation	When resisters have the expertise to make a contribution	Increase involvement and acceptance	Time-consuming; has potential for a poor solution
Facilitation and support	When resisters are fearful and anxiety ridden	Can facilitate needed adjustments	Expensive; no guarantee of success
Negotiation	When resistance comes from a powerful group	Can “buy” commitment	Potentially high cost; opens doors for others to apply pressure, too
Manipulation and co-optation	When a powerful group’s endorsement is needed	Inexpensive, easy way to gain support	Can backfire, causing change agent to lose credibility
Coercion	When a powerful group’s endorsement is needed	Inexpensive, easy way to gain support	May be illegal; may undermine change agent’s credibility

Exhibit 12-6
Techniques for Reducing Resistance to Change

having more face-to-face communication. These findings suggest that both the use of technology and conventional methods in communicating change should be part of a plan to deliver information about change.

Participation involves bringing those individuals directly affected by the proposed change into the decision-making process. It follows from the recognition that people don't tend to resist changes that they helped to make. Participation allows individuals to provide input, increase the quality of the process, and increase employee commitment to the final decision.

Facilitation and support involve helping employees deal with the fear and anxiety associated with the change effort. This help may include employee counseling, therapy, new skills training, or a short, paid leave of absence.

Negotiation involves exchanging something of value for an agreement to lessen the resistance to the change effort. This resistance technique may be quite useful when the resistance comes from a powerful source.

Manipulation and co-optation refer to covert attempts to influence others about the change. For instance, it may involve distorting facts to make the change appear more attractive.

Finally, *coercion* can be used to deal with resistance to change. Coercion involves the use of direct threats or force against the resisters.

WORKPLACE CONFIDENTIAL Coping with Job Stress

Stress in the workplace is at an all-time high. According to Gallup's most recent State of the Global Workplace Report, 44 percent of workers worldwide experience daily stress.³¹ There are many causes of stress at work, including workload, relationships with others, and work-life conflicts. At the root of many of these stressors is organizational change. During times of change, workload often increases and workers feel uncertainty, which leads to feelings of stress.³²

The reality of today's workplace is that change is constant and workers will continue to be exposed to these stressors. To manage the impact of stress on your mental and physical health, you can focus on your own response to your work environment. What can you do? Here's what the experts suggest:

Time management: Start with time management. As noted in **Chapter 8**, effective time management can allow you to be more efficient, get more things done, and help to reduce workload-based stress. We know that many people manage their time poorly. If you're well organized, you can often accomplish twice as much as the person who is poorly organized. So an understanding and utilization of basic time-management principles can help you better cope with tensions created by job demands.

Work breaks: A growing body of research shows that simply taking breaks from work at routine intervals can facilitate psychological recovery and significantly reduce stress. If you work at a desk or a fixed workstation, get up at least every half hour and walk around for a few minutes to both reduce stress and improve your general health.

Deep-relaxation techniques: You can teach yourself to reduce tension through deep-relaxation techniques such as deep breathing. The objective is to reach a state of deep

physical relaxation, in which you focus all your energy on the release of muscle tension. Deep breathing is one of the simplest techniques for addressing stress. The technique requires you to avoid shallow breaths and to learn to breathe from the abdomen. This technique works on neuromuscular functioning and leads to relaxing the neuromuscular system.

An extension of deep breathing is progressive muscle relaxation. With this technique, you assume a comfortable position and begin to breathe deeply. Then you relax groups of muscles one at a time, beginning with the feet and working up.

Deep relaxation for 15 to 20 minutes a day releases strain and provides a pronounced sense of peacefulness, as well as significant changes in heart rate, blood pressure, and other physiological factors.

Meditation: Although meditation is another form of relaxation, we separate it out because of its wide popularity and long history as a stress-reducing practice. Meditation has been done for thousands of years and continues to be a well-recognized approach to stress reduction. It's a group of self-regulated techniques you use to refocus your attention through concentration to attain a subjective, even "blissful," state that proponents describe as calmness, clarity, and concentration. Although meditation is done in many forms, a popular Western variety has individuals blank out their mind and stop conscious thinking. This is often combined with a mantra or focusing on an object. Advocates of meditation report that it increases calmness and physical relaxation, improves psychological balance, and enhances overall health and well-being.

Yoga: The American Yoga Association suggests that a few yoga exercises, practiced daily, help to regulate breathing and

relax the body. Exercises such as the sun salutation sequence of poses have been shown to be particularly helpful because they encourage you to breathe deeply and rhythmically.

Imagery: When life and work seem to overwhelm you, try putting your mind in a more peaceful place. Think of the most peaceful and serene location that you can envision—such as a quiet Caribbean beach, a peaceful setting in a forest, or a sailboat on a calm lake. Then close your eyes and imagine yourself there. So, using the beach example, imagine the waves gently coming ashore, the rhythmic sounds of the waves, the smell of salt air, and the warm sun on your skin. Then apply some of the relaxation techniques described previously.

Physical exercise: Physicians have recommended non-competitive physical exercise—such as aerobics, Pilates, walking, jogging, swimming, and riding a bicycle—as a way to deal with excessive stress levels. These activities increase lung capacity, lower the resting heart rate, and provide a mental diversion from work pressures, effectively reducing work-related levels of stress.

Social support network: Finally, friends, family, or work colleagues can provide an outlet when stress levels become excessive. Expanding your social support network provides someone to hear your problems and offer a more objective perspective on a stressful situation.³³

EXPLORING Innovation

LO12.5 Compare different types of innovation.

Thomas A. Edison once said: “I find out what the world needs. Then I go ahead and try to invent it.”³⁴ Today, innovation is the foundation of highly successful organizations. In a recent survey of global companies, 79 percent of respondents ranked innovation as either their topmost priority or a top-three priority.³⁵ And which companies are leading the way in innovation? The top three include OpenAI, McDonald’s, and Airbnb.³⁶

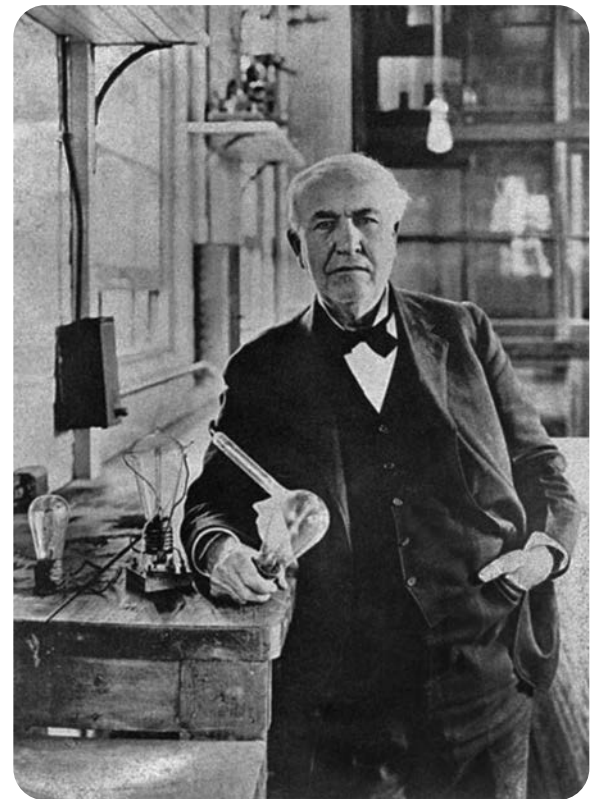
What’s the secret to the success of these and other innovator champions? What can other managers do to make their organizations more innovative? In the following sections, we’ll try to answer those questions as we discuss the factors behind innovation. There is not one true path to innovation; rather, innovation should be considered a toolbox of strategies.³⁷ Before examining strategies to stimulate innovation, we will discuss creativity and then define three different types of innovation.

Creativity Versus Innovation

The definition of innovation varies widely, depending on who you ask. For instance, the Merriam-Webster dictionary defines innovation as “the introduction of something new” and “a new idea, method, or device; novelty.” The CEO of the company that makes Bubble Wrap says, “It means inventing a product that has never existed.” To the CEO of Ocean Spray, it means “turning an overlooked commodity, such as leftover cranberry skins, into a consumer snack like Craisins.”³⁸ First, we need to look at the concept of creativity. **Creativity** refers to the ability to combine ideas in a unique way or to make unusual associations between ideas.³⁹ A creative organization develops unique ways of working or novel solutions to problems. But creativity by itself isn’t enough. The outcomes of the creative process need to be turned into useful products or work methods, which is **innovation**. Thus, the innovative organization is characterized by its ability to generate new ideas that are implemented in new products, processes, and procedures designed to be useful—that is, to channel creativity into useful outcomes. When managers talk about changing an organization to make it more creative, they usually mean they want to stimulate and nurture innovation.

Disruptive Innovation

In 1988, Kodak had 170,000 employees and sold 85 percent of all photo paper worldwide. Within just a few years, its business model disappeared and it was bankrupt. Photographic film went the way of the horse and buggy. Twenty-five years ago, every Main Street and shopping mall in the United States had a bookstore. Chains like



Innovation was the foundation of Thomas Edison’s highly successful business enterprise. To stimulate innovation, Edison established an industrial research and development facility for creating new products and adapting them to the needs of users.

Source: David Cole/Alamy Stock Photo

creativity

The ability to combine ideas in a unique way or to make unusual associations between ideas

innovation

Taking creative ideas and turning them into useful products or work methods

disruptive innovation
 Innovations in products, services, or processes that radically change an industry's rules of the game

Borders and Barnes & Noble had hundreds of locations, and there were additionally thousands of small bookstores scattered across America. Then along came Amazon, offering book buyers a million-plus titles at super-low prices, all accessible without leaving the comfort of home. Amazon single-handedly disrupted the brick-and-mortar bookstore. Welcome to the world of disruptive innovation!

Disruptive innovation describes innovations in products, services, or processes that radically change an industry's rules of the game.⁴⁰ Oftentimes, a smaller company with fewer resources successfully challenges established companies.⁴¹ Those smaller companies prove themselves to be disruptive by serving overlooked segments of possible consumers with products or services at relatively low prices. Although the term “disruptive innovation” is relatively new, the concept isn't. For instance, economist Joseph Schumpeter used the term “creative destruction” more than 75 years ago to describe how capitalism builds on processes that destroy old technologies but replaces them with new and better ones.⁴² That, in essence, is disruptive innovation.

In practice, disruptive innovation has been around for centuries. Vanderbilt's railroads disrupted the sailing-ship business. Alexander Bell's telephone rang the death knell for Western Union's telegraphy. Ford and other automobile builders destroyed horse-drawn-buggy manufacturers. As **Exhibit 12-7** illustrates, there is no shortage of businesses that have suffered at the expense of disruptive innovation.

The fact is that disruptive innovations are a threat to many established businesses, and responding with sustaining innovations sometimes isn't enough. Making incremental improvements to the BlackBerry smartphone, for instance, couldn't help its manufacturer compete against the far superior iOS and Android devices from Apple and Samsung. Of course, all “disruptive” innovations don't succeed. The radical nature of the changes they initiate implies a high level of risk. For instance, the Segway “personal transporter” was introduced with much fanfare. It was hyped as a replacement to the automobile for short trips. It didn't happen.

Disruptive innovations, especially at the beginning, typically apply to emerging or small markets and project lower profits than a firm's mainline products. And their novelty has little or no appeal to the organization's most profitable customers. Ken Olsen, founder

Exhibit 12-7
 Examples of Past Disruptive Innovators

Established Business	Disruptor
Compact disc	Apple iTunes
Carbon paper	Xerox copy machine
Portable radio	Sony Walkman
Sony Walkman	Apple iPod
Typewriters	IBM PC
Weekly news magazines	CNN
TV networks	Cable and Netflix
Local travel agencies	Expedia
Stockbrokers	eTrade
Traveler's checks	ATMs and Visa
Encyclopedias	Wikipedia
Newspaper classified ads	Craigslist
AM/FM radio stations	SiriusXM
Tax preparation services	Intuit's TurboTax
Yellow Pages	Google
Paper maps	Garmin's GPS
Paperback books	Kindle
Lawyers	LegalZoom
Taxis	Uber
Hotels	Airbnb

of Digital Equipment Corporation, said in 1977, “There is no reason anyone would want a computer in their home.”⁴³ What he was acknowledging was that he couldn’t see investing DEC resources into microcomputers when his company was making huge profits from selling much larger systems. And his customers were perfectly happy with DEC’s larger systems. So large and successful companies are motivated to repeat what has succeeded in the past and invest in ideas that offer the highest probability of generating maximum profits—and those aren’t disruptive innovations.

Breakthrough Innovation

Innovations do not have to be disruptive to create a new market. New products, industries, jobs, and profit growth can come from innovation without making another product or industry obsolete. A **breakthrough innovation** creates a market where one did not exist before. Kickstarter, the online crowdfunding platform that allows creatives to bring their ideas to life through accepting small donations or advance purchase pledges, created a new market for small-scale fundraising. The launch of Kickstarter did not disrupt the finance industry or compete with other start-up funding companies such as venture capital firms. However, Kickstarter was profitable within three years and has now funded more than 160,000 projects, and some estimate that it has created more than 300,000 new jobs and 8,800 new companies.⁴⁴ This opportunity to create new markets where none existed before is an innovation strategy for companies that also benefits society because it does not require the destruction of other companies.

Sustaining Innovation

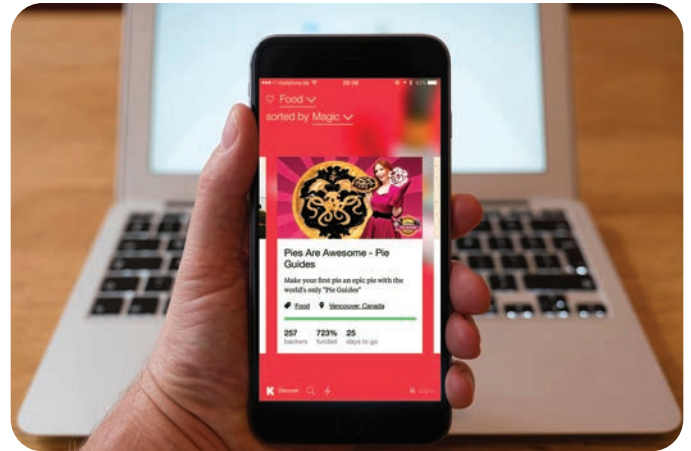
When most of us think of innovations, we tend to think of things like the introduction of the high-definition television, backup cameras on cars, fingerprint technology on smartphones, or Double Stuf Oreos. These are examples of **sustaining innovation** because they represent small and incremental changes in established products rather than dramatic breakthroughs. Whereas the original television set disrupted the radio industry, high-definition just improved the quality of the TV picture.

Most innovation in business is sustaining innovation because businesses want to get better at what they do. In fact, even companies investing in disruptive or breakthrough innovation should not lose sight of potential incremental changes as they lower the risks associated with investing in innovation. Focusing on sustaining innovations can help a company stay on top of changing markets by making smaller bets or taking smaller risks more often. For example, you can keep customers satisfied by responding to their feedback. Each version of the iPhone includes new features that make it worthwhile for consumers to upgrade. Although, as noted previously, sustaining innovation is not always enough to stay ahead, working on sustaining innovations can also build a company’s overall capability to innovate. Building this capability is essential, particularly as challenging times emerge.⁴⁵

DRIVING Innovation

LO12.6 Describe how managers can stimulate innovation.

An intentional approach is necessary to drive innovation. Companies must have the capabilities and resources in place to support their innovation strategy including a supportive environment. Although there are many approaches to innovation, companies must first invest in **ideation**, where new ideas are discovered and developed. They then can turn to **incubation**, where new ideas are tested and validated.⁴⁶



Kickstarter is an example of a breakthrough innovation. The online fundraising platform created a new market for small-scale start-up funding.

Source: Cyberstock/Alamy Stock Photo

breakthrough innovation

An innovation that creates a new market where one did not exist before

sustaining innovation

Small and incremental changes in established products rather than dramatic breakthroughs

ideation

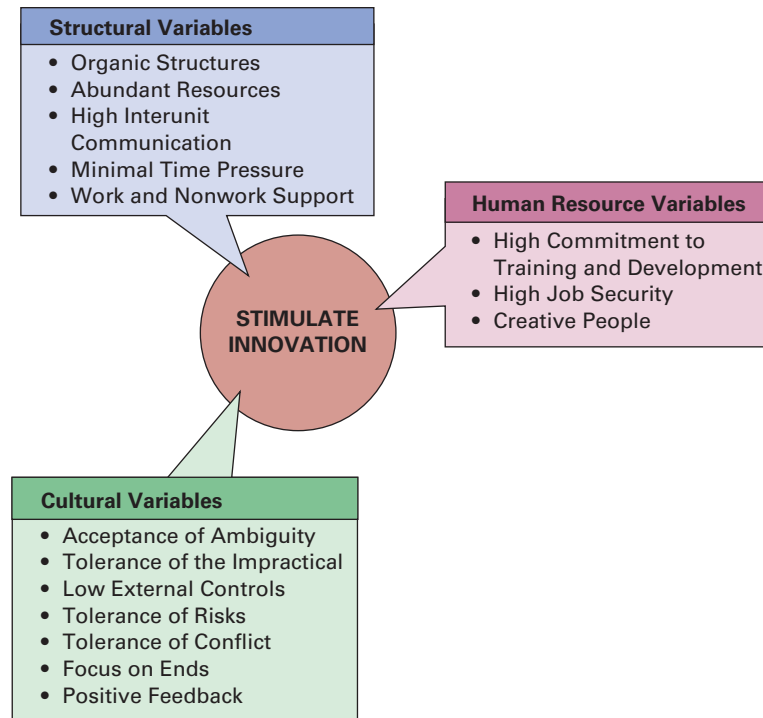
The process of finding or creating new ideas

incubation

The process of testing and validating an idea

Exhibit 12-8

Innovation Variables



Creating an Environment to Stimulate Innovation

There are three sets of variables that have been found to stimulate innovation. They pertain to the organization's structure, culture, and human resource practices. (See **Exhibit 12-8**.)

STRUCTURAL VARIABLES An organization's structure can have a huge impact on innovativeness. Research into the effect of structural variables on innovation shows five things.⁴⁷

1. **Organic structure:** An organic-type organizational structure positively influences innovation. Because this structure is low in formalization, centralization, and work specialization, it facilitates the flexibility and sharing of ideas that are critical to innovation.
2. **Resources:** The availability of plentiful resources provides a key building block for innovation. With an abundance of resources, managers can afford to purchase innovations, can afford the cost of instituting innovations, and can absorb failures.
3. **Communication:** Frequent communication between organizational units helps break down barriers to innovation. Cross-functional teams, task forces, and other such organizational designs facilitate interaction across departmental lines and are widely used in innovative organizations.
4. **Time:** Innovative organizations try to minimize extreme time pressures on creative activities despite the demands of white-water rapids environments. Although time pressures may spur people to work harder and may make them feel more creative, studies show that this actually causes them to be less creative. Companies such as Google, 3M, and Hewlett-Packard actually urge staff researchers to spend a chunk of their workweek on self-initiated projects, even if those projects are outside the individual's work area of expertise.
5. **Support creativity:** Studies have shown that an employee's creative performance was enhanced when an organization's structure explicitly supported creativity. Beneficial kinds of support included things like encouragement, open communication, readiness to listen, and useful feedback.⁴⁸

CULTURAL VARIABLES Innovative organizations tend to have common cultural elements.⁴⁹ They encourage experimentation, set creativity goals, reward both successes and failures, and celebrate mistakes. An innovative organization is likely to have the following characteristics:

- **Accept ambiguity.** Too much emphasis on objectivity and specificity constrains creativity.
- **Tolerate the impractical.** Individuals who offer impractical, even foolish, answers to what-if questions are not stifled. What at first seems impractical might lead to innovative solutions. Encourage entrepreneurial thinking.
- **Keep external controls minimal.** Rules, regulations, policies, and similar organizational controls are kept to a minimum.
- **Tolerate risk.** Employees are encouraged to experiment without fear of consequences should they fail. Treat mistakes as learning opportunities.
- **Tolerate conflict.** Diversity of opinions is encouraged. Harmony and agreement between individuals or units are *not* assumed to be evidence of high performance.
- **Focus on ends rather than means.** Goals are made clear, and individuals are encouraged to consider alternative routes toward meeting the goals. Focusing on ends suggests that several right answers might be possible for any given problem.
- **Provide positive feedback.** Managers provide positive feedback, encouragement, and support so employees feel that their creative ideas receive attention.

HUMAN RESOURCE VARIABLES In this category, we find that innovative organizations actively promote the training and development of their members so their knowledge remains current; offer their employees high job security to reduce the fear of getting fired for making mistakes; and encourage individuals to become **idea champions**, actively and enthusiastically supporting new ideas, building support, overcoming resistance, and ensuring that innovations are implemented. Research finds that idea champions have common personality characteristics: extremely high self-confidence, enthusiasm, persistence, and a tendency toward risk taking. They also display characteristics associated with dynamic leadership. They inspire and energize others with their vision of the potential of an innovation and through their strong personal conviction in their mission.⁵⁰

Ideation

Companies that manufacture products typically have a research and development department that focuses on creating new products. As the competitive business environment has challenged companies beyond just product manufacturers to innovate, business leaders have embraced a wide range of approaches to find or create new ideas. Here we will explore design thinking, crowdsourcing, and the use of artificial intelligence.

DESIGN THINKING The way managers approach problem solving—using a rational and analytical mindset in identifying problems, coming up with alternatives, evaluating alternatives, and choosing one of those alternatives—has been described as “approaching management problems as designers approach design problems.”⁵¹ To think like a designer, **design thinking**, means to consider how an object or process might be redesigned—sometimes to the point of being completely redone. And an increasing number of organizations are beginning to recognize how design thinking can benefit them.⁵² For instance, PepsiCo designers created the Pepsi Spire, which is a high-tech beverage dispensing machine. Then–PepsiCo CEO Indra Nooyi, commenting on design thinking, said: “Other companies with dispensing machines have focused on adding a few more buttons and combinations of flavors. Our design guys essentially said that we’re talking about a fundamentally different interaction between consumer and machine.”⁵³



Trying out the latest in Google’s virtual reality technology, Colette Archer, a senior manager at PwC, appears at the opening of Europe’s first PwC and Google innovation Lab in Belfast. Google nurtures a culture of innovation that tolerates risks, encourages experimentation, and views mistakes as learning opportunities. *Source: Brian Lawless/PA images/Alamy Stock Photos*

idea champions

Individuals who actively and enthusiastically support new ideas, build support, overcome resistance, and ensure that innovations are implemented

design thinking

Approaching management problems as designers approach design problems

Rooted in product design, design thinking was popularized as a useful tool in a broad range of innovation challenges by Tim Brown, the founder of IDEO, an innovation consulting company. A human-centered innovation strategy, design thinking differs from other strategies because it focuses on the user instead of the problem. Although companies use different approaches to design thinking, the process can be summarized in four steps:

1. **Clarify for inspiration:** The process starts with developing a clear problem statement focused on finding the best outcome and learning about the user of the solution through research, empathy, and observation.
2. **Ideate:** The goal at this step is divergent thinking, seeking out a lot of different ideas. A variety of methods can be used to ideate, such as brainstorming, mind mapping, or using analogies.
3. **Develop:** Next, an idea is selected and a prototype is developed to better understand the idea. This could be an actual prototype of a physical product or a storyboard of a service or process idea. The prototype is shared with users for feedback.
4. **Implement and iterate:** The idea is implemented, often as a pilot, to continue to iterate or improve the idea.

The design thinking process ideally creates better innovations because you start with the user to ensure the solution is accepted. Further, the testing and iteration stages lower the risk of investing in an innovation because the idea is developed with feedback from the user.⁵⁴

crowdsourcing

Relying on a network of people outside of the organization for ideas via the internet

CROWDSOURCING Another approach to ideation is called **crowdsourcing**. The term refers to relying on a network of people outside the organization's traditional set of decision makers to solicit ideas via the internet.⁵⁵ Lego, for instance, allows anyone to submit ideas for building sets. Once an idea is submitted to its platform, other users review it; once an idea receives 10,000 supporters, a product design team reviews and decides if Lego will produce the design.⁵⁶ Through this process, Lego not only gets design ideas, but also gets insights on what types of designs customers are interested in.

Crowdsourcing initiatives can be difficult to manage. The logistics can be a challenge, but more often internal resistance to using ideas from outside of the company creates a barrier. Engaging those that submit ideas in the process of developing the idea can help overcome this barrier.⁵⁷ If your design is selected by Lego to produce, for example, you work with company designers to finalize the set and get it on store shelves.

ARTIFICIAL INTELLIGENCE In addition to using artificial intelligence (AI) to innovate processes such as chatbots to improve customer service, AI tools can support creative ideation. Natural language processing tools such as ChatGPT can be used to help support brainstorming by entering prompts asking for ideas. Generative AI's capability to retrieve, contextualize, and interpret knowledge can help users come up with a large number of ideas quickly. This machine-augmented human creativity leads to faster innovation and reiteration of ideas.⁵⁸

For example, in the ideation stage of design thinking, a tool such as ChatGPT can significantly expand the divergence of ideas. First, the tool can be used to write the needed outcome-focused problem statement to start the ideation process. With effective prompt writing, the tool can then provide a generous number of potential ideas to consider. **Exhibit 12-9** provides examples of prompts that will generate ideas.

Incubation

Which ideas should a company invest in? Not all ideas are worthwhile to pursue. The incubation process helps the company validate whether it makes sense to invest in an idea. The business model canvas is a useful tool to determine if an idea should be pursued.⁵⁹ Further, in organizations whose strategy is to create breakthrough or disruptive innovations, creating a separate business unit outside of the traditional business structure is an effective approach to validate ideas.

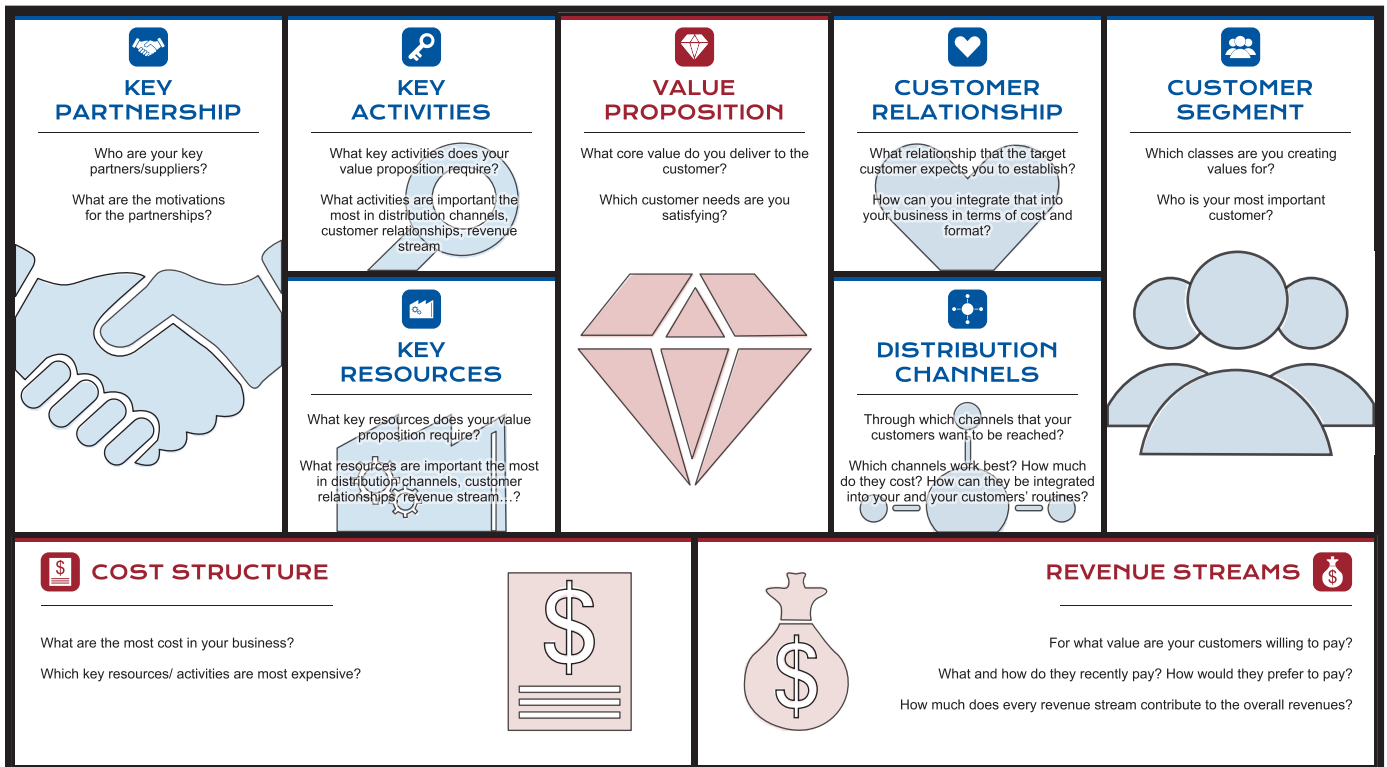
Type of Prompt	Example
What If	In the context of our product, which helps people work better by organizing tasks with our software, what if we could create a new tool for their mobile phone? What benefits could a tool provide our customer? Give ten ideas and include five characteristics the tool would need to be beneficial.
Challenge	In the context of our product, which helps people work better by organizing tasks with our software, how can we create a new tool for their mobile phone that they will download <i>without</i> increasing our marketing costs or staff? Give ten ideas and include five characteristics the tool would need to be beneficial.
Association	In the context of improving our product, which helps people work better by organizing tasks with our software, imagine that instead of software, our product is a restaurant. How can we create a new tool for our customer’s mobile phone? List ten ideas that could help us achieve this goal.
Solution-oriented	How can we reduce the number of customers we lose each month by 20 percent within the next quarter?

Exhibit 12-9 Sample AI Prompts for Ideation

Source: Adapted from S. Vossler, “GPT Has Changed Brainstorming Forever—6 Incredible Prompts for Ideation to Use with Your Team,” LinkedIn, February 21, 2023, <https://www.linkedin.com/pulse/gpt-has-changed-brainstorming-forever-6-incredible-prompts-vossler/>.

BUSINESS MODEL CANVAS The **business model canvas (BMC)** helps businesses validate new ideas. By working through the building blocks in the BMC, innovators can explore and describe how the idea creates and delivers value for the customer. The nine building blocks explore the feasibility, desirability, and viability of an idea. By exploring key activities, resources, and partners needed to execute the idea, you can determine the feasibility—that is, can we do this? Desirability is explored by examining the customer segments targeted and how you can connect with customers finding out—that is, do they want this? The viability of an idea is determined by examining

business model canvas (BMC)
A tool to define and communicate a business idea or innovation



Innovators can use the business model canvas to validate new ideas by working through the building blocks to explore and describe how the idea creates value for customers.

Source: Febrizio – VectorOz/Shutterstock

value proposition

A statement that explains how the innovation satisfies a customer need

skunk works

A small group within a large organization, given a high degree of autonomy and unhampered by corporate bureaucracy, whose mission is to develop a project primarily for the sake of radical innovation



Google started X to create radical technologies to take to market. Inventors and scientists work in a separate location near Google headquarters.

Source: Sundry Photography/Alamy Stock Photo

costs and potential revenue—that is, should we do this? Finally, the **value proposition** is a statement that explains how the innovation satisfies a customer need.⁶⁰

SKUNK WORKS Many companies have learned that disruptive innovation must be carried out by a separate group that is physically and structurally disconnected from the business's main operations. "With few exceptions, the only instances in which mainstream firms have successfully established a timely position in a disruptive technology were those in which the firms' managers set up an autonomous organization charged with building a new and independent business around the disruptive technology."⁶¹ This can be achieved by either creating a new business from scratch or acquiring a small company and keeping it separate.

These separate groups are frequently referred to as **skunk works**—defined as a small group within a large organization, given a high degree of autonomy and unhampered by corporate bureaucracy, whose mission is to develop a project primarily for the sake of radical innovation. These skunk works, in effect, are entrepreneurial operations running inside a large company. Their small size allows employees to be enthusiastic about their mission and to see the impact of their efforts. To be successful, however, they can't carry the cultural values or cost structure of the main organization. They need enough autonomy that they don't have to compete with projects in the primary organization for resources.

IBM succeeded in developing a personal computer by creating a product team and locating it in Florida—some 1,200 miles from IBM's headquarters in Armonk, New York. Google/Alphabet created X—The Moonshot Factory, a semisecret facility located a half mile from the company's corporate headquarters, whose team works on tech projects such as a new source of internet access via a beam of light. In contrast, Johnson & Johnson has aggressively bought numerous small companies, kept them independent, and provided them with a large degree of autonomy as a source of new products.

Learning from FAILURE Giving Up on Google Glass

Created by Google's X factory, the hope of a game-changing innovation in wearable products ended when Google finally stopped making Google Glass 10 years after a lackluster launch. The product was first introduced in 2013 at a retail price of \$1,500, offering consumers wearable glasses allowing them to access technology via their face instead of having to pull out a phone. The smart glasses were discontinued two years later, having never caught on. The failure was blamed on a clunky design, high price, and concerns around privacy.

In 2019 Google relaunched the product as the Glass Enterprise Edition, which shifted the focus from consumers to businesses with an intent to sell to industries such as manufacturing and logistics. But again, the product failed to catch on, and the company announced in 2023 that it would end production.

Where did Google go wrong? First, Google Glass was an example of a solution looking for a problem. Although the technology was an interesting idea, it was not fulfilling any customer need. And it was a high price for technology that was not needed. Customers also complained about privacy concerns because wearers could easily hit record to capture video at any time, making the glasses unwelcome in most public places.

Issues around the purpose of the glasses and the high cost seemed to plague corporate sales as well. When Google announced it would stop making the Glass Enterprise Edition, it was part of a larger cost-cutting initiative across the company. Although it made sense that Google tried to save its investment in Google Glass by relaunching it to a new market, ultimately the company lost millions of dollars by focusing on the novelty of technology instead of the needs of the customer.⁶²

Chapter 12

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO12.1 DESCRIBE making the case for change.

Organizational change is any alteration of people, structure, or technology. A change agent acts as a catalyst and assumes responsibility for the change process. External forces that create the need for change include changing consumer needs and wants, new governmental laws, technology, and the economy. Internal forces that create a need for change include a new organizational strategy, the composition of the workforce, new equipment, and employee attitudes.

LO12.2 COMPARE and contrast views on the change process.

The calm waters metaphor suggests that change is an occasional disruption in the normal flow of events and can be planned and managed as it happens. Lewin's three-step model says change can be managed by unfreezing the status quo (old behaviors), changing to a new state, and refreezing the new behaviors. In the white-water rapids metaphor, change is ongoing and managing it is a continual process.

LO12.3 CLASSIFY areas of organizational change.

Organizational change can focus on strategy, structure, culture, technology, or people. Changing strategy signifies a change in how managers ensure the success of the company. Changing structure involves any changes in structural components or structural design. Changing culture is a challenge and often takes many years of a strategic effort by leadership. Changing technology involves introducing new equipment, tools, or methods; automation; or computerization. Changing people involves changing attitudes, expectations, perceptions, and behaviors. Organizational development is the term used to describe change methods that focus on people and the nature and quality of interpersonal relationships.

LO12.4 EXPLAIN how to manage change.

People resist change because of uncertainty, habit, concern over personal loss, and the belief that the change is not in the organization's best interest.

The techniques for reducing resistance to change include education and communication (educating employees about and communicating to them the need for the change), participation (allowing employees to participate in the change process), facilitation and support (giving employees the support they need to implement the change), negotiation (exchanging something of value to reduce resistance), manipulation and co-optation (using negative actions to influence), and coercion (using direct threats or force).

LO12.5 COMPARE different types of innovation.

Creativity is the ability to combine ideas in a unique way or to make unusual associations between ideas. Innovation is turning the outcomes of the creative process into useful products or work methods. Disruptive innovation exists when innovations in products, services, or processes radically change an industry's rules of the game. A breakthrough innovation creates a market where one did not exist before. Sustaining innovations represent small and incremental changes in established products rather than dramatic breakthroughs.

LO12.6 DESCRIBE how managers can stimulate innovation.

Important structural variables that impact innovation include an organic-type structure, abundant resources, frequent communication between organizational units, minimal time pressure, and support. Important cultural variables include accepting ambiguity, tolerating the impractical, keeping external controls minimal, tolerating risk, tolerating conflict, focusing on ends not means, and providing positive feedback. Important human resource variables include high commitment to training and development, high job security, and encouraging individuals to be idea champions. Ideation techniques include design thinking, crowdsourcing, and using artificial intelligence. Companies can incubate ideas using the business model canvas or through a separate work unit often called skunk works.

REVIEW AND DISCUSSION QUESTIONS

- | | |
|--|---|
| <p>12-1. Why is a change agent needed for organizational change? Is a low-level employee better positioned to be a change agent addressing internal or external forces for change? Explain your answer.</p> <p>12-2. Contrast the calm waters and white-water rapids metaphors of change.</p> <p>12-3. What is organizational development, and which of the five types of change does it relate to? How do organizational development techniques support organizational change?</p> <p>12-4. Why do managers need to be prepared for employees who will resist change? Provide examples of ways managers can reduce employees' resistance to change.</p> | <p>12-5. Compare and contrast disruptive and breakthrough innovation. What are the steps a manager can take to sustain innovation?</p> <p>12-6. Why should organizational managers be concerned about reducing employee stress levels?</p> <p>12-7. Innovation requires allowing people to make mistakes. However, being wrong too many times can be disastrous to your career. Do you agree? Why or why not? What are the implications for nurturing innovation?</p> <p>12-8. Provide an example of a disruptive innovation. What impact did this innovation have on the industry?</p> |
|--|---|

PREPARING FOR: My Career

ETHICS DILEMMA

Workplace stress has reduced the quality of life for many employees. Two-thirds of employees say they lose sleep due to work-related stress, while 76 percent report that their personal relationships suffer due to stress from work.⁶³ In order to help with the negative effects of stress, many employers offer forms of wellness programs. In fact, depending on the industry involved, 39 to 63 percent of employees have access to wellness programs at work. Although employee assistance programs (EAPs) are available to more than half of US employees, many choose not to participate. Why? Many employees are reluctant to ask for help, especially if a major source of that stress is job overload or job insecurity. After all, there is still a

stigma associated with stress. Employees do not want to be perceived as being unable to handle the demands of their job. Although they may need stress management now more than ever, few employees want to admit they are stressed.

- 12-9. What can be done to resolve the paradox of employees needing stress management assistance but being reluctant to take advantage of assistance programs offered to deal with stress?
- 12-10. Does offering wellness programs, whether employees participate in the programs or not, absolve an organization of the ethical responsibility to address employees' work-related stress? Justify your response.

SKILLS EXERCISE Developing Your Change-Management Skill

About the Skill

Managers play an important role in organizational change; that is, they often serve as a catalyst for the change—a change agent. However, managers may find that change is resisted by employees. After all, change represents ambiguity and uncertainty, or it threatens the status quo. How can this resistance be effectively managed? Here are some suggestions.⁶⁴

Steps in Practicing the Skill

- **Assess the organization's climate for change.** One major factor in why some changes succeed while others fail is the readiness for change. Assessing the climate for change involves asking several questions. The more affirmative answers you get, the more likely it is that change efforts within the organization will succeed. Here are some guiding questions:
 - a. Is the sponsor of the change high enough in the organization and thus sufficiently influential to deal with employees' resistance effectively?
 - b. Is senior management supportive of the change and committed to it?
 - c. Do senior managers convey the need for change, and is this feeling shared by others in the organization?
 - d. Do managers have a clear vision of how the future will look after the change?
 - e. Are analytics in place to evaluate the change effort?
 - f. Is the specific change effort consistent with other changes going on in the organization?
 - g. Are managers willing to collaborate and compromise to accomplish the change?
 - h. Do managers closely monitor changes and actions by competitors?
 - i. Are managers and employees rewarded for taking risks and being innovative?
 - j. Is the organizational structure flexible?
 - k. Does communication flow both down and up in the organization?
 - l. Has the organization successfully implemented changes in the past?
 - m. Are employees satisfied with, and do they trust, management?
 - n. Is there frequent interactions and cooperation between the different work units within the organization?
 - o. Are decisions made transparently, inclusively, and quickly?
 - p. Are reward systems in place to reinforce accomplishing the change?
- **Choose an appropriate approach for managing the resistance to change.** This chapter suggests strategies for reducing employees' resistance to change—education and communication, participation, facilitation and support, negotiation, manipulation and co-optation, and coercion. Review **Exhibit 12-6** for the advantages and disadvantages and when it is best to use each approach.
- **During the time the change is implemented and after the change is completed, clearly communicate the support you will provide to employees.** As you actively listen to employees' concerns, be prepared to offer the necessary assistance to help them enact the change.

Practicing the Skill

Read through the following management scenario. Write down some notes about how you would handle the situation described. Be sure to refer to the suggestions for managing resistance to change.

You are a hospital administrator overseeing teams of both emergency room and floor nurses. Each team of nurses tends to work almost exclusively with peers doing the same job. The hospital's president wants nurses to begin to participate in cross-training. Emergency and floor nurses will take on each other's roles for a few weeks to acquire new knowledge and skills. This professional growth will enhance their motivation and satisfaction, leading to improved patient care at lower costs. You call the two team leaders, Amaya and Scott, into your office to discuss your plan to have the nursing teams move to this approach. To your surprise, they are both opposed to the idea. Amaya says she and the other emergency room nurses feel they are needed in the ER, where they fill the most vital role in the hospital. They work overtime when needed, deal with different emergency care needs daily, and have learned to work in a challenging and stressful environment. Emergency room nurses think the floor nurses have relatively easy jobs for the pay they receive. Scott, leader of the team of floor nurses, tells you that his group believes the ER nurses lack the special training and extra experience that the floor nurses bring to the hospital. The floor nurses claim to have the largest responsibilities and do the most exacting work. Because floor nurses have ongoing contact with the patients and their families, they believe they should not be pulled away from vital floor duties to become ER nurses and complete their tasks. Now—what would you do to fulfill the president's requested change in the training nurses receive at the hospital?

WORKING TOGETHER Team Exercise

Many companies with extravagant headquarters are known for their organizational cultures that support innovation. Lloyd's of London's inside-out building,

Nike's world headquarters, Amazon's biodomes, and BMW's headquarters are a few examples. Search for the most spectacular corporate headquarters on the internet.

Select one company headquarters that would be able to spark your innovation. Identify those amenities that create an environment where you would be innovative. Get together in groups of three to four students to discuss the work environments each was able to find. Go to one

company's homepage and infer what the company culture must be like based on what the group can find about the work environment. Be prepared to share your findings with the class.

MY TURN TO BE A MANAGER

- Choose two organizations that you are familiar with that have 500 or more employees and assess whether these organizations face a calm waters or white-water rapids change environment. Write a short report describing these organizations and your assessment of the change environment each faces. Be sure to explain your choice of change environment.
- Reflect on a significant change you have experienced in your life (for example, moving to a new school, going to college, or a family problem such as a divorce). Did you resist the change? Why? Did you use any strategies to adjust to the change? What could you have done differently? Write your reflection and note how you could effectively manage future changes in your life.
- Choose an organization, and go to its website and review the “about” portion of the website. Describe the culture (shared values and beliefs) the company is presenting. Select two of those values/beliefs and describe how they could help or hinder organizational change. Put this information in a report.
- When you find stress prevents you from performing at your best, write down what is causing the stress, what stress symptoms you are exhibiting, and how you are dealing with the stress. Keep this information in a journal and evaluate how well your stress reducers are working and how you could handle stress better in the future.
- Visit www.testmycreativity.com to take an assessment to measure your creativity. What is your level of creativity in comparison with others? What are your strengths? Your weaknesses? Do you agree with the assessment?
- Research information on how to be a more innovative professional. Write down suggestions in a bulleted-list format and be prepared to present your information in class.
- What businesses and jobs would be disrupted if 50 percent of vehicles purchased each year were electric or if 50 percent of people used car-sharing services (like Uber and Lift) to travel to and from professional sporting events and concerts?
- Research managing organizational change or the rate of change in business on the Society of Human Resource Management website. Select the information you find interesting and surprising. Put this information in a report and present it to your class.

CASE APPLICATION 1

Change from Within at Google

For years, Google employees pushed for changes related to reducing discrimination, harassment, and inequality in the company through established channels: working committees, ethics councils, and employee meetings with the CEO. None of these efforts resulted in what were felt to be fundamental changes in the company's leaders' attitudes toward discrimination, harassment, and inequality, according to Meredith Whittaker, founder of Google's Open Research group.⁶⁵ In October 2018, the media reported that Google responded to credible sexual assault claims against a former executive by paying him \$90 million and praising him as he left the company.⁶⁶

After the story was published, and after reading an email thread of stories from Google employees, Claire Stapleton had had enough. Claire, a marketing manager at YouTube (an Alphabet/Google subsidiary), took action by sending an email to a large group of employees saying that they had to do something. Employees replied to Claire's email with ideas about changes they should demand leaders make within the company. These demands, eventually transferred to a Google Doc, represented contributions from hundreds of Google employees. A document containing five demands to reduce sexual harassment, discrimination, and pay and opportunity inequities for both full-time employees and contractors was presented to Google's leaders.

Employees put in place plans to organize a day when employees would walk out of their offices to increase the chances that leaders would listen and agree to the employees' demands. On Thursday, November 1, 2018, Google employees in 30 cities participated in the planned walkout.⁶⁷ More than 20,000 Google employees and contractors—more than 20 percent of the workforce—participated in the walkout.⁶⁸

What did Google leadership do in response? They held a town hall meeting with employees, and Google took action by dropping forced arbitration for sexual harassment. They also offered sexual harassment training, which was not included in the list of demands.⁶⁹ Google leaders claimed they got the message, but the walkout organizers would like more of the employee demands to be met because four demands were only partially met and one was not addressed. Still, organizers realized that it would likely have to be the employees who keep the conversation going with company leaders.⁷⁰

DISCUSSION QUESTIONS

- 12-11. Who were the change agents at Google, and what did they do that made them change agents?
- 12-12. What were the internal and/or external forces for change in this case?
- 12-13. What areas of organizational change mattered most to employees in this case?
- 12-14. What techniques for reducing the leaders' resistance to change at Google could employees use to help make further progress toward these changes?

CASE APPLICATION 2

Microsoft: Innovative Again

Technology and business are interconnected, but innovation in the technology business is extremely difficult to sustain. High-tech entrepreneurs can more effectively turn breakthrough technology into new products customers want when the businesses are small, but their businesses lack the scale to distribute the product efficiently. By growing the company, they distribute their breakthrough technology to the market; however, as they grow larger, they struggle to remain entrepreneurial and can no longer develop breakthrough products.⁷¹ Microsoft, a tech company giant, long ago accomplished its goal of putting Microsoft software on every PC and simultaneously lost its reputation for launching breakthrough innovations. Jeff Bezos was known to joke with staff at Amazon to avoid becoming complacent like its Seattle neighbor, Microsoft.

Microsoft's 2014 replacement for the retiring CEO Steve Ballmer, Satya Nadella, decided to shake up the Microsoft culture. He created a vision for an organizational culture able to encourage breakthrough innovation again. Microsoft's leaders changed to take an offensive approach toward bringing products to the market instead of the defensive method of maintaining its existing software products. In a drastic policy change, Microsoft suddenly embraced the Linux and iOS operating systems and invested in a series of small firms. Along with the products and services associated with these new firms, Microsoft also capitalized on redeploying the many talented people working in acquired companies. Many of them were elevated to essential roles in Microsoft.

In many cases, these people turned out to be as valuable as the acquisitions. For example, Kevin Scott, Microsoft's chief technology officer, joined Microsoft when it acquired his employer, LinkedIn. Scott and his team worked on building a culture of innovation at Microsoft. Using staff free to work on new projects after Microsoft stopped offering its Mobile Windows operating system, Microsoft found it had employees able to work on new innovations. This includes Microsoft's close partnership with OpenAI and the 2022 launch of ChatGPT, which has been classified as a breakthrough innovation.⁷²

DISCUSSION QUESTIONS

- 12-15. Why is “innovation” a more accurate word to describe Microsoft’s latest efforts than “creativity”?
- 12-16. What structural, cultural, and/or human resource variables have helped encourage innovation success at Microsoft since 2014?
- 12-17. Has Microsoft achieved disruptive innovation with its AI products? Why or why not?
- 12-18. Is there an example of “sustaining innovation” in this case? Explain.

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PART 4 Management Practice

Continuing Case: Starbucks—Organizing

Organizing is one of the four functions of management, and the growth of Starbucks requires a lot of organizing from its managers. As Starbucks continues its global expansion and pursues innovative strategic initiatives, managers at every level must face the realities of continually organizing, reorganizing, and incorporating new stores and partners into its structure.

Structuring Starbucks

Like many start-ups, Starbucks's founders, with little money or experience, first organized their company around a simple organizational structure based on each person's unique strengths: Zev Siegl became the retail expert. Jerry Baldwin had taken an accounting course and, by default, became the money guy. He also had a knack for recognizing good coffee and took on tasting and buying it for the store. Gordon Bowker looked for ways to publicize the company and was the dreamer who called himself "the background power figure." As Starbucks grew to the point where Jerry recognized that he needed to hire professional and experienced managers, 29-year-old Howard Schultz joined the company, bringing his sales, marketing, and merchandising skills. When the original owners eventually sold the company to Schultz, he adopted an organizational structure where the company could go on an accelerated path of expansion. Ultimately, Starbucks had an initial public offering and became a publicly traded company with shareholders, a CEO, and a board of directors.¹ Over its history, Schultz has been CEO three times. In 2023 he stepped down from the role of company leader for the last time and served as the interim CEO while a global search was completed to find his replacement. Laxman Narasimhan, the current CEO of Starbucks, was hired at the end of this search.²

As Starbucks expanded under Schultz's leadership, its organizational structure changed to facilitate growth. In part, Starbucks's adaptive organizational structure is credited as a critical component of its success. During its growth, the company prided itself on its "lean" corporate structure. When Schultz and Johnson were at the top of the structure, they focused on hiring a diverse team of executives from companies like ExxonMobil, Sam's Club, Kraft Foods, Kimberly-Clark Corporation, and Macy's. Schultz, Johnson, and now Narasimhan realized growth on a global scale required them to have an executive team in place with experience in running divisions or functions of larger companies. These senior corporate officers demonstrate a structure far different from the original simple

structure and include the following: "C" (chief) officers, executive vice presidents, regional presidents, group presidents, and divisional vice presidents. As a result, Starbucks is now a global company with regional presidents assigned to specific geographic regions of Starbucks's operations. Starbucks's strategic focus on technology is also reflected in its structure. There is a senior vice president of business technology and an executive vice president and chief technology officer overseeing key aspects of technology for Starbucks.³ The company's website contains a complete description of the team of Starbucks executives and what each is responsible for.

Although the executive team provides the all-important strategic direction from the headquarters in Seattle, Washington, the structure of the company includes operations outside of Seattle. These include roasting plants and distribution centers in Washington, Georgia, South Carolina, Pennsylvania, and internationally in Amsterdam. The Starbucks Technology Center is located in Arizona. From this location, information security and other technology work gets done. In Seattle, the Tryer Center is a 20,000-square-foot innovation hub for Starbucks. The innovation hub provides opportunities to experiment with innovations for its retail locations. As an example, an initiative named Deep Brew uses artificial intelligence (AI), which is working with Internet of Things technologies to develop data-driven ways to streamline store operations. Deep Brew logs order histories, geolocations, and birthdays. It attempts to tweak consumer behavior: If a store is busy, Deep Brew may encourage customers using the app to pre-pay or offer customers a coupon for an Americano instead of their usual complicated latte. It also helps Starbucks determine staff schedules, inventory levels, machine maintenance, and options for store locations. At the headquarters, other aspects of corporate operations find their home, like accounting, finance, human resource management, and sales and supply chain management.⁴

Finally, the current structure of the Starbucks Corporation is a common one. Executives oversee the company from its Seattle headquarters. District managers oversee regional groupings of stores. Each district manager reports directly to an executive at the headquarters. Partners at each store report to shift supervisors, who are the managers on duty. Shift supervisors report to the store's manager.⁵ Starbucks has a matrix organization structure where employees from different functions, regions, or product divisions are expected to cross-collaborate. From the outside, the company's system appears as a complex blend of organizational structures. It has aspects of a functional hierarchy, where human resources, finance, and marketing functions are independently grouped. There are three regional divisions for the

global market, with multiple subdivisions in the US market. Product-based divisions also exist for coffee, baked goods, and merchandise, with each having a separate division.⁶

In the matrix structure, each manager reports to both a regional and a functional department head; for example, a human resource manager in China would report to the China/Asia Pacific regional manager and the head of human resources for China and Asia Pacific. The essential link between the regional office and each retail store is the district manager, each of whom oversees 8–10 stores. Because district managers need to be out working with the stores, they rely heavily on technologies that allow them to spend more time in the stores and remain connected to their own offices.

People Management at Starbucks

Starbucks recognizes that its accomplishments are due to the quality of the people it hires and not just its corporate culture or structure. Since the beginning, Starbucks has strived to be an employer that nurtures employees and gives them opportunities to grow and feel challenged. The company says it is “pro-partner” and has always been committed to providing a flexible and progressive work environment and treating one another with respect and dignity.

As Starbucks focuses on enhancing its customers’ experience and expanding internationally, it strives to ensure it has the right number of people in the right place at the right time. What kinds of people are “right” for Starbucks? They describe their ideal partners as having the ability to create genuine moments that make a difference in each customer’s day. Ideally, partners are also willing to learn and open to getting the job done while helping fellow team members. Starbucks uses a variety of methods to attract potential partners. The company has an interactive and easy-to-use online career center. Job seekers can search and apply online for retail, corporate, and manufacturing jobs in any geographic location. The company also has limited summer internship opportunities for students at their support and technology centers in the United States.⁷ But the company’s efforts do not stop there. The company is committed to maintaining a culture where diversity is valued and respected.

Starbucks offers a variety of new hire training along a 70/20/10 approach, where 10 percent of the partner’s training occurs online through e-learning modules, 20 percent is coach- or mentor-provided feedback, and the final 70 percent happens through on-the-job experience. Partners may need to make any one of 87,000 possible drink combinations. Mastering the drink combinations is expected to require substantial training. Focused training is offered to partners by each store’s learning coach through the Barista Basic hands-on training program. The pro-partner focus extends beyond benefits, tuition-free college, and wages. Starbucks offers an inclusive workplace where partners can feel connected at work and where everyone can share

and be respected in the same place. Anti-bias training is put in place to improve inclusivity. This training includes multiple videos, discussions about race and identity, information about discrimination people of color experience on a day-to-day basis in public settings, and modules to help partners understand the triggers of discrimination and learn to pause in the moment to make more thoughtful decisions.⁸

Starbucks also offers new employees “Starbucks Experience” classes that get them up to speed on the company’s history, culture, and social responsibility practices. Even incoming CEO, Laxman Narasimhan, completed 40 hours of training to become a certified Starbucks barista to gain first-hand awareness of what it means to be a partner serving coffee in a store. To maintain his connection to the pro-partner perspective and to ensure people management is relevant to those doing the work, Narasimhan will continue to serve as a barista for four hours a month at different Starbucks locations. By learning the trade at the heart of the business, he sends a signal to the workforce that the company is led by a leader willing to learn the operation, understand what it feels like to be on the front line, and see with his own eyes what it takes to serve the company’s customers. That is the kind of pro-partner-focused leader partners are used to following at Starbucks.⁹

Discussion Questions

- P4-1.** Describe Starbucks’s organizational structure in terms of the six key elements in organizational design. What types of departmentalization are being used at Starbucks? Explain your choices. (Hint: In addition to the information in the case, you might want to look at the description of corporate executives under “Leadership” on the company’s website.)
- P4-2.** Does Starbucks favor a mechanistic or organic structure through its matrix structure? What challenges would managers organizing within Starbucks’s matrix structure face? Challenges from its continued growth?
- P4-3.** If Starbucks wanted to offer compressed workweeks, flextime, or job sharing to employees at its headquarters, what would they need to consider? What are the advantages and disadvantages of offering these employment options only at the headquarters?
- P4-4.** Starbucks’s goal is to keep growing while maintaining its pro-partner focus. How will this impact the organizing done by its human resource managers?

- P4-5.** Starbucks has said that it wants partners who have the ability to connect with customers, a willingness to learn, and an openness to getting the job done while helping fellow team members. How do the company's district managers, store managers, and human resource managers ensure that its hiring and selection process recruits and ultimately selects job candidates with these abilities?
- P4-6.** Evaluate Starbucks's training efforts. What other type(s) of training might be necessary?
- P4-7.** Pretend that you are a local Starbucks store manager. You have three new hourly partners (baristas) joining your team. Describe the socialization you would provide these new hires.
- P4-8.** What external and internal forces for change does Starbucks need to plan for? Identify the forces for its two largest markets, the United States and China, and the global marketplace in general separately.
- P4-9.** Do managers at Starbucks need to be effective at managing change? Explain.

Practice Your Data Analysis Skills

A coffee business started by three friends caught on and currently has 40 locations. The growth-focused founders of this business have standardized the layout of its stores. Currently, the company has stores evenly dispersed through six regions in the United States (West, Southwest, Plains, Midwest, South, and East). Based on the in-store experience, the founders have committed to a span of control of six; in other words, one store manager leads two daily shifts (4 a.m. to 12 p.m.; 12 p.m. to 8 p.m.). Each shift has two bakery staff, four baristas, and two cleaning/stock clerk staff. Similarly, each regional manager has the potential to manage up to six stores. Growth in the regions is managed to ensure no manager has less than four stores or more than six stores at any one time.

A reorganization has just been completed to accommodate for growth across the nation during the next 18 months. Currently, there are 10 regional managers, each with four stores. In the next six months, they intend to add 10 more stores, quickly followed by another 20 openings in the following 12 months.

- P4-10.** Assuming uniform growth across the six regions, determine the total number of employees that will be hired in the next a) six months and b) 18 months.
- P4-11.** The annual turnover is 20 percent for supervisory roles and 50 percent for hourly jobs. How many employees will be lost in the original 40 stores due to turnover in the next 12 months? If 20 applications yield one hire for supervisory and hourly roles, how many applicants will be needed to refill jobs vacated

due to turnover, and how many applicants will be needed to fill positions due to growth? Are the turnover rate and number of applications required to attain one hire realistic? Explain.

- P4-12.** Hourly store employees earn \$18 per hour, and each role is paid the equivalent of an annual salary of \$37,400. Store managers earn twice that amount, and regional managers earn twice the amount of store managers. How much will the payroll increase by in the next a) six months and b) 18 months?
- P4-13.** What areas beyond those described in the case should the organization's founders focus on during this growth period?

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Understanding and Managing Individual Behavior

Learning Objectives

13.1 Identify the focus and goals of individual behavior within organizations.

13.2 Explain the role that attitudes play in job performance.

13.3 Describe different personality theories.

13.4 Describe perception and the factors that influence it.

13.5 Discuss learning theories and their relevance in shaping behavior.

As companies work to retain and motivate employees, some managers are turning to software to track, analyze, and monitor employee moods. WorkDay Inc., a human resources and finance software maker, provides a “continuous listening platform” for clients to manage such tracking. The tool uses artificial intelligence and machine learning to analyze employee feedback to inform managers on actions needed to keep employees happy. And WorkDay practices what it recommends, using “Feedback Fridays” to check in on its own workers. Management at WorkDay believes every minute matters and that the weekly check-ins help them understand what employees want so they can take actions to attract and retain top talent. Focusing on the idea that happy workers are more productive, WorkDay and its clients think it is worthwhile to invest time and resources to track employees’ emotions.¹

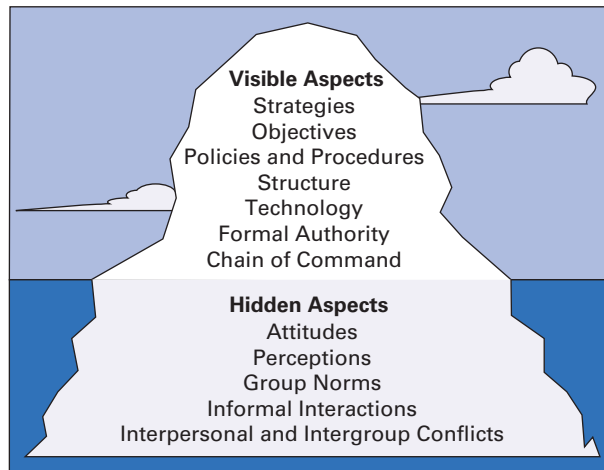
In this chapter, we look at employee behavior—specifically, attitudes, personality, perception, and learning. As we’ll show, managers need to understand employee behavior for the insights it provides in hiring decisions, motivating staff, choosing leadership behaviors, and retaining high-performing employees.

Management Myth: Keep employees happy and your company will succeed.

Management Reality: Employee behaviors are complex, and managers need to consider the whole work environment to encourage productive behavior.

Exhibit 13-1

The “Organization as an Iceberg”
Metaphor



FOCUS and Goals of Organizational Behavior

LO13.1 Identify the focus and goals of individual behavior within organizations.

The material in this and the next two chapters draws heavily on the field of study that’s known as *organizational behavior (OB)*. Although it’s concerned with the subject of **behavior**—that is, the actions of people—**organizational behavior** is considered more specifically with the actions of people at work.²

One of the challenges to understanding organizational behavior is that it addresses a number of issues that aren’t obvious. Like an iceberg, a lot of organizational behavior is not visible to the naked eye. (See **Exhibit 13-1**.) What we tend to see when we look at organizations are their formal aspects—strategies, objectives, policies and procedures, structures, technologies, formal authority relationships, and chains of command. But just under the surface lie a number of informal elements that managers need to understand. As we’ll show, OB provides managers with considerable insights into these important, but hidden, aspects of the organization.

Focus of Organizational Behavior

Organizational behavior focuses primarily on two major areas. First, OB looks at *individual behavior*. Based predominantly on contributions from psychologists, this area includes such topics as attitudes, personality, perception, learning, and motivation. Second, OB is concerned with *group behavior*, which includes norms, roles, team building, leadership, and conflict. Our knowledge about groups comes basically from the work of sociologists and social psychologists. We’ve addressed group behavior previously. In this chapter, we’ll look at individual behavior.

Goals of Organizational Behavior

The goals of OB are to *explain*, *predict*, and *influence* behavior. Managers need to be able to *explain* why employees engage in some behaviors rather than others, *predict* how employees will respond to various actions and decisions, and *influence* how employees behave.

What employee behaviors are we specifically concerned with explaining, predicting, and influencing? We’ll focus on six: employee productivity, absenteeism, turnover, organizational citizenship behavior, job satisfaction, and counterproductive workplace behavior.

Employee productivity is a performance measure of both efficiency and effectiveness. **Absenteeism** is the failure to show up for work. It’s been estimated that unscheduled absenteeism costs US employers \$3,600 a year for each hourly worker

behavior

The actions of people

organizational behavior (OB)

The study of the actions of people at work

employee productivity

A performance measure of both efficiency and effectiveness

absenteeism

The failure to show up for work

and \$2,650 for each salaried worker.³ **Turnover** is the voluntary and involuntary permanent withdrawal from an organization. It can be a problem because of increased recruiting, selection, and training costs and work disruptions. And it's costly to companies—ranging from one half to two times an employee's annual salary.⁴ **Organizational citizenship behavior (OCB)** is discretionary behavior that's not part of an employee's formal job requirements but promotes the effective functioning of the organization.⁵ Examples of good OCBs include helping others on one's work team, volunteering for extended job activities, avoiding unnecessary conflicts, and making constructive statements about one's work group and the organization. **Job satisfaction** refers to an employee's general attitude toward their job. Although job satisfaction is an attitude rather than a behavior, it's an outcome that concerns many managers because satisfied employees are more likely to show up for work, have higher levels of performance, and stay with an organization. Finally, **counterproductive workplace behavior** is any intentional employee behavior that is potentially harmful to the organization or individuals within the organization. Counterproductive workplace behavior shows up in organizations in four ways: deviance, aggression, antisocial behavior, and violence.⁶ In the following sections, we'll address how an understanding of four psychological factors—employee attitudes, personality, perception, and learning—can help us explain, predict, and influence these employee behaviors.



A positive work environment can contribute to increased employee satisfaction and productivity.
Source: Aleksei Gorodenkov/Alamy Stock Photo

ATTITUDES and Job Performance

LO13.2 Explain the role that attitudes play in job performance.

Attitudes are evaluative statements—favorable or unfavorable—concerning objects, people, or events. They reflect how an individual feels about something. When a person says, “I like my job,” they are expressing an attitude about work.

An attitude is made up of three components: cognition, affect, and behavior.⁷ The **cognitive component** of an attitude refers to the beliefs, opinions, knowledge, or information held by a person (for instance, the belief that “discrimination is wrong”). The **affective component** of an attitude is the emotional or feeling part of an attitude. Using our example, this component would be reflected by the statement “I don’t like Pat because he discriminates against minorities.” Finally, affect can lead to behavioral outcomes. The **behavioral component** of an attitude refers to an intention to behave in a certain way toward someone or something. To continue our example, I might choose to avoid Pat because of my feelings about him. Understanding that attitudes are made up of three components helps show their complexity. But the term *attitude* usually refers only to the affective component.

Naturally, managers aren’t interested in every attitude an employee has. They’re especially interested in job-related attitudes. The four most relevant to managers are job satisfaction, job involvement, organizational commitment, and employee engagement.

Job Satisfaction

As we know from our earlier definition, job satisfaction refers to a person’s general attitude toward their job. A person with a high level of job satisfaction has a positive attitude toward their job. A person who is dissatisfied has a negative attitude. When people generally speak of employee attitudes, they usually are referring to job satisfaction.⁸

HOW SATISFIED ARE EMPLOYEES? Job satisfaction levels, for the most part, tend to be rather consistent over time. For instance, US average job satisfaction levels were consistently in the 60 percent range from 1972 to 2006, meaning around 60 percent of workers reported being satisfied with their jobs.⁹ They did drop into the low 40s

turnover

The voluntary and involuntary permanent withdrawal from an organization

organizational citizenship behavior (OCB)

Discretionary behavior that is not part of an employee’s formal job requirements, but that promotes the effective functioning of the organization

job satisfaction

An employee’s general attitude toward their job

counterproductive workplace behavior

Any intentional employee behavior that is potentially damaging to the organization or to individuals within the organization

attitudes

Evaluative statements, either favorable or unfavorable, concerning objects, people, or events

cognitive component

That part of an attitude that’s made up of the beliefs, opinions, knowledge, or information held by a person

affective component

That part of an attitude that relates to emotions or feelings

behavioral component

That part of an attitude that refers to an intention to behave in a certain way toward someone or something

in 2010, which is generally attributable to the Great Recession.¹⁰ By 2022, 62.3 percent of workers reported they were satisfied with their job.¹¹

Maybe not surprisingly, employee satisfaction is influenced by income. Beyond competitive pay, the factors that most influence satisfaction relate to the workers' experience on the job. Workers that report the highest levels of intent to stay with their employer report satisfaction with organizational culture, quality of leadership, and work/life balance.¹²

As we explore the relationship between job satisfaction and dimensions of employee behavior, it is important to consider actions employers can take to positively influence job satisfaction. Recent research suggests that overall job satisfaction across employees is connected with the ebbs and flows of the economy. Interestingly, employees report higher levels of job satisfaction during downturns in the economy. In periods of recession, it is possible that employees appreciate their work more given the lack of other potential work options. This suggests that managers should also pay attention to job satisfaction levels during strong economic times, because this is when employees are more likely to consider leaving.¹³

SATISFACTION AND PERFORMANCE After the Hawthorne Studies (discussed in **Chapter 2**), managers believed that happy workers were productive workers. Because it wasn't easy to determine whether job satisfaction caused job performance or vice versa, some management researchers questioned that belief. However, additional research has helped clarify the relationship. We can say with some certainty that the correlation between satisfaction and performance is quite robust.¹⁴ Individuals with higher job satisfaction perform better, and organizations with more satisfied employees tend to be more effective than those with fewer.

SATISFACTION AND ABSENTEEISM Although research shows that satisfied employees have lower levels of absenteeism than dissatisfied employees, the relationship is moderate to weak.¹⁵ Generally, when numerous alternative jobs are available, dissatisfied employees have high absence rates, but when there are few alternatives, dissatisfied employees have the same (low) rate of absence as satisfied employees.¹⁶ And organizations that provide liberal sick leave benefits are encouraging all their employees—including those who are highly satisfied—to take days off. You can find work satisfying and yet still want to enjoy a three-day weekend if those days come free with no penalties.

SATISFACTION AND TURNOVER The relationship between job satisfaction and turnover is stronger than that between satisfaction and absenteeism.¹⁷ Overall, a pattern of lowered job satisfaction is the best predictor of intent to leave. Turnover also has a workplace environment connection. If the climate within an employee's immediate work-

place is one of low job satisfaction leading to turnover, there will be a contagion effect. This suggests that managers consider the job satisfaction (and turnover) patterns of coworkers when assigning workers to a new area.¹⁸ Research also suggests that the level of satisfaction is less important in predicting turnover for superior performers because the organization typically does everything it can to keep them—pay raises, praise, increased promotion opportunities, and the like.¹⁹

JOB SATISFACTION AND CUSTOMER SATISFACTION

Is job satisfaction related to positive customer outcomes? For frontline employees who have regular contact with customers, the answer is “yes.” Satisfied employees increase customer satisfaction and loyalty.²⁰ Why? In service organizations, customer retention and defection are highly dependent on how frontline employees deal with customers.

Satisfied employees are more likely to be friendly, upbeat, and responsive, which customers appreciate. And because satisfied employees are less likely to leave their jobs,



Satisfied employees provide better service and are friendlier, leading to happier customers.
Source: Alvaro González/Alamy Stock Photo

customers are more likely to encounter familiar faces and receive experienced service. These qualities help build customer satisfaction and loyalty.

JOB SATISFACTION AND OCB It seems logical to assume that job satisfaction should be a major determinant of an employee's organizational citizenship behavior.²¹ Satisfied employees would seem more likely to talk positively about the organization, help others, and go above and beyond normal job expectations. Evidence suggests job satisfaction *is* moderately correlated with OCB; that is, people who are more satisfied with their jobs are more likely to engage in citizenship behavior.²²

Why does job satisfaction lead to OCB? One reason is trust. Research in 18 countries suggests that managers reciprocate employees' OCB with trusting behaviors of their own.²³ Individuals who feel that their coworkers support them are also more likely to engage in helpful behaviors than those who have antagonistic coworker relationships.²⁴

JOB SATISFACTION AND COUNTERPRODUCTIVE BEHAVIOR When employees are dissatisfied with their jobs, they are likely to engage in counterproductive behaviors such as stealing, undue socializing, gossiping, absenteeism, and tardiness.²⁵ The problem comes from the difficulty in predicting *how* they'll respond. One person might quit. Another might respond by using work time to play computer games. And another might verbally abuse a coworker. If managers want to control the undesirable consequences of job dissatisfaction, they'd be better off attacking the problem—job dissatisfaction—than trying to control the different employee responses. A good start is understanding the source of dissatisfaction. For instance, does the employee feel that they were treated unfairly by their supervisor, or are they upset because a new company policy requires employees to pay for their uniforms? Or, does the employee feel slighted by the coworker who doesn't pull their weight?

Three other job-related attitudes we need to look at are job involvement, organizational commitment, and employee engagement.

Job Involvement and Organizational Commitment

Job involvement is the degree to which an employee identifies with their job, actively participates in it, and considers their job performance to be important to their self-worth.²⁶ Employees with a high level of job involvement strongly identify with and really care about the kind of work they do. Their positive attitude leads them to contribute in positive ways to their work. High levels of job involvement have been found to be related to fewer absences, lower resignation rates, and higher employee engagement with their work.²⁷

Organizational commitment is the degree to which an employee identifies with a particular organization and its goals and wishes to maintain membership in that organization.²⁸ Whereas job involvement is identifying with your job, organizational commitment is identifying with your employing organization. Research suggests that organizational commitment also leads to lower levels of both absenteeism and turnover and, in fact, is a better indicator of turnover than job satisfaction.²⁹ Why? Probably because it's a more global and enduring response to the organization than satisfaction with a particular job.³⁰ However, organizational commitment is less important as a work-related attitude than it once was. Employees today don't generally stay with a single organization for most of their career, and the relationship they have with their employer has changed considerably.³¹ Although the commitment of *an employee to an organization* may not be as important as it once was, research about **perceived organizational support**—employees' general belief that their organization values their contribution and cares about their well-being—shows that the commitment of *the organization to the employee* can be beneficial. High levels of perceived organizational support lead to increased job satisfaction and lower turnover.³²

Employee Engagement

Employee engagement is an employee's involvement with, satisfaction with, and enthusiasm for the work they do. To evaluate engagement, we might ask employees whether they have access to resources and opportunities to learn new skills, whether they feel their work is important and meaningful, and whether interactions

job involvement

The degree to which an employee identifies with their job, actively participates in it, and considers their job performance to be important to self-worth

organizational commitment

The degree to which an employee identifies with a particular organization and its goals and wishes to maintain membership in that organization

perceived organizational support

Employees' general belief that their organization values their contribution and cares about their well-being

employee engagement

When employees are connected to, satisfied with, and enthusiastic about their jobs



PepsiCo drives employee engagement by taking action to improve how employees feel about their jobs, their team, and the company direction.

Source: Chris Ratcliffe/Bloomberg via Getty Images

cognitive dissonance

Any incompatibility or inconsistency between attitudes or between behavior and attitudes

attitude surveys

Surveys that elicit responses from employees through questions about how they feel about their jobs, work groups, supervisors, or the organization

pulse survey

A short employee attitude survey sent to employees at a regular interval, such as weekly

with coworkers and supervisors are rewarding.³³ Highly engaged employees are passionate about and deeply connected to their work, and disengaged employees have essentially “checked out” and don’t care. They show up for work, but have no energy or passion for it.

A number of benefits come from having highly engaged employees. First, highly engaged employees are two-and-a-half times more likely to be top performers than their less-engaged coworkers. In addition, companies with highly engaged employees have higher retention rates, which help keep recruiting and training costs low. And both of these outcomes—higher performance and lower costs—contribute to superior financial performance.³⁴ Managers have a lot of work to do to reap these benefits. Worldwide, only 21 percent of employees describe themselves as engaged. The news is only somewhat better in the United States and Canada, where 33 percent of employees are engaged.³⁵

Cognitive Dissonance Theory

Cognitive dissonance theory sought to explain the relationship between attitudes and behavior.³⁶ **Cognitive dissonance** is any incompatibility or inconsistency between attitudes or between behavior and attitudes. The theory argued that inconsistency is uncomfortable and that individuals will try to reduce the discomfort and, thus, the dissonance.

Of course, no one can avoid dissonance. You know you should floss your teeth every day but probably don’t do it. There’s an inconsistency between attitude and behavior. How do people cope with cognitive dissonance? The theory proposes that how hard we’ll try to reduce dissonance is determined by three things: (1) the *importance* of the factors creating the dissonance, (2) the degree of *influence* the individual believes they have over those factors, and (3) the *rewards* that may be involved in dissonance.

If the factors creating the dissonance are relatively unimportant, the pressure to correct the inconsistency will be low. However, if those factors are important, individuals may change their behavior, conclude that the dissonant behavior isn’t so important, change their attitude, or identify compatible factors that outweigh the dissonant ones.

How much influence individuals believe they have over the factors also affects their reaction to the dissonance. If they perceive the dissonance is something about which they have no choice, they won’t be receptive to attitude change or feel a need to be. If, for example, the dissonance-producing behavior was required as a result of a manager’s order, the pressure to reduce dissonance would be less than if the behavior had been performed voluntarily. Although dissonance exists, it can be rationalized and justified by the need to follow the manager’s orders—that is, the person had no choice or control.

Finally, rewards also influence the degree to which individuals are motivated to reduce dissonance. Coupling high dissonance with high rewards tends to reduce the discomfort by motivating the individual to believe that consistency exists.

Assessing Attitudes

Many organizations regularly survey their employees about their attitudes.³⁷ **Exhibit 13-2** shows an example of an actual attitude survey. Typically, **attitude surveys** present employees with a set of statements or questions eliciting how they feel about their jobs, work groups, supervisors, or the organization. Ideally, the items will be designed to obtain the specific information that managers desire. An attitude score is achieved by summing up responses to individual questionnaire items. These scores can then be averaged for work groups, departments, divisions, or the organization as a whole.

Some companies are shifting away from attitude surveys to other sources of information on employee attitudes and engagement. For example, many companies now use a **pulse survey**, which is a brief survey that is taken frequently. Companies also use employee sentiment analytics, which examine signals of employee attitudes and engagement through employee interactions with messaging platforms, email, and other social discussion threads.³⁸

Here are some sample statements from an employee attitude survey:

- I have ample opportunities to use my skills/abilities in my job.
- My manager has a good relationship with my work group.
- My organization provides me professional development opportunities.
- I am told if I'm doing good work or not.
- I feel safe in my work environment.
- My organization is a great place to work.

Exhibit 13-2
Sample Employee Attitude Survey

Can Artificial Intelligence Help Improve Employee Attitudes?

As noted in the chapter opening, AI tools can support a more accurate assessment of employee attitudes and engagement at work. SML, a specialty chemical supplier based in Indonesia, used an AI tool to track employee attitudes, specifically employee happiness and stress levels, to identify opportunities to boost employee morale. The AI tool was programmed using past data from the organization including insights from in-depth employee interviews. Employees were then surveyed monthly, and management studied the patterns that emerged and planned responses depending on any concerns identified. For example, as they noticed an increase in stress levels, they were able to identify a miscommunication that was corrected.³⁹

Beyond measuring employee attitudes, the use of AI provides an opportunity to improve employee attitudes by changing work processes and automating tasks that workers may deem uninteresting. An AI tool might handle mundane tasks such as filling out forms, scheduling, or managing expenses, freeing an employee to spend time on more interesting work. Or an AI tool might make it easier for an employee to gather and organize information for a report.⁴⁰ As workers find ways to automate frustrating tasks, not only will they become more productive, but it will increase the likelihood of a positive attitude.

Implications for Managers

Managers should be interested in their employees' attitudes because they influence behavior. Satisfied and committed employees, for instance, have lower rates of turnover and absenteeism. If managers want to keep resignations and absences down—especially among their more productive employees—they'll want to do things that generate positive job attitudes.

Satisfied employees also perform better on the job. So managers should focus on those factors that have been shown to be conducive to high levels of employee job satisfaction: making work challenging and interesting, providing equitable rewards, creating supportive working conditions, and encouraging supportive colleagues.⁴¹ These factors are likely to help employees be more productive.

Managers should also assess employee attitudes through surveys or other means and look for opportunities to improve attitudes. As one study put it: "A sound measurement of overall job attitude is one of the most useful pieces of information an organization can have about its employees."⁴²

Finally, managers should know that employees will try to reduce dissonance. If employees are required to do things that appear inconsistent to them or that are at odds with their attitudes, managers should remember that pressure to reduce the dissonance is not as strong when the employee perceives that the dissonance is externally imposed and uncontrollable. It's also decreased if rewards are significant enough to offset the dissonance. So the manager might point to external forces such as competitors, customers, or other factors when explaining the need to perform some work that the individual may have some dissonance about. Or the manager can provide rewards that an individual desires.



Artificial intelligence offers many tools to positively impact employee attitudes. Companies can use AI to automate tasks and make work more interesting.

Source: Sergey Tarasov/Alamy Stock Photo

PERSONALITY

LO13.3 Describe different personality theories.

personality

The unique combination of emotional, thought, and behavioral patterns that affect how a person reacts to situations and interacts with others

Some people are quiet and passive, whereas others are loud and aggressive. When we describe people using terms such as quiet, passive, loud, aggressive, ambitious, extroverted, loyal, tense, or sociable, we're describing their personalities. An individual's **personality** is the combination of emotional, thought, and behavioral patterns that affect how a person reacts to situations and interacts with others.

We're interested in looking at personality because, just like attitudes, it, too, affects how and why people behave the way they do. Over the years, researchers have attempted to identify those traits that best describe personality. The two most well-known approaches are the Myers-Briggs Type Indicator® (MBTI®) and the Big Five Model. In addition, other frameworks, such as the Dark Triad, explain certain aspects. We discuss each in the following sections, but let's begin with the dominant frameworks.

MBTI®

Myers-Briggs Type Indicator® (MBTI®)

A personality assessment instrument that classifies people in four categories

The **Myers-Briggs Type Indicator® (MBTI®)** is one of the most widely used personality assessment instruments in the world.⁴³ This 100-question assessment asks people how they usually act or feel in different situations. On the basis of their answers, individuals are classified as exhibiting a preference in four categories: extraversion or introversion (E or I), sensing or intuition (S or N), thinking or feeling (T or F), and judging or perceiving (J or P). These terms are defined as follows:

- **Extraversion (E) versus introversion (I):** Individuals showing a preference for extraversion are outgoing, social, and assertive. They need a work environment that's varied and action oriented, that lets them be with others, and that gives them a variety of experiences. Individuals showing a preference for introversion are quiet and shy. They focus on understanding and prefer a work environment that is quiet and concentrated, that lets them be alone, and that gives them a chance to explore in-depth a limited set of experiences.
- **Sensing (S) versus intuition (N):** Sensing types are practical and prefer routine and order. They dislike new problems unless there are standard ways to solve them, have a high need for closure, show patience with routine details, and tend to be good at precise work. On the other hand, intuition types rely on unconscious processes and look at the "big picture." They're individuals who like solving new problems, dislike doing the same thing over and over again, jump to conclusions, are impatient with routine details, and dislike taking time for precision.
- **Thinking (T) versus feeling (F):** Thinking types use reason and logic to handle problems. They're unemotional and uninterested in people's feelings, enjoy analysis and putting things into logical order, are able to reprimand people and fire them when necessary, may seem hard-hearted, and tend to relate well only to other thinking types. Feeling types rely on their personal values and emotions. They're aware of other people and their feelings, like harmony, need occasional praise, dislike telling people unpleasant things, tend to be sympathetic, and relate well to most people.
- **Judging (J) versus perceiving (P):** Judging types want control and prefer their world to be ordered and structured. They're good planners, decisive, purposeful, and exacting. They focus on completing a task, make decisions quickly, and want only the information necessary to get a task done. Perceiving types are flexible and spontaneous. They're curious, adaptable, and tolerant. They focus on starting a task, postpone decisions, and want to find out all about the task before starting it.

Combining these preferences provides descriptions of 16 personality types, with every person identified with one of the items in each of the four pairs. **Exhibit 13-3** summarizes two of them. As you can see from these descriptions, each personality type would approach work and relationships differently—neither one better than the other, just different.

Type	Description
I–S–F–P (introversion, sensing, feeling, perceiving)	Sensitive, kind, modest, shy, and quietly friendly. Such people strongly dislike disagreements and will avoid them. They are loyal followers and quite often are relaxed about getting things done.
E–N–T–J (extraversion, intuition, thinking, judging)	Warm, friendly, candid, and decisive; also skilled in anything that requires reasoning and intelligent talk, but may sometimes overestimate what they are capable of doing.

Exhibit 13-3

Examples of MBTI® Personality Types

Source: Based on I. Briggs-Myers, *Introduction to Type* (Palo Alto, CA: Consulting Psychologists Press, 1980), 7–8.

The MBTI® is used in a variety of organizational settings. It is taken by over 1.5 million people each year, and 88 percent of the *Fortune* 500 companies use personality tests like the MBTI® to help build effective work teams.⁴⁴ For instance, a spokesperson for General Motors said that the company has been using Myers-Briggs for 30 years. And a spokesperson for Procter & Gamble said that thousands of its staff “have benefited, and are still benefiting” from taking the test.⁴⁵ In spite of its popularity, evidence is mixed about the MBTI®’s validity, with most of the evidence stacking up against it.⁴⁶ For instance, studies have found that more than half the people who retake the test get a different result the second time.⁴⁷ As one noted psychologist said about MBTI® results, “Next time, just look at the horoscope. It is just as valid and takes less time.”⁴⁸ We have described and discussed the MBTI® here not because it’s a valuable device for gaining insights into individual behavior but because it’s very likely that you’ll encounter its use in organizations.

The Big Five Model

The MBTI® may lack strong supporting evidence, but an impressive body of research supports the **Big Five Model**, which proposes that five basic dimensions underlie all others and encompass most of the significant variation in human personality.⁴⁹ Test scores of these traits do a very good job of predicting how people behave in a variety of real-life situations⁵⁰ and remain relatively stable for an individual over time.⁵¹ These are the Big Five factors:

1. **Extraversion:** The degree to which someone is sociable, talkative, assertive, and comfortable in relationships with others
2. **Agreeableness:** The degree to which someone is good-natured, cooperative, and trusting
3. **Conscientiousness:** The degree to which someone is reliable, responsible, dependable, persistent, and achievement oriented
4. **Emotional stability:** The degree to which someone is calm, enthusiastic, and secure (positive) or tense, nervous, depressed, and insecure (negative)
5. **Openness to experience:** The degree to which someone has a wide range of interests and is imaginative, fascinated with novelty, artistically sensitive, and intellectual

The Big Five Model provides more than just a personality framework. Research has shown that important relationships exist between these personality dimensions and job performance. Here’s what we know about each of the five dimensions.⁵²

Extraverts perform better in jobs where high social interaction is necessary—like managerial and sales positions. They are socially dominant, “take charge” people who are usually more assertive than introverts. Extraversion is a relatively strong predictor of leadership emergence and behaviors in groups. And extraverts tend to have generally high job satisfaction, work motivation, and reduced burnout.

Big Five Model

Personality trait model that includes extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience



Oracle CEO Safra Catz scores high on all of the personality dimensions of the Big Five Model. She is sociable, agreeable, conscientious, emotionally stable, and open to experiences. These traits have contributed to her growth at the company, where she’s been employed since 1999.

Source: Albin Lohr-Jones/Consolidated News Photos/Albin Lohr-Jones-Pool via CNP-NO WIRE SERVICE/dpa picture alliance/Alamy Live News/Alamy Stock Photo

Not surprisingly, agreeable individuals are better liked than disagreeable people. They tend to perform well in interpersonally oriented jobs, such as customer service.

Conscientiousness is the best predictor of job performance. Employees who score higher in conscientiousness develop higher levels of job knowledge, probably because highly conscientious people learn more and these levels correspond with higher levels of job performance. Conscientious people have also been found to be more likely to engage in more OCB, less likely to engage in counterproductive work behaviors or think about leaving the organization, and can adapt to changing task demands and situations.

Of the Big Five traits, emotional stability is most strongly related to life satisfaction, job satisfaction, and reduced burnout and intentions to quit. People with high emotional stability can adapt to unexpected or changing demands in the workplace.

Finally, open people tend to be the most creative and innovative compared with the other traits. Open people are more likely to be effective leaders and more comfortable with ambiguity—they cope better with organizational change and are more adaptable. And openness to experience was found to be important in predicting training competency.

The Dark Triad

The traits in the Big Five model tend to be positive and desirable. With the exception of someone low on emotional stability (i.e., neurotic), organizations generally benefit when they have employees who are open, agreeable, and conscientious. But what about people with socially *undesirable* traits? Is there such a thing as a toxic employee—for example, someone who is self-absorbed, putting their interests ahead of the organization, or someone who is manipulative or with questionable ethics and willing to exploit situations and people? The answer appears to be “yes.” Such individuals hold traits consistent with the *Dark Triad*.

Three specific traits have been identified that, together, form the **Dark Triad**.⁵³ They are Machiavellianism, narcissism, and psychopathy. Because each tends to be a negative trait, they’ve been called a *triad*, but they don’t always occur together.

Machiavellianism (Mach) is named after Niccolo Machiavelli, who wrote in the 16th century on how to gain and manipulate power. An individual high in Machiavellianism is pragmatic, maintains emotional distance, and believes that ends can justify means. “If it works, use it” is consistent with a high Mach perspective. High-Mach employees, by manipulating others to their advantage, win in the short term at a job, but they lose those gains in the long term because they are not well liked.

Narcissism describes a person who has a grandiose sense of self-importance, requires excessive admiration, and is arrogant. These individuals have a tendency to exploit situations and people, a sense of entitlement, and a lack of empathy. They also can be hypersensitive and easy to anger. Ironically, narcissists are more likely to be chosen for leadership positions because others tend to see them as charismatic. In fact, high levels of narcissism actually increase the likelihood a leader will be promoted to a CEO role,⁵⁴ which is concerning because studies have found narcissism linked to unethical behavior in CEOs.⁵⁵

The third part of the Dark Triad is **psychopathy**. The term is used here not to connote clinical mental illness but to describe individuals who lack concern for others and lack guilt or remorse when actions cause harm. These people tend to be antisocial. When put in leadership positions, they rely heavily on threats, manipulation, and bullying as a means to influence others.

When you see the toxic nature of people with one or more of these traits, you might ask: Why would an organization hire them? The answer is that these same people also embody many desirable traits like charm, leadership, assertiveness, and impression management skills.⁵⁶ In a condensed time period, such as an employment interview, applicants with toxic traits are very good at hiding them while, at the same time, adept at promoting their positive traits.

Dark Triad

The three personality traits of Machiavellianism, narcissism, and psychopathy

Machiavellianism

A measure of the degree to which people are pragmatic, maintain emotional distance, and believe that ends justify means

narcissism

A grandiose sense of self-importance, a need for excessive admiration, and arrogance

psychopathy

A lack concern for others and a lack guilt or remorse when actions cause harm

Additional Personality Insights

The Big Five and Dark Triad offer important, and valid, insights into personality traits. In addition, researchers have identified five singular personality traits that are powerful predictors of behavior in organizations.

LOCUS OF CONTROL Some people believe they control their own fate. Others see themselves as pawns, believing that what happens to them in their lives is due to luck or chance. The locus of control in the first case is *internal*; these people believe they control their own destiny. The locus of control in the second case is *external*; these people believe their lives are controlled by outside forces.⁵⁷ Research indicates that employees who are externals are less satisfied with their jobs, more alienated from the work setting, and less involved in their jobs than those who rate high on internality.⁵⁸ A manager might also expect externals to blame a poor performance evaluation on their boss's prejudice, their coworkers, or other events outside their control; internals would explain the same evaluation in terms of their own actions.

SELF-ESTEEM People differ in the degree to which they like or dislike themselves, a trait called **self-esteem**.⁵⁹ Research on self-esteem (SE) offers some interesting behavioral insights; for example, self-esteem is directly related to expectations for success. Those high in SE believe they possess the ability they need to succeed at work. Individuals with high SE will take more risks in job selection and are more likely to choose unconventional jobs than people with low SE.

The most common finding on self-esteem is that low SEs are more susceptible to external influence than high SEs. Low SEs are dependent on receiving positive evaluations from others. As a result, they're more likely to seek approval from others and are more prone to conform to the beliefs and behaviors of those they respect than high SEs. In managerial positions, low SEs will tend to be concerned with pleasing others and, therefore, will be less likely to take unpopular stands than high SEs. Finally, self-esteem has also been found to be related to job satisfaction. A number of studies confirm that high SEs are more satisfied with their jobs than low SEs.

SELF-MONITORING **Self-monitoring** refers to an individual's ability to adjust behavior to external situational factors.⁶⁰

Individuals high in self-monitoring show considerable adaptability in adjusting their behavior. They're highly sensitive to external cues and can behave differently in different situations. High self-monitors are capable of presenting striking contradictions between their public persona and their private selves. Low self-monitors can't adjust their behavior. They tend to display their true dispositions and attitudes in every situation, and there's high behavioral consistency between who they are and what they do.

Research on self-monitoring suggests that high self-monitors pay closer attention to the behavior of others and are more flexible than low self-monitors.⁶¹ In addition, high self-monitoring managers tend to be more mobile in their careers, receive more promotions (both internal and cross-organizational), and are more likely to occupy central positions in an organization.⁶² The high self-monitor is capable of putting on different "faces" for different audiences, an important trait for managers who must play multiple, or even contradicting, roles.

RISK-TAKING People differ in their willingness to take chances. Differences in the propensity to assume or to avoid risk have been shown to affect how long it takes managers to make a decision and how much information they require before making their choice. For instance, in one study where managers worked on simulated exercises that required them to make hiring decisions, high-risk-taking managers took less time to make decisions and used less information in making their choices than low-risk-taking managers.⁶³

Although it is generally correct to conclude that managers in organizations are risk averse,⁶⁴ there are still individual differences on this dimension.⁶⁵ As a result, it makes sense to recognize these differences and even to consider aligning risk-taking propensity with specific job demands. For instance, a high-risk-taking propensity may

self-esteem

An individual's degree of like or dislike for
themselves

self-monitoring

A personality trait that measures the
ability to adjust behavior to external
situational factors

lead to a more effective performance for a trader at a hedge fund. This type of job demands rapid decision making. On the other hand, this personality trait might prove a major obstacle to accountants performing auditing activities. This latter job might be better filled by someone with a low-risk-taking propensity.

PROACTIVE PERSONALITY Did you ever notice that some people take the initiative to improve their current circumstances or create new ones? These are proactive personalities.⁶⁶ Those with a proactive personality identify opportunities, show initiative, take action, and persevere until meaningful change occurs, unlike those who generally react to situations.

Proactive individuals have many desirable behaviors that organizations covet. They have higher levels of job performance, tend to be satisfied with their jobs, and don't need much oversight.⁶⁷ They're more likely to be seen as leaders and more likely to act as change agents in organizations; they're more likely to challenge the status quo; they have entrepreneurial abilities; and they often achieve career success.⁶⁸



Sisters Dicky and Nicky Chhetri exhibited the personality dimension of conscientiousness in starting 3 Sisters Adventure Trekking Company in Nepal. Persistence and a high achievement drive helped them not only to break into a male-dominated industry but also to grow their business by training other women to become guides. Since they started the business in 1994, they have trained close to 2,000 women in trekking and guiding, many of whom have gone on to become guides for the company.

Source: Jenny Matthews/Alamy Stock Photo

Personality Types in Different Cultures

Do personality frameworks, like the Big Five Model, transfer across cultures? Are dimensions like locus of control relevant in all cultures? Let's try to answer these questions.

The five personality factors studied in the Big Five Model appear in almost all cross-cultural studies.⁶⁹ These studies include a wide variety of diverse cultures such as China, Chile, Israel, Germany, Japan, Italy, Spain, Nigeria, Norway, Pakistan, and the United States. Differences are found in the emphasis on dimensions. The Chinese, for example, use the category of conscientiousness more often and use the category of agreeableness less often than do Americans. But a surprisingly high amount of agreement is found, especially among individuals from developed countries. As a case in point, a comprehensive review of studies covering people from the European

Community found that conscientiousness was a valid predictor of performance across jobs and occupational groups.⁷⁰ Studies in the United States found the same thing.

We know that no personality type is common for a given country. You can, for instance, find high risk takers and low risk takers in almost any culture. Yet a country's culture influences the *dominant* personality characteristics of its people. We can see this effect of national culture by looking at one of the personality traits we just discussed: locus of control.

National cultures differ in terms of the degree to which people believe they control their environment. For instance, North Americans believe they can dominate their environment; other societies, such as those in Middle Eastern countries, believe life is essentially predetermined. Notice how closely this distinction parallels the concept of internal and external locus of control. On the basis of this particular cultural characteristic, we should expect a larger proportion of internals in the US and Canadian workforces than in the workforces of Saudi Arabia or Iran.

Emotions and Emotional Intelligence

We can't leave the topic of personality without looking at the important behavioral aspect of emotions. Employees rarely check their feelings at the door to the workplace, nor are they unaffected by things that happen throughout the workday.⁷¹ How we respond emotionally and how we deal with our emotions are typically functions of our personality.

Emotions are intense feelings directed at someone or something. They're object specific; that is, emotions are reactions to an object.⁷² For instance, when a work colleague criticizes you for the way you spoke to a client, you might become angry at them—that is, you show emotion (anger) toward a specific object (your colleague). Sometimes negative feelings can be a good thing. Having bad feelings can make people

emotions

Intense feelings that are directed at someone or something

WORKPLACE CONFIDENTIAL An Abusive Boss

No one *wants* an abusive boss, but sometimes we end up with one. Studies estimate that about 13 percent of US workers suffer from such a boss. And this behavior appears to be most prevalent in fields such as the military and healthcare. A possible explanation is that these organizations tend to be characterized by high work demands, pressure, risk, and high costs associated with failure—all factors that can stress bosses out.

It's hoped that you'll never face an abusive boss. But if you do, you'll want to have a strategy for dealing with them.

Let's first clarify what we mean by an *abusive boss*. We define it as your perception that your supervisor is engaging in sustained displays of hostile verbal or nonverbal behaviors. What specific behaviors does this encompass? Here are some examples: bullying, belittling, threats, intimidation, vindictiveness, public ridiculing, and angry outbursts. Note two things about our definition. First, it's a perception. Regardless of whether your boss is actually abusive or not, if you think they are, they are. Second, our analysis isn't concerned with the occasional rant or mistreatment. The action we're concerned with is a regular feature of your boss's behavior.

Here's an interesting insight that might help you better cope: Abusive bosses are strategic. They pick and choose their targets. Studies find that they particularly like to go after those they view as weak or vulnerable. You're rarely going to see a boss throwing abuse at a powerful or well-connected member of their department. The message here is obvious: Regardless of your actual confidence level, don't give the appearance that you're weak or unsure of yourself.

If you're on the receiving end of abuse at work, what can you do? Here are some options.

- **Confrontation:** Directly talk to your abusive boss to discuss the problem.
- **Passive-aggressiveness:** Indirectly express your hostility through actions such as procrastination, stubbornness, moodiness, or deliberately making half-hearted efforts to accomplish required tasks.
- **Ingratiation:** Try to win over your boss, and get them to "lighten up" on you, by actions such as doing favors or using flattery.
- **Seek support from others:** Assuming that there is power in numbers, this approach has others acknowledge your problem and has them act on your behalf. In fact, some research suggests that workplace friendships may be enhanced when working together in response to an abusive boss.

- **Avoidance:** Keep away from your boss and limit their opportunities to harass you.
- **Reframe:** Because abuse is a perception, try to mentally restructure your boss's actions so that they no longer seem to be abusive.
- **Complain to higher-ups:** Take your complaint to higher-ups in your organization to gain their support and "encourage" your boss to change their behavior.

Which of the above strategies do the experts suggest? Taking your complaint to upper levels in the organization is not likely to work where the culture tolerates or even supports abusive behavior. Hostile work climates *do* exist! And they encourage those with abusive tendencies to act out. So before you consider complaining to higher-ups, make sure your culture frowns on, and acts against, managers who abuse their employees.

Studies have found that the most common employee response to abuse is to avoid contact with the boss and seek social support. Not surprisingly, confrontation was the least-used strategy. But were these the most effective ways for dealing with abuse? Apparently not. Avoidance and seeking support resulted in employees experiencing negative emotions. Their stress levels were increased because this approach only increased feelings of weakness and perpetuated fear of the boss. Somewhat counterintuitively, research indicates that standing up to your boss is most related to positive emotions. It reinforces the desire to stick up for yourself, outwardly conveys that you're aware of your boss's behavior, and demonstrates that you do not find this behavior acceptable. Another counterintuitive finding was that passive-aggressiveness paid off. So it appears that bosses are less likely to go after employees if they are assertive, speak up, or are hostile in response. The evidence indicates that standing up for yourself or retaliating is less likely to make you feel like a victim. If you're firm and outspoken, you're less likely to see yourself as a victim, and it sends a message to your boss that you have a backbone and don't want to be messed with.

Keep in mind that trying to avoid your boss or reframe their abusive behavior does nothing toward actually resolving the problem. It merely covers it up and is likely to leave you still feeling like a victim. If you're planning on leaving your organization shortly or expect to get a new boss soon, avoidance can be effective; otherwise, the use of avoidance or reframing doesn't change anything.⁷³

think that something is wrong and motivate them to “look for external information to support your argument, to be much more rigorous about questioning your own pre-suppositions and other people’s perspectives, [and have] much more reliance on objective data.”⁷⁴ Because employees bring an emotional component with them to work every day, managers need to understand the role that emotions play in employee behavior.⁷⁵

How many emotions are there? Although you could probably name several dozen, research has identified six universal emotions: anger, fear, sadness, happiness, disgust, and surprise.⁷⁶ Do these emotions surface in the workplace? Absolutely! I get *angry* after receiving a poor performance appraisal. I *fear* that I could be laid off as a result of a company cutback. I’m *sad* about one of my coworkers leaving to take a new job in another city. I’m *happy* after being selected as employee of the month. I’m *disgusted* with the way my supervisor treats women on our team. And I’m *surprised* to find out that management plans a complete restructuring of the company’s retirement program.

People respond differently to identical emotion-provoking stimuli. In some cases, differences can be attributed to a person’s personality and because people vary in their ability to express emotions. For instance, you undoubtedly know people who almost never show their feelings. They rarely get angry or show rage. In contrast, you probably also know people who seem to be on an emotional roller coaster. When they’re happy, they’re ecstatic. When they’re sad, they’re deeply depressed. And two people can be in the exact same situation—one showing excitement and joy, the other remaining calm.

However, at other times, how people respond emotionally is a result of job requirements. Jobs make different demands in terms of how much emotion and what types need to be displayed. For instance, air traffic controllers, emergency room nurses, and trial judges are expected to be calm and controlled, even in stressful situations. On the other hand, public-address announcers at sporting events and lawyers in a courtroom must be able to alter their emotional intensity as the need arises.

One area of emotions research with interesting insights into personality is **emotional intelligence (EI)**, the ability to notice and to manage emotional cues and information.⁷⁷ It’s composed of five dimensions:

- **Self-awareness:** The ability to be aware of what you’re feeling
- **Self-management:** The ability to manage your own emotions and impulses
- **Self-motivation:** The ability to persist in the face of setbacks and failures
- **Empathy:** The ability to sense how others are feeling
- **Social skills:** The ability to handle the emotions of others

EI has been shown to be positively related to job performance at all levels. For instance, one study looked at the characteristics of Lucent Technologies’ (now part of Nokia) engineers who were rated as stars by their peers. The researchers concluded that stars were better at relating to others; that is, it was EI, not academic intelligence, that characterized high performers. A study of Air Force recruiters generated similar findings. Top-performing recruiters exhibited high levels of EI. And several studies have found connections between high EI and leadership skills.⁷⁸ Despite these findings, EI has been a controversial topic in organizational behavior.⁷⁹ Supporters say EI has intuitive appeal and predicts important behavior.⁸⁰ Critics say that EI is vague, can’t be measured, and has questionable validity.⁸¹ One thing we can conclude is that EI appears to be relevant to success in jobs that demand a high degree of social interaction.

Implications for Managers

Although there are concerns about validity, a growing number of companies are conducting personality assessments in the hiring process to gain additional insights on suitability for specific roles. With an increasing number of remote work arrangements, some managers see more value in examining personality as traits such as initiative and interest in collaborative work become more important.⁸²

emotional intelligence (EI)
The ability to notice and to manage
emotional cues and information

Exhibit 13-4
Holland's Personality–Job Fit

Source: Based on J. L. Holland, *Making Vocational Choices: A Theory of Vocational Personalities and Work Environments* (Odessa, FL: Psychological Assessment Resources, 1997).

TYPE	PERSONALITY CHARACTERISTICS	SAMPLE OCCUPATIONS
Realistic. Prefers physical activities that require skill, strength, and coordination	Shy, genuine, persistent, stable, conforming, practical	Mechanic, drill press operator, assembly-line worker, farmer
Investigative. Prefers activities involving thinking, organizing, and understanding	Analytical, original, curious, independent	Biologist, economist, mathematician, news reporter
Social. Prefers activities that involve helping and developing others	Sociable, friendly, cooperative, understanding	Social worker, teacher, counselor, clinical psychologist
Conventional. Prefers rule-regulated, orderly, and unambiguous activities	Conforming, efficient, practical, unimaginative, inflexible	Accountant, corporate manager, bank teller, file clerk
Enterprising. Prefers verbal activities that offer opportunities to influence others and attain power	Self-confident, ambitious, energetic, domineering	Lawyer, real estate agent, public relations specialist, small business manager
Artistic. Prefers ambiguous and unsystematic activities that allow creative expression	Imaginative, disorderly, idealistic, emotional, impractical	Painter, musician, writer, interior decorator

Managers are likely to have higher-performing and more satisfied employees if consideration is given to matching personalities with jobs. The best-documented personality–job fit theory was developed by psychologist John Holland, who identified six basic personality types.⁸³ His theory states that an employee's satisfaction with their job, as well as their likelihood of leaving that job, depends on the degree to which the individual's personality matches the job environment. **Exhibit 13-4** describes the six types, their personality characteristics, and examples of suitable occupations for each.

Holland's theory proposes that satisfaction is highest and turnover lowest when personality and occupation are compatible. Social individuals should be in "people" type jobs, and so forth. The key points of this theory are that (1) intrinsic differences in personality are apparent among individuals; (2) the types of jobs vary; and (3) people in job environments compatible with their personality types should be more satisfied and less likely to resign voluntarily than people in incongruent jobs.

We covered a lot of material on personality in this section. What should managers get out of this? Here are four suggestions related to hiring:

1. Assess vocational interests in the hiring process. By successfully matching interests and job requirements, there is an increased likelihood that new hires will perform well on the job and stay with the organization.
2. If you're looking for a single personality trait that is likely to be associated with superior job performance, you're well advised to hire people who score high on conscientiousness. Individuals who score high in conscientiousness are dependable, reliable, careful, thorough, organized, hard-working, and persistent. And these attributes tend to lead to higher job performance in most occupations.

3. When filling jobs where successful social interaction is a major factor in performance, hire people with high emotional intelligence. This should especially apply to managerial positions.
4. Finally, take time to carefully screen job candidates—through intensive interviews, reference checks, and the like—to identify and reject individuals who hold the set of Dark Triad traits. Although individuals with these traits typically come with some positive qualities, the toxic side of their personalities is likely to pollute their work environments. And when hiring mistakes are made, correct them quickly—preferably during their probationary period.

PERCEPTION

LO13.4 Describe perception and the factors that influence it.

Maybe you've seen this in a social media post: AOCRNDICG TO RSCHEEARC
AT CMABRIGDE UINERTISY, IT DSENO'T MTAETR WAHT OERDR THE
LITTERES IN A WROD ARE, THE OLNYPROAMTNT TIHNG IS TAHT THE
FRSIT AND LSAT LTTEER BE IN THE RGHIT PCLAE. TIHS IS BCUSEAE
THE HUAMN MNID DEOS NOT RAED ERVEY LTETER BY ISTLEF, BUT
THE WROD AS A WLOHE. IF YOU CAN RAED... TIHS, PSOT IT TO YUOR
WLAL. OLNYP 55% OF PLEPOE CAN.⁸⁴ How'd you do in trying to read this? If you were able to make sense out of this jumbled message, that's the perceptual process at work. **Perception** is a process by which we give meaning to our environment by organizing and interpreting sensory impressions. Research on perception consistently demonstrates that individuals may look at the same thing yet perceive it differently. One manager, for instance, can interpret the fact that their assistant regularly takes several days to make important decisions as evidence that the assistant is slow, disorganized, and afraid to make decisions. Another manager with the same assistant might interpret the same tendency as evidence that the assistant is thoughtful, thorough, and deliberate. The first manager would probably evaluate their assistant negatively; the second manager would probably evaluate the person positively. The point is that none of us sees reality. We interpret what we see and call it reality. And, of course, as the example shows, we behave according to our perceptions.

perception

A process by which we give meaning to our environment by organizing and interpreting sensory impressions

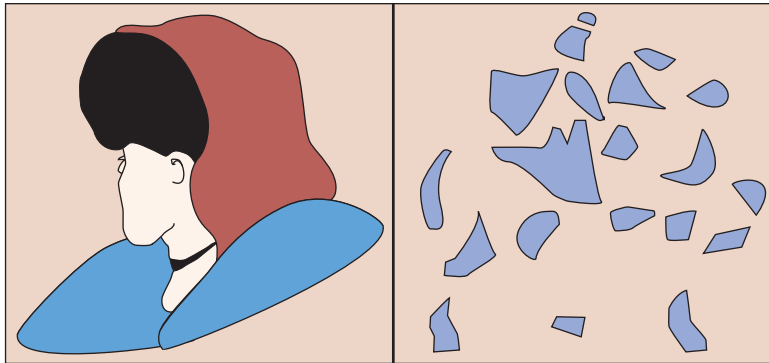
Factors That Influence Perception

How do we explain the fact that people can perceive the same thing differently? A number of factors act to shape and sometimes distort perception. These factors are in the *perceiver*, in the *target* being perceived, or in the *context* in which the perception occurs.

When a person looks at a target and attempts to interpret what they see, the individual's personal characteristics will heavily influence the interpretation. These personal characteristics include attitudes, personality, motives, interests, experiences, or expectations. For instance, the perception of the importance of remote or hybrid work arrangements differs by generation. Older workers who spent most of their career working in an office do not perceive remote work options to be as important as their younger counterparts do.⁸⁵

The characteristics of the target being observed can also affect what's perceived. Loud people are more likely than quiet people to be noticed in a group, as are extremely attractive or unattractive individuals. The relationship of a target to its background also influences perception, as does our tendency to group close things and similar things together. You can experience these tendencies by looking at the visual perception examples shown in **Exhibit 13-5**. Notice how what you see changes as you look differently at each one.

Finally, the context in which we see objects or events is also important. The time at which an object or event is seen can influence perception, as can location, light, heat, color, and any number of other situational factors.



Old woman or young woman?

A knight on a horse?

Exhibit 13-5 What Do You See?

Attribution Theory

Much of the research on perception is directed at inanimate objects. Managers, however, are concerned with people. Our perceptions of people differ from our perceptions of inanimate objects because we make inferences about the behaviors of people that we don't make about objects. Objects don't have beliefs, motives, or intentions; people do. The result is that when we observe an individual's behavior, we try to develop explanations of why they behave in certain ways. Our perception and judgment of a person's actions are significantly influenced by the assumptions we make about the person.

Attribution theory was developed to explain how we judge people differently depending on what meaning we attribute to a given behavior.⁸⁶ Basically, the theory suggests that when we observe an individual's behavior, we attempt to determine whether it was internally or externally caused. Internally caused behaviors are those believed to be under the personal control of the individual. Externally caused behaviors result from outside factors; that is, the person is forced into the behavior by the situation. That determination, however, depends on three factors: distinctiveness, consensus, and consistency.

Distinctiveness refers to whether an individual displays different behaviors in different situations. Is the employee who arrived late today the same person who some employees complain of as being a "goof-off"? What we want to know is whether this behavior is unusual. If it's unusual, the observer is likely to attribute the behavior to external forces, something beyond the control of the person; however, if the behavior isn't unusual, it will probably be judged as internal.

If everyone who's faced with a similar situation responds in the same way, we can say the behavior shows *consensus*. A tardy employee's behavior would meet this criterion if all employees who took the same route to work were also late. From an attribution perspective, if consensus is high, you're likely to give an external attribution to the employee's tardiness; that is, some outside factor—maybe road construction or a traffic accident—caused the behavior. However, if other employees who come the same way to work made it on time, you would conclude that the cause of the late behavior was internal.

Finally, an observer looks for *consistency* in a person's actions. Does the person engage in the behaviors regularly and consistently? Does the person respond the same way over time? Coming in 10 minutes late for work isn't perceived in the same way if, for one employee, it represents an unusual case (they haven't been late in months), whereas for another employee, it's part of a routine pattern (they're late two or three times every week). The more consistent the behavior, the more the observer is inclined to attribute it to internal causes. **Exhibit 13-6** summarizes the key elements of attribution theory.

One interesting finding from attribution theory is that errors or biases distort our attributions. For instance, substantial evidence supports the fact that when we make judgments about the behavior of other people, we have a tendency to *underestimate* the influence of external factors and to *overestimate* the influence of internal or personal factors.⁸⁷ This tendency is called the **fundamental attribution error** and can

attribution theory

A theory used to explain how we judge people differently depending on what meaning we attribute to a given behavior

fundamental attribution error

The tendency to underestimate the influence of external factors and overestimate the influence of internal factors when making judgments about the behavior of others

Exhibit 13-6

Attribution Theory

OBSERVATION	INTERPRETATION	ATTRIBUTION OF CAUSE
Does person behave this way in other situations?	YES: Low distinctiveness NO: High distinctiveness	Internal attribution External attribution
Do other people behave the same way in similar situations?	YES: High consensus NO: Low consensus	External attribution Internal attribution
Does person behave this way consistently?	YES: High consistency NO: Low consistency	Internal attribution External attribution

self-serving bias

The tendency for individuals to attribute their own successes to internal factors while putting the blame for failures on external factors

explain why a sales manager may attribute the poor performance of their sales representative to laziness rather than to the innovative product line introduced by a competitor. Another tendency is to attribute our own successes to internal factors, such as ability or effort, while putting the blame for personal failure on external factors, such as luck. This tendency is called the **self-serving bias** and suggests that feedback provided to employees in performance reviews will be distorted by them depending on whether it's positive or negative.⁸⁸ In some cases, these distortions can be serious. One survey found that employees with self-serving tendencies were 25 percent more likely to rate their bosses as abusive.⁸⁹ Obviously, these perceptions can damage reputations of nonabusive managers.

Are these errors or biases that distort attributions universal across different cultures? The evidence is mixed, but most suggest that there are differences across cultures in the attributions that people make.⁹⁰ For instance, in one study, Asian managers were more likely to blame institutions or whole organizations when things went wrong, whereas Western observers believe individual managers should get blame or praise.⁹¹ That probably explains why US newspapers feature the names of individual executives when firms do poorly, whereas Asian media report the firm as a whole has failed.

Shortcuts Used in Judging Others

Perceiving and interpreting people's behavior is a lot of work, so we use shortcuts to make the task more manageable. These techniques can be valuable when they let us make accurate interpretations quickly and provide valid data for making predictions. However, they aren't perfect. They can and do get us into trouble.

SELECTIVE PERCEPTION Any characteristic that makes a person, an object, or an event stand out will increase the probability we will perceive it. Why? Because it is impossible for us to assimilate everything we see; we can take in only certain stimuli. Thus, you are more likely to notice cars like your own, and your boss may reprimand some people and not others doing the same thing. Because we can't observe everything going on around us, we use **selective perception**. But we don't choose randomly. We make selections based on our interests, background, experience, and attitudes. Seeing what we want to see, we sometimes draw unwarranted conclusions from an ambiguous situation.

selective perception

Biased perception based on our interests, background, experience, and attitudes

ASSUMED SIMILARITY It's easy to judge others if we assume they're similar to us. In **assumed similarity**, or the "like me" effect, the observer's perception of others is influenced more by the observer's own characteristics than by those of the person observed. For example, if you want challenges and responsibility in your job, you'll assume that others want the same. People who assume that others are like them can, of course, be right, but not always.

assumed similarity

The assumption that others are like oneself

STEREOTYPING When we judge someone on the basis of our perception of a group they are part of, we're using the shortcut called stereotyping. For instance, "Married people are more stable employees than single persons" is an example of stereotyping. To the degree that a stereotype is based on fact, it may produce accurate judgments; however, many stereotypes aren't factual and distort our judgment.

HALO EFFECT When we form a general impression about a person on the basis of a single characteristic, such as intelligence, sociability, or appearance, we're influenced by the **halo effect**. This effect frequently occurs when students evaluate their classroom instructor. Students may isolate a single trait, such as enthusiasm, and allow their entire evaluation to be slanted by the perception of this one trait. An instructor may be quiet, assured, knowledgeable, and highly qualified, but if their classroom teaching style lacks enthusiasm, they might be rated lower on a number of other characteristics.

CONTRAST EFFECT There's an adage among show-business entertainers to "never follow an act with kids or animals." Why? Audiences love children and animals, so you'll look bad in comparison. This example illustrates how the **contrast effect** can distort perceptions. We don't evaluate a person in isolation. Our reaction is influenced by other people we have recently encountered.

Implications for Managers

Managers need to recognize that their employees react to perceptions, not to reality. So whether a manager's appraisal of an employee's performance is actually objective and unbiased or whether the organization's wage levels are among the highest in the community is less relevant than what employees perceive them to be. If individuals perceive appraisals to be biased or wage levels as low, they'll behave as if those conditions actually exist. Employees organize and interpret what they see, so the potential for perceptual distortion is always present. The message is clear: Pay close attention to how employees perceive both their jobs and management actions.

LEARNING

LO13.5 Discuss learning theories and their relevance in shaping behavior.

First-generation college student Maleah Densby gives credit to her mentor, Sheryl Sandberg, for helping her manage her challenging early STEM classes, allowing her to eventually graduate from Duke University in 2022. Sandberg, former chief operating officer for Meta, credits much of her own success to her mentors. But Sandberg also recognizes that she learns from her mentees, noting that she learned more about perseverance from Maleah.⁹²

Mentoring is a good example of the last individual behavior concept we're going to look at—learning. Learning is included in our discussion of individual behavior for the obvious reason that almost all behavior is learned. If we want to explain, predict, and influence behavior, we need to understand how people learn.

The psychologists' definition of learning is considerably broader than the average person's view that "it's what we do in school." Learning occurs all the time as we continuously learn from our experiences. A workable definition of **learning** is any relatively permanent change in behavior that occurs as a result of experience. Two learning theories help us understand how and why individual behavior occurs.



Brig. Gen. Diana Holland challenges the gender stereotype in the military that women are too fragile to lead men. She was the first female deputy commanding general of a light infantry division and the first female commandant of cadets at West Point.
Source: Staff Sgt. Kelly Simon/AB Forces News Collection/Alamy Stock Photo

halo effect

A general impression of an individual based on a single characteristic

contrast effect

Potentially distorted perceptions based on comparisons to others

learning

Any relatively permanent change in behavior that occurs as a result of experience



Many companies offer opportunities for social learning through formal mentoring programs. A mentoring program offers a structured relationship where a more senior employee acts as a model for a less experienced employee.

Source: Pixelheadphoto digitalskillet/Shutterstock

social learning theory

A theory of learning that says people can learn through observation and direct experience

shaping behavior

The process of guiding learning in graduated steps using reinforcement or lack of reinforcement

operant conditioning

A theory of learning that says behavior is a function of its consequences

Social Learning

Individuals can learn by observing what happens to other people and just by being told about something as well as by direct experiences. Much of what we have learned comes from watching others (models)—parents, teachers, peers, television and movie actors, managers, and so forth. This view that we can learn through both observation and direct experience is called **social learning theory**.

The influence of others is central to the social learning viewpoint. The amount of influence these models have on an individual is determined by four processes:

1. **Attentional processes:** People learn from a model when they recognize and pay attention to its critical features. We're most influenced by models who are attractive, repeatedly available, thought to be important, or seen as similar to us.
2. **Retention processes:** A model's influence will depend on how well the individual remembers the model's action, even after the model is no longer readily available.
3. **Motor reproduction processes:** After a person has seen a new behavior by observing the model, the watching must become doing. This process then demonstrates that the individual can actually do the modeled activities.
4. **Reinforcement processes:** Individuals will be motivated to exhibit the modeled behavior if positive incentives or rewards are provided. Behaviors that are reinforced will be given more attention, learned better, and performed more often.

Shaping: A Managerial Tool

Because learning takes place on the job as well as prior to it, managers are concerned with how they can teach employees to behave in ways that most benefit the organization. Thus, managers will often attempt to “mold” individuals by guiding their learning in graduated steps, through a method called **shaping behavior**.

Shaping is a behavior modification approach based on **operant conditioning**, a theory of learning that suggests behavior is a function of its consequences. People learn to behave to get something they want or to avoid something they don't want. Operant behavior is voluntary or learned behavior, not reflexive or unlearned behavior. The tendency to repeat learned behavior is influenced by reinforcement or lack of reinforcement that happens as a result of the behavior. Reinforcement strengthens a behavior and increases the likelihood that it will be repeated. Lack of reinforcement weakens a behavior and lessens the likelihood that it will be repeated.

B. F. Skinner's research widely expanded our knowledge of operant conditioning.⁹³ Behavior is assumed to be determined from without—that is, *learned*—rather than from within—reflexive or unlearned. Skinner argued that people will most likely engage in desired behaviors if they are positively reinforced for doing so, and rewards are most effective if they immediately follow the desired response. In addition, behavior that isn't rewarded or is punished is less likely to be repeated.

Consider the situation in which an employee's behavior is significantly different from that sought by a manager. If the manager reinforced the individual only when they showed desirable responses, the opportunity for reinforcement might occur too infrequently. Shaping offers a logical approach toward achieving the desired behavior. We shape behavior by systematically reinforcing each successive step that moves the individual closer to the desired behavior. So, if an employee who has chronically been a half-hour late for work comes in only 20 minutes late, we can reinforce the improvement. Reinforcement would increase as an employee gets closer to the desired behavior.

Four ways to shape behavior are positive reinforcement, negative reinforcement, punishment, and extinction. When a behavior is followed by something pleasant, such

as praising an employee for a job well done, it's called *positive reinforcement*. Positive reinforcement increases the likelihood that the desired behavior will be repeated. Rewarding a response by eliminating or withdrawing something unpleasant is *negative reinforcement*. A manager who says "I won't dock your pay if you start getting to work on time" is using negative reinforcement. The desired behavior (getting to work on time) is being encouraged by the withdrawal of something unpleasant (the employee's pay being docked). On the other hand, *punishment* penalizes undesirable behavior and will eliminate it. Suspending an employee for two days without pay for habitually coming to work late is an example of punishment. Finally, eliminating any reinforcement that's maintaining a behavior is called *extinction*. When a behavior isn't reinforced, it gradually disappears. In meetings, managers who wish to discourage employees from continually asking irrelevant or distracting questions can eliminate this behavior by ignoring those employees when they raise their hands to speak. Soon this behavior should disappear.

Both positive and negative reinforcement result in learning. They strengthen a desired behavior and increase the probability that the desired behavior will be repeated. Both punishment and extinction also result in learning but do so by weakening an undesired behavior and decreasing its frequency.

Implications for Managers

Employees are going to learn on the job. The only issue is whether managers are going to manage their learning through the rewards they allocate and the examples they set, or allow it to occur haphazardly. If marginal employees are rewarded with pay raises and promotions, they will have little reason to change their behavior. In fact, productive employees who see marginal performance rewarded might change their behavior. If managers want behavior A but reward behavior B, they shouldn't be surprised to find employees learning to engage in behavior B. Similarly, managers should expect that employees will look to them as models. Managers who are consistently late to work, or take two hours for lunch, or help themselves to company office supplies for personal use should expect employees to read the message they are sending and model their behavior accordingly.

Learning from **FAILURE** Troublesome Leader's Personality

WeWork was considered a start-up "unicorn," raising over \$8 billion in funding and valued at nearly \$20 billion just a few years after the company was founded in 2011. The company offered trendy coworking spaces that attracted remote workers, growing at its peak to 150,000 members in 165 locations across 18 countries and expanding to include other lifestyle businesses such as WeLive furnished micro-apartments.

However, in 2019 the company faced a huge setback as an attempt to go public failed. The downfall was blamed on the questionable behavior of founder and CEO Adam Neumann. Known for extravagant spending, instead of building a productive culture he spent money on elaborately decorated workspaces and office parties involving excessive alcohol use. The required disclosures for the public offering put a spotlight on his inappropriate spending and conflicts of interest in his business dealings. For instance, Neumann purchased buildings personally and then charged

the company to lease office space, building his personal income while inflating company expenses.

Neumann's charisma and risk-taking were personality qualities that helped the company grow quickly but would ultimately lead to the downfall of WeWork. He has been described as having a magnetic personality that helped inspire others to follow his vision. But many also described him as narcissistic and perhaps even demonstrating all three elements of the Dark Triad. He regularly spouted his grandiose ambitions such as becoming "president of the world" or the world's first trillionaire.

The company eventually made its public offering in 2021 after paying Neumann to walk away but continued to struggle until it filed for bankruptcy just two years later. Building a company on the personality of its founder is shaky ground to start on. It is the arrogant leader with the propelling vision that often leads to a company's demise.⁹⁴

Chapter 13

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO13.1 IDENTIFY the focus and goals of individual behavior within organizations.

Just like an iceberg, it's the hidden organizational elements (attitudes, perceptions, norms, etc.) that make understanding individual behavior so challenging.

Organizational behavior (OB) focuses primarily on two areas: individual behavior and group behavior. The goals of OB are to explain, predict, and influence behavior.

Employee productivity is a performance measure of both efficiency and effectiveness. Absenteeism is the failure to report to work. Turnover is the voluntary and involuntary permanent withdrawal from an organization. Organizational citizenship behavior (OCB) is discretionary behavior that's not part of an employee's formal job requirements, but it promotes the effective functioning of an organization. Job satisfaction is an individual's general attitude toward their job. Counterproductive workplace behavior is any intentional employee behavior that is potentially harmful to the organization or individuals within the organization.

LO13.2 EXPLAIN the role that attitudes play in job performance.

The cognitive component refers to the beliefs, opinions, knowledge, or information held by a person. The affective component is the emotional or feeling part of an attitude. The behavioral component refers to an intention to behave in a certain way toward someone or something.

Job satisfaction refers to a person's general attitude toward their job. Job satisfaction positively influences productivity, lowers absenteeism levels, lowers turnover rates, promotes positive customer satisfaction, moderately promotes OCB, and helps minimize counterproductive workplace behaviors.

Job involvement is the degree to which an employee identifies with their job, actively participates in it, and considers their job performance to be important to their self-worth. Organizational commitment is the degree to which an employee identifies with a particular organization and its goals and wishes to maintain membership in that organization. Perceived organizational support is employees' general belief that their organization values their contribution and cares about their well-being. Employee engagement is when employees are connected to, satisfied with, and enthusiastic about their jobs.

Many organizations regularly assess employee attitudes. Artificial intelligence provides useful tools for assessment, as well as opportunities to improve attitudes through automating work.

LO13.3 DESCRIBE different personality theories.

The MBTI® measures four dimensions: extraversion/introversion, sensing/intuition, thinking/feeling, and judging/perceiving. The Big Five Model consists of five personality traits: extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience. The Dark Triad includes the socially undesirable traits of Machiavellianism, narcissism, and psychopathy.

Five other personality traits that help explain individual behavior in organizations are locus of control, self-esteem, self-monitoring, risk taking, and proactive personality.

How people respond emotionally and how they deal with their emotions is a function of personality. A person who is emotionally intelligent has the ability to notice and to manage emotional cues and information.

LO13.4 DESCRIBE perception and the factors that influence it.

Perception is how we give meaning to our environment by organizing and interpreting sensory impressions. Because people behave according to their perceptions, managers need to understand it.

Attribution theory depends on three factors. Distinctiveness is whether an individual displays different behaviors in different situations (that is, is the behavior unusual). Consensus is whether others facing a similar situation respond in the same way. Consistency is when a person engages in behaviors regularly and consistently. Whether these three factors are high or low helps managers determine whether employee behavior is attributed to external or internal causes.

The fundamental attribution error is the tendency to underestimate the influence of external factors and overestimate the influence of internal factors. The self-serving bias is the tendency to attribute our own successes to internal factors and to put the blame for personal failure on external factors.

Shortcuts used in judging others are selective perception, assumed similarity, stereotyping, the halo effect, and the contrast effect.

LO13.5 DISCUSS learning theories and their relevance in shaping behavior.

Social learning theory says that individuals learn by observing what happens to other people and by directly experiencing something. Managers can shape behavior through operant conditioning by using positive reinforcement (reinforcing a desired behavior by giving something pleasant), negative reinforcement (reinforcing a desired response by withdrawing something unpleasant), punishment (eliminating undesirable behavior by applying penalties), or extinction (not reinforcing a behavior to eliminate it).

REVIEW AND DISCUSSION QUESTIONS

- | | |
|--|--|
| <p>13-1. Do managers at different levels of the organization use their knowledge of organizational behavior (OB) differently? If so, how? If not, why not? Be specific.</p> <p>13-2. Explain the organization as an iceberg concept as it relates to managers' difficulty in explaining, predicting, and influencing employee behavior.</p> <p>13-3. Define the six important employee behaviors. Which behavior is most important to organizations? Explain.</p> <p>13-4. Describe how employees with low and high job satisfaction, organizational commitment, and engagement think, feel, and behave.</p> | <p>13-5. Contrast the Big Five Model and the Dark Triad. Describe how these personality traits help explain individual behavior in organizations.</p> <p>13-6. Explain how an understanding of perception can help managers better understand individual behavior. Name three shortcuts used in judging others and the shortcuts' limitations.</p> <p>13-7. Describe the key elements of attribution theory. Provide examples of the fundamental attribution error and self-serving bias occurring in the workplace.</p> <p>13-8. Give an example of how managers could use each type of reinforcement to shape employee behavior in a retail setting.</p> |
|--|--|

PREPARING FOR: My Career

ETHICS DILEMMA

A new business analyst needs to be hired to work at the corporate headquarters of a retail firm. Jared and Amanda are managers in charge of deciding who to hire. Three finalists and recent graduates with the same undergraduate degree are being considered for the position:

1) Sheri, who was in the same sorority at the same college as Amanda (even though they did not overlap in their years in college); 2) Scott, the son of Jared's best friend; and 3) Stephanie, who has a 3.75 college GPA and more internship experience than either Sheri or Scott. After the interviews, Amanda thinks Sheri's interview was the best, while Jared is convinced that Scott is the best candidate

for the job. Neither Jared nor Amanda properly evaluated Sheri's, Scott's, or Stephanie's qualifications regarding their knowledge, skills, or experiences.

- 13-9. What ethical issues might arise if Stephanie is not hired? In what ways are the possible ethical issues involved in hiring Sheri different (or the same) as hiring Scott?
- 13-10. What steps should managers like Jared and Amanda take to minimize the chance of making perceptual errors in this situation?

SKILLS EXERCISE Developing Your Shaping Behavior Skill

About the Skill

In today's dynamic work environments, learning is continual. But learning should not be done in isolation or without any guidance. Most employees need to be shown what is expected of them on the job. As a manager, you must teach your employees the behaviors most critical to their and the organization's success.

Steps in Practicing the Skill

1. **Identify the critical behaviors that have a significant impact on an employee's performance.** Not everything employees do on the job is equally important in terms of performance outcomes. A few critical behaviors may, in fact, account for the majority of one's results. These high-impact behaviors need to be identified.
2. **Establish a baseline of performance.** A baseline is obtained by determining the number of times the identified behaviors occur under the employee's present job conditions.
3. **Analyze the contributing factors to performance and their consequences.** Several factors, such as the attitudes of the employees in a group, may be contributing to the baseline performance. Identify these factors and their effect on performance.
4. **Develop a shaping strategy.** The change that may occur will entail changing some element of performance—structure, processes, technology, groups, or the task. The purpose of the strategy is to reinforce the desirable behaviors and weaken the undesirable ones.
5. **Apply the appropriate strategy.** Once the strategy has been developed, implement it. In this step, the change to improve performance is made.

6. **Measure the change that has occurred.** The change should produce the desired results in employee behavior and performance. Evaluate the number of times the identified behaviors happen now. Compare these new results with the baseline evaluation in step 2.
7. **Reinforce desired behaviors.** If the change is as successful as planned and the new behaviors produce the desired results, maintain these behaviors through operant conditioning's reinforcement mechanisms.

Practicing the Skill

- a. Imagine that you are a department manager and have recently hired a new intern. The intern is ideal in all respects but one—they are constantly messaging on their phone. During a recent training session, you observed they were continually on their phone instead of engaging in the training.
- b. Focus on steps 3 and 4, and devise a way to shape your intern's behavior. Identify some factors that might contribute to their failure to put their phone away—these could range from lack of self-control to a poor understanding of professional behavior, but you can rule out insubordination. Next, develop a shaping strategy by determining what you can change—lessons on professional use of technology, offering set times for phone usage, the structure of the job, or some other element of the intern's job.
- c. Now plan on how you will introduce this change to the intern. Describe a meeting you will hold with your intern in which you explain the change you expect. Recruit a friend to help you role-play your intervention. Do you think your plan would succeed in a real situation?

WORKING TOGETHER Team Exercise

Group members often have preferences about what tasks they most like to do. At least some of those preferences result from the group members' personality traits. Groups can avoid problems when they discuss work preferences early on during a group project and take the time to assign tasks to individuals based on their preferences.

In groups of three or four, brainstorm how the different personality traits described in this chapter could impact

group members' preferences for some tasks and not others that might need to be done in a typical group project for a class in college. What kinds of tasks should be assigned to group members with which personality traits? For example, which personality traits match tasks requiring precision, brainstorming, collaboration, or public speaking? Be prepared to discuss your thoughts with the class.

MY TURN TO BE A MANAGER

- Write down three attitudes you have. Identify the cognitive, affective, and behavioral components of those attitudes.
- Survey 15 employees (at your place of work or some campus office). Be sure to obtain permission before doing this anonymous survey. Ask them what behaviors new employees could do or have done to make a good impression during the first couple of weeks on the job. Also, ask why employees who are open to experience, optimistic, and emotionally intelligent are more successful. Compile your findings in a report and be prepared to discuss this in class. If you were the manager in this workplace, how would you handle this behavior?
- If you have never taken a personality or career compatibility test, contact your school's testing center to see if you can take one or complete the O*Net Interest Profiler at <https://www.mynextmove.org/explore/ip>. Once you get your results, evaluate what they mean for your career choice. Does your intended major fit with your results? Research the jobs/occupations matching your results. Does your current major prepare you for these options? Do the results indicate if you have chosen a career that "fits" your personality? What are the implications? Describe the wages/salaries associated with these prospects. Summarize your results in up to 500 words.
- Have you ever heard of the "waiter rule"? The rule references the belief that a person's true character can be observed by watching how they treat staff or service workers, such as a waiter. Many business people use lunch and dinner meetings to observe how someone treats service workers as a way to assess their companion's true character and attitudes. Do you think this rule holds for people who are high self-monitors or emotionally intelligent? Do you agree with taking applicants to lunch or dinner to observe their character this way? Why or why not? Would you mind being evaluated via the "waiter rule"?
- Like it or not, each of us continually shapes the behavior of those around us. For one week, keep track of how many times you use positive reinforcement, negative reinforcement, punishment, or extinction to shape behaviors. At the end of the week, which one did you tend to use most? What were you trying to do; that is, what behaviors were you trying to shape? Were your attempts successful? Evaluate. What could you have done differently if you were trying to change someone's behavior?
- Find two companies that have been recognized for having highly engaged employees. Compare the different strategies each company uses to build and engage its workforce. Are any the same? Different? Why do you think each company has been successful with employee engagement?
- What is your level of emotional intelligence? Google "emotional intelligence test." Select and complete a quiz. What did the results show? Are they compatible with your personal assessment of your EI?
- Select a recent movie or television show. Evaluate the personality characteristics of three or four key characters, using the Big Five, Dark Triad, and the five additional singular personality traits. Note if these characters are prone to particular perceptual errors or emotions. Present your results to the class. *Be creative!*
- Research behavioral analytics. Determine the value managers could create for employees and organizations by gathering and analyzing workplace data related to their organization's processes. Are organizations striving to develop data-driven initiatives and practices for understanding and improving employee engagement and productivity? Will managers need a background in analytics to prepare for a business career? Is analyzing workplace data something artificial intelligence (AI) can help a manager do?

**CASE
APPLICATION 1****Heat Waves Cause Employees to Walk
Off the Job**

Repeated exposure to extreme heat, like exposure from working outdoors during a record-breaking summer heat wave, increases the chance of experiencing a heat-related illness. Higher temperatures also affect the chemicals in the brain, making it difficult for people to regulate their moods and causing people to be more irritable. Performing complex tasks, completing high-quality work, and concentrating are more difficult in higher temperatures. Heat waves mean heat-exposed workers will be more irritable, frustrated, and fatigued. They are less helpful toward others as sweltering temperatures reduce employees' prosocial behaviors.⁹⁵

Summer and vacation go hand in hand with sunny days and outdoor tourist attractions. Yet not everyone at vacation destinations is on vacation. In the summer of 2023, tourists in southern Europe and Greece flocked to the most renowned historical sites while workers at these sites endured exposure to a heat wave. Security guards, tour guides, tourism-related workers, and even garbage collectors continually faced going to work in extreme heat. When temperatures topped 107 degrees Fahrenheit (41 degrees Celsius) in Rome, Italy, workers threatened to walk off the job if required to work during the hottest part of the day. A strike took place at the Acropolis in Athens, Greece, where employees cited dangerous working conditions that forced them to walk off the job. Union leaders in Greece noted their workers had little shade, and at times temperatures at the Acropolis reached 118 degrees Fahrenheit (48 degrees Celsius). Among the 21,000 daily visitors, fainting tourists had become common at the Acropolis before the strike. Eventually management let workers stop working at noon, closing the famous and top-rated tourist attraction in the afternoons of the heat wave.⁹⁶

Not all workers suffer in the heat equally. Low-income workers are most likely to work outside, in the heat, or in facilities without access to air conditioning. In other words, the lowest-paid jobs are the most exposed. Naveed Khan, a food delivery cyclist in Milan, said, "Most of the time, you have headaches because of the heat."⁹⁷ These workers feel disparities in working conditions, which can lead to negative attitudes. They perceive an injustice between those who can and cannot work in an air-conditioned building. Many wonder if employers should be required to provide workers with more than water and a cool place to take a break from the heat. Modified schedules like working from 6 a.m. to 12 p.m. during the strike may become standard, so exposed workers can avoid working during the day's hottest hours.⁹⁸

DISCUSSION QUESTIONS

- 13-11. Do you agree with the employees walking off the job and striking during the summer heat wave? Will top-level managers agree as well? Why or why not?
- 13-12. How do uncomfortable or even dangerous working conditions affect how employees behave in the workplace?
- 13-13. What are the benefits of "listening for emotions" when asking employees what needs to be done to improve their work schedules and working conditions?
- 13-14. What impacts on employee recruitment, productivity, absenteeism, turnover, and attitudes (organizational commitment, perceived organizational support) can the organizations expect as a result of the heat waves?

CASE APPLICATION 2**Getting Your Company's Logo as a Tattoo**

If you wanted something to show for spending 25 percent of your life working for Walmart, you might get some Walmart logo wear or maybe a license plate holder for your car. Jeff Atkins decided to have Walmart's company logo tattooed on his left arm.⁹⁹

Tattoos have become more common in the past few decades. Recent survey results indicate that up to 40 percent of US households include someone who has a tattoo. A study of 2,000 people in the United States found that having a tattoo makes you no less employable and does not impact the amount of money you earn on the job.¹⁰⁰ Still, a tattoo of a company logo is not something you see every day.

Some people have made an in-the-moment decision to get a company logo tattoo. Mahadeva Matt Mani was at a company retreat for the consulting firm Booz & Company when they were about to be purchased by PricewaterhouseCoopers. Mahadeva sensed that the way to relieve employees' concerns about their company being bought was to get a tattoo to show his loyalty. Dave Heath, the cofounder of Bombas sock company, joked that he would get a company logo tattoo after selling the millionth pair of socks. Since they hadn't sold any socks when he made that promise, he thought he was safe. But 2.5 years later, Heath was reminded of his promise when Bombas sold its millionth pair of socks, and he got the tattoo.¹⁰¹

Paul Bosneag thought getting a company logo tattoo would prevent him from getting laid off. Paul remembered thinking, "What kind of jerk would fire an employee that has the logo tattooed on him?" Although he has not been laid off, his company—Anytime Fitness Gym chain—has fired seven people who had the company logo as tattoos.¹⁰²

DISCUSSION QUESTIONS

- 13-15. Once an employee gets a company logo tattoo, how might their job satisfaction, job involvement, organizational commitment, absenteeism, and turnover be different from nontattooed employees? What are the reasons for any differences?
- 13-16. Employees might get a company logo tattoo when their attitude toward their company is positive. How does cognitive dissonance apply if their attitude toward the company changes to a negative attitude?
- 13-17. How could the shortcuts used in judging others (e.g., selective perception, assumed similarity, stereotyping, etc.) apply to an employee with a company logo tattoo?
- 13-18. Sometimes family members of employees who get company logo tattoos do not think it was smart to get that tattoo. How does attribution theory apply to the perceptions family members make about their relative with a company logo tattoo?

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Learning Objectives

14.1 Define motivation.

14.2 Compare and contrast early theories of motivation.

14.3 Compare and contrast contemporary theories of motivation.

14.4 Discuss current issues in motivation.

In a leaked video from a virtual all-company meeting for furniture maker MillerKnoll, CEO Andi Owen told employees to stop worrying about not getting a bonus and just focus on sales, suggesting employees “leave pity city.” Her remarks struck a sensitive chord because her compensation in the previous year included \$3.9 million in bonuses on top of \$1.1 million in base pay. Owen is not alone in receiving such bonuses. In fact, CEO pay has increased significantly over the last several decades, growing 1,460 percent since 1978 compared to just 18.1 percent growth in pay for the typical worker. On average, CEOs make 399 times the typical worker’s wage. Owen’s pay actually ranks pretty low among US CEOs, with Jeff Green of tech company The Trade Desk taking the top spot in 2022 at over \$834 million. When workers believe their CEO is overcompensated, it negatively affects employee engagement. High CEO pay not only impacts employee motivation and satisfaction but also contributes significantly to inequality and the growing economic divide.¹

Management Myth: Money is the only thing that motivates people.

Management Reality: Employee motivation is complex and there are multiple strategies managers can take to increase motivation.

WHAT Is Motivation?

LO14.1 Define motivation.

All managers need to be able to motivate their employees, which first requires understanding what motivation is. Let’s begin by pointing out what motivation isn’t! Why? Because many people incorrectly view motivation as a personal trait; that is, they think some people are motivated and others aren’t. Our knowledge of motivation tells us that individuals differ in motivational drive and that their overall motivation varies from situation to situation. For instance, you’re probably more motivated in some classes than in others.

Motivation refers to the process by which a person’s efforts are energized, directed, and sustained toward attaining a goal.² This definition has three key elements: energy, direction, and persistence.

The *energy* element is a measure of intensity, drive, and vigor. A motivated person puts forth effort and works hard. However, the quality of the effort must be considered as well as its intensity. High levels of effort don’t necessarily lead to favorable job performance unless the effort is channeled in a *direction* that benefits the organization. Effort directed toward and consistent with organizational goals is the kind of effort we want from employees. Finally, motivation includes a *persistence* dimension. We want employees to persist in putting forth effort to achieve those goals.

Motivating high levels of employee performance is an important organizational concern, and managers keep looking for answers. For instance, a recent Gallup Poll found only 21 percent of workers globally are engaged at work.³ It’s no wonder, then, that both managers and academics want to understand and explain employee motivation.

motivation

The process by which a person’s efforts are energized, directed, and sustained toward attaining a goal

EARLY Theories of Motivation

LO14.2 Compare and contrast early theories of motivation.

We begin by looking at four early motivation theories: Maslow’s hierarchy of needs, Theories X and Y, Herzberg’s two-factor theory, and McClelland’s three-needs theory. Although more valid explanations of motivation have been developed, these early theories are important because they represent the foundation from which contemporary motivation theories were developed and because many practicing managers still use them.

Maslow’s Hierarchy of Needs Theory

The best-known theory of motivation is probably Abraham Maslow’s **hierarchy of needs theory**.⁴ Maslow was a psychologist who proposed that within every person is a hierarchy of five needs:

1. **Physiological needs:** A person’s needs for food, drink, shelter, sex, and other physical requirements

hierarchy of needs theory

Maslow’s theory that human needs—physiological, safety, social, esteem, and self-actualization—form a hierarchy and that each level in the needs hierarchy must be substantially satisfied before the next need becomes dominant

physiological needs

A person’s needs for food, drink, shelter, sexual satisfaction, and other physical requirements

IT’S YOUR CAREER

What Motivates You?

What’s important to you or excites you in a job? Some say “money.” Others might say “challenging work” or “fun coworkers.” If you have a solid grounding in and understanding of what motivates you, it can help you make smart career and job choices.

The following is a list of 12 factors that might enter into your decision in selecting a job. Read over the list. Then rank order the items in terms of importance, with 1 being highest in importance and 12 being lowest in importance.

- ___ High pay
- ___ Good working conditions
- ___ Friendly and supportive colleagues

- ___ Flexible working hours or location
- ___ Opportunities for growth and new challenges
- ___ Considerate and caring manager
- ___ Inclusion in decisions that affect you
- ___ Fair and equitable treatment
- ___ Job security
- ___ Promotion potential
- ___ Excellent benefits (vacation time, retirement contributions, etc.)
- ___ Freedom and independence

Now, compare your list with those of others in your class. How similar were your preferences? It’s rare for lists to be exactly the same. This tells us that people differ in terms of what they value. You can use these results to better understand what you’re looking for in a job.

safety needs

A person's needs for security and protection from physical and emotional harm

social needs

A person's needs for affection, belongingness, acceptance, and friendship

esteem needs

A person's needs for internal factors, such as self-respect, autonomy, and achievement, and external factors, such as status, recognition, and attention

self-actualization needs

A person's need to become what they are capable of becoming

2. **Safety needs:** A person's needs for security and protection from physical and emotional harm as well as assurance that physical needs will continue to be met
3. **Social needs:** A person's needs for affection, belongingness, acceptance, and friendship
4. **Esteem needs:** A person's needs for internal esteem factors, such as self-respect, autonomy, and achievement, and external esteem factors, such as status, recognition, and attention
5. **Self-actualization needs:** A person's needs for growth, achieving one's potential, and self-fulfillment; the drive to become what one is capable of becoming

Maslow argued that each level in the needs hierarchy must be substantially satisfied before the next need becomes dominant. An individual moves up the needs hierarchy from one level to the next. (See **Exhibit 14-1**.) In addition, Maslow separated the five needs into higher and lower levels. Physiological and safety needs were considered *lower-order needs*; social, esteem, and self-actualization needs were considered *higher-order needs*. Lower-order needs are predominantly satisfied externally, whereas higher-order needs are satisfied internally.

How does Maslow's theory explain motivation? Managers using Maslow's hierarchy to motivate employees do things to satisfy employees' needs. But the theory also says that once a need is substantially satisfied, an individual is no longer motivated to satisfy that need. Therefore, to motivate someone, you need to understand at what need level that person is on in the hierarchy and focus on satisfying needs at or above that level.

Maslow's needs theory was widely recognized during the 1960s and 1970s, especially among practicing managers, probably because it was intuitively logical and easy to understand. But Maslow provided no empirical support for his theory, and several studies that sought to validate it could not.⁵

McGregor's Theory X and Theory Y

Douglas McGregor proposed two assumptions about human nature: Theory X and Theory Y.⁶ Very simply, **Theory X** is a negative view of people that assumes workers have little ambition, dislike work, want to avoid responsibility, and need to be closely controlled to work effectively. **Theory Y** is a positive view that assumes employees enjoy work, seek out and accept responsibility, and exercise self-direction. McGregor believed that Theory Y assumptions should guide management practice and proposed that participation in decision making, responsible and challenging jobs, and good group relations would maximize employee motivation. For example, 95 percent of employees at tech company NVIDIA say that management trusts people to do their jobs, without looking over their shoulders. NVIDIA management clearly puts the Theory Y philosophy into practice because the top-rated company reports a high level of employee engagement.⁷

Unfortunately, there is no evidence to confirm that either set of assumptions is valid or that following Theory Y assumptions is the only way to motivate employees. In the real world, there are plenty of examples of effective managers who make Theory X assumptions. For instance, Apple cofounder Steve Jobs drove his staff hard and had no problem humiliating employees in staff meetings. Yet he was extremely

Theory X

The assumption that employees dislike work, are lazy, avoid responsibility, and must be coerced to perform

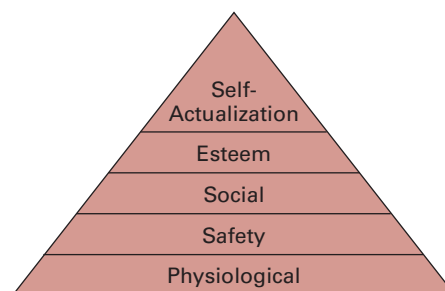
Theory Y

The assumption that employees are creative, enjoy work, seek responsibility, and can exercise self-direction

Exhibit 14-1

Maslow's Hierarchy of Needs

Source: A. H. Maslow, R. D. Frager, and J. Fadiman, *Motivation and Personality*, 3rd edition, © 1987. Reprinted and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, NJ.



successful in pushing his people to create innovative products and to constantly work to improve them.

Herzberg’s Two-Factor Theory

Frederick Herzberg’s **two-factor theory** (also called **motivation–hygiene theory**) proposes that intrinsic factors are related to job satisfaction, whereas extrinsic factors are associated with job dissatisfaction.⁸ Herzberg wanted to know when people felt exceptionally good (satisfied) or bad (dissatisfied) about their jobs. (These findings are shown in **Exhibit 14-2**.) He concluded that the replies people gave when they felt good about their jobs were significantly different from the replies they gave when they felt bad. Certain characteristics were consistently related to job satisfaction (factors on the left side of the exhibit) and others to job dissatisfaction (factors on the right side). When people felt good about their work, they tended to cite intrinsic factors arising from the job itself, such as achievement, recognition, and responsibility. On the other hand, when they were dissatisfied, they tended to cite extrinsic factors arising from the job context, such as company policy and administration, supervision, interpersonal relationships, and working conditions.

In addition, Herzberg believed the data suggested that the opposite of satisfaction was not dissatisfaction, as traditionally had been believed. Removing dissatisfying characteristics from a job would not necessarily make that job more satisfying (or motivating). As shown in **Exhibit 14-3**, Herzberg proposed that a dual continuum existed: the opposite of “satisfaction” is “no satisfaction,” and the opposite of “dissatisfaction” is “no dissatisfaction.”

Again, Herzberg believed the factors that led to job satisfaction were separate and distinct from those that led to job dissatisfaction. Therefore, managers who sought to eliminate factors that created job dissatisfaction could keep people from being dissatisfied but not necessarily motivate them. The extrinsic factors that remove job dissatisfaction were called **hygiene factors**. When these factors are adequate, people won’t be dissatisfied, but they won’t be satisfied (or motivated) either. To motivate people, Herzberg suggested emphasizing **motivators**, the intrinsic factors having to do with the job itself.

Herzberg’s theory enjoyed wide popularity from the mid-1960s to the early 1980s, despite criticisms of his procedures and methodology. Although some critics said his theory was too simplistic, it has influenced how we currently design jobs, especially when it comes to job enrichment, which we’ll discuss later in this chapter.

Three-Needs Theory

David McClelland and his associates proposed the **three-needs theory**, which says three acquired (not innate) needs are major motives in work.⁹ These three are the **need for achievement (nAch)**, which is the drive to succeed and excel in relation to a set of standards; the **need for power (nPow)**, which is the need to make others behave in a way that they would not have behaved otherwise; and the **need for affiliation (nAff)**,

two-factor theory (motivation–hygiene theory)

The motivation theory that proposes intrinsic factors are related to job satisfaction and motivation, whereas extrinsic factors are associated with job dissatisfaction

hygiene factors

Factors that eliminate job dissatisfaction, but don’t motivate

motivators

Factors that increase job satisfaction and motivation

three-needs theory

The motivation theory that says three acquired (not innate) needs—achievement, power, and affiliation—are major motives in work

need for achievement (nAch)

The drive to succeed and excel in relation to a set of standards

need for power (nPow)

The need to make others behave in a way that they would not have behaved otherwise

need for affiliation (nAff)

The desire for friendly and close interpersonal relationships

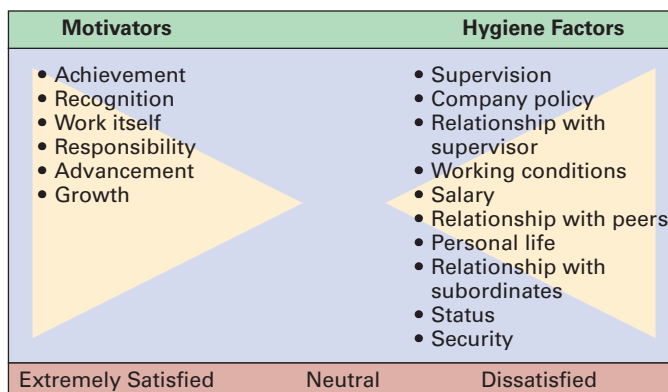
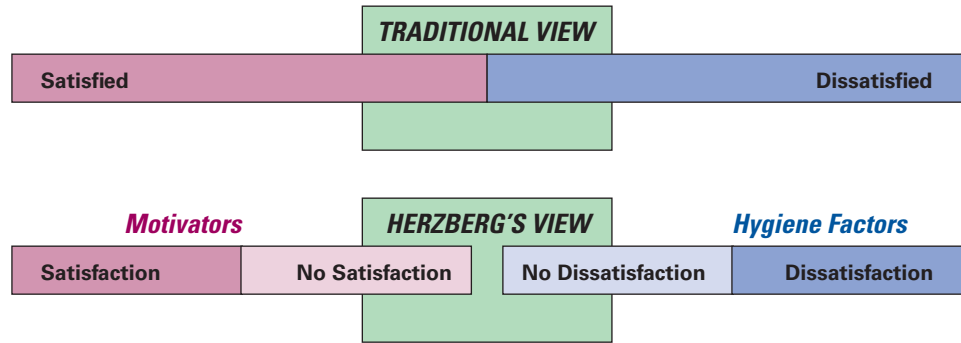


Exhibit 14-2
Herzberg’s Two-Factor Theory

Source: Based on F. Herzberg, B. Mausner, and B. B. Snyderman, *The Motivation to Work* (New York: John Wiley, 1959).

Exhibit 14-3

Contrasting Views of Satisfaction–Dissatisfaction



which is the desire for friendly and close interpersonal relationships. Of these three needs, the need for achievement has been researched the most.

People with a high need for achievement are striving for personal achievement rather than for the trappings and rewards of success. They have a desire to do something better or more efficiently than it's been done before.¹⁰ They prefer jobs in which they can take personal responsibility for finding solutions to problems, in which they can receive rapid and unambiguous feedback on their performance in order to tell whether they're improving, and in which they can set moderately challenging goals. High achievers avoid what they perceive to be very easy or very difficult tasks. Also, a high need to achieve doesn't necessarily lead to being a good manager, especially in large organizations. That's because high achievers focus on their *own* accomplishments, whereas good managers emphasize helping *others* accomplish their goals.¹¹ McClelland showed that employees can be trained to stimulate their achievement need by being in situations where they have personal responsibility, feedback, and moderate risks.

The other two needs in this theory haven't been researched as extensively as the need for achievement. However, studies have found that the best managers tend to be high in the need for power and low in the need for affiliation.¹²

All three of these needs can be measured by using a projective test (known as the Thematic Apperception Test, or TAT), in which respondents react to a set of pictures. The pictures are of people doing ordinary things such as reading a book or talking to each other. Each picture is briefly shown to a person who writes a story based on the picture. (See Exhibit 14-4 for some examples.) Trained interpreters then determine the individual's levels of nAch, nPow, and nAff from the stories written.

Exhibit 14-4

TAT Pictures: Examples of Pictures Used for Assessing Levels of nAch, nAff, and nPow

Photo Source: Science Source



nAch: Indicated by someone in the story wanting to perform or do something better.

nAff: Indicated by someone in the story wanting to be with someone else and enjoy mutual friendship.

nPow: Indicated by someone in the story desiring to have an impact or make an impression on others in the story.

CONTEMPORARY Theories of Motivation

LO14.3 Compare and contrast contemporary theories of motivation.

The theories we look at in this section represent current explanations of employee motivation supported by research.¹³ These contemporary motivation approaches include goal-setting theory, reinforcement theory, job design theory, equity theory, and expectancy theory.

Goal-Setting Theory

We introduced the importance of goals in **Chapter 8** in our discussion of planning. In this section, we revisit them but through the lens of motivation.

Before a big assignment or major class project presentation, has a teacher ever encouraged you to “just do your best”? What does that vague statement mean? Would your performance on a class project have been higher had that teacher said you needed to score a 93 percent to keep your A in the class? Research on goal-setting theory addresses these questions, and as you’ll see, the findings are impressive in terms of the effect that goal specificity, challenge, and feedback have on performance.¹⁴

Research provides substantial support for **goal-setting theory**, which says that specific goals increase performance and that difficult goals, when accepted, result in higher performance than do easy goals. What does goal-setting theory tell us?

First, working toward a goal is a major source of job motivation. Studies on goal setting have demonstrated that specific and challenging goals are superior motivating forces.¹⁵ Such goals produce a higher output than the generalized goal of “do your best.” The specificity of the goal itself acts as an internal stimulus. For instance, when a sales rep commits to making eight sales calls daily, this intention gives them a specific goal to try to attain.

It’s not a contradiction that goal-setting theory says that motivation is maximized by *difficult* goals, whereas achievement motivation (from three-needs theory) is stimulated by *moderately challenging* goals.¹⁶ First, goal-setting theory deals with people in general, whereas the conclusions on achievement motivation are based on people who have a high nAch. Essentially, the conclusions of goal-setting theory apply to those who accept and are committed to the goals. Difficult goals will lead to higher performance *only* if they are accepted.

Next, will employees try harder if they have the opportunity to participate in the setting of goals? Not always. In some cases, participants who actively set goals elicit superior performance; in other cases, individuals performed best when their manager assigned goals. However, participation is probably preferable to assigning goals when employees might resist accepting difficult challenges.¹⁷

Finally, we know people will do better if they get feedback on how well they’re progressing toward their goals because feedback helps identify discrepancies between what they have done and what they want to do. But all feedback isn’t equally effective. Self-generated feedback—where an employee monitors their own progress—has been shown to be a more powerful motivator than feedback coming from someone else.¹⁸

Three other contingencies besides feedback influence the goal–performance relationship: goal commitment, adequate self-efficacy, and national culture.

First, goal-setting theory assumes an individual is committed to the goal. Commitment is most likely when goals are made public, when the individual has an internal locus of control, and when the goals are self-set rather than assigned.¹⁹

goal-setting theory

The proposition that specific goals increase performance and that difficult goals, when accepted, result in higher performance than do easy goals



Goal-setting can be a powerful motivator if employees participate in the goal-setting process and are provided feedback on their progress toward goals.

Source: Hero Images Inc./Alamy Stock Photo

self-efficacy

An individual's belief that they are capable of performing a task

Next, **self-efficacy** refers to an individual's belief that they are capable of performing a task.²⁰ The higher your self-efficacy, the more confidence you have in your ability to succeed in a task. So, in difficult situations, we find that people with low self-efficacy are likely to reduce their effort or give up altogether, whereas those with high self-efficacy will try harder to master the challenge.²¹ In addition, individuals with high self-efficacy seem to respond to negative feedback with increased effort and motivation, whereas those with low self-efficacy are likely to reduce their effort when given negative feedback.²²

Finally, the value of goal-setting theory depends on national culture. It's well adapted to North American countries because its main ideas align reasonably well with those cultures. It assumes that subordinates will be reasonably independent (not a high score on power distance), that people will seek challenging goals (low in uncertainty avoidance), and that performance is considered important by both managers and subordinates (high in assertiveness). Don't expect goal setting to lead to higher employee performance in countries where the cultural characteristics aren't like this.

Exhibit 14-5 summarizes the relationships among goals, motivation, and performance. Our overall conclusion is that the intention to work toward hard and specific goals is a powerful motivating force. Under the proper conditions, it can lead to higher performance. However, no evidence indicates that such goals are associated with increased job satisfaction.²³

Reinforcement Theory

Reinforcement theory says that behavior is a function of its consequences. Those consequences that immediately follow a behavior and increase the probability that the behavior will be repeated are called **reinforcers**. Reinforcement theory ignores factors such as goals, expectations, and needs. Instead, it focuses solely on what happens to a person when they do something.

In the previous chapter, we showed how managers use reinforcers to shape behavior, but the concept is also widely believed to explain motivation. To rehash, according to B. F. Skinner, people will most likely engage in desired behaviors if they are rewarded for doing so. These rewards are most effective if they immediately follow a desired behavior; behavior that isn't rewarded, or is punished, is less likely to be repeated.²⁴

Using reinforcement theory, managers can influence employees' behavior by using positive reinforcers for actions that help the organization achieve its goals. And managers should ignore, not punish, undesirable behavior. Although punishment eliminates undesired behavior faster than nonreinforcement, its effect is often temporary and may have unpleasant side effects, including dysfunctional behavior such as workplace conflicts, absenteeism, and turnover. Although reinforcement is an important influence on work behavior, it isn't the only explanation for differences in employee motivation.²⁵

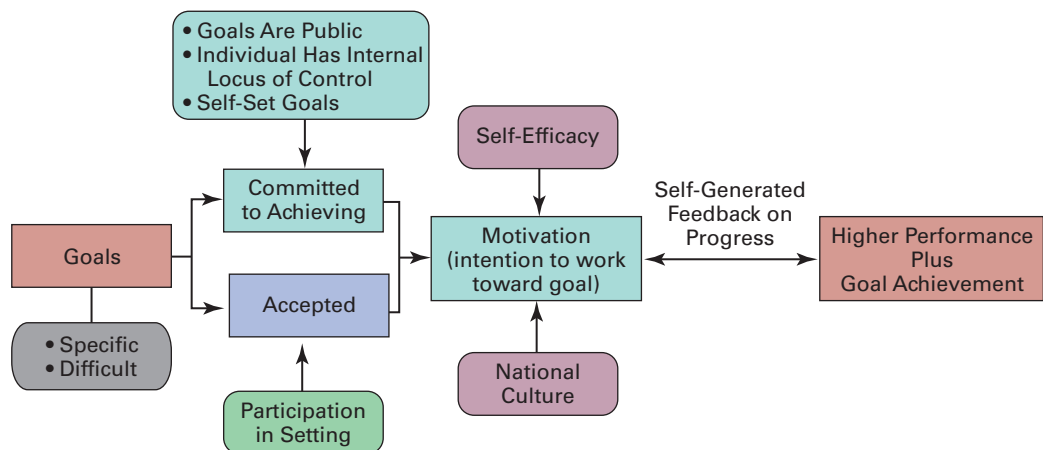
reinforcement theory

The theory that behavior is a function of its consequences

reinforcers

Consequences immediately following a behavior, which increase the probability that the behavior will be repeated

Exhibit 14-5
Goal-Setting Theory



Designing Motivating Jobs

Because managers want to motivate individuals on the job, we need to look at ways to design motivating jobs. If you look closely at what an organization is and how it works, you'll find that it's composed of thousands of tasks. These tasks are, in turn, aggregated into jobs. We use the term **job design** to refer to the way tasks are combined to form complete jobs. The jobs people perform in an organization should not evolve by chance. Managers should design jobs deliberately and thoughtfully to reflect the demands of the changing environment; the organization's technology; and employees' skills, abilities, and preferences.²⁶ When jobs are designed like that, employees are motivated to work hard. Let's look at some ways that managers can design motivating jobs.

JOB ENLARGEMENT As we saw in **Chapter 2**, job design historically has been to make jobs smaller, simpler, and more specialized. But it's difficult to motivate employees when jobs are like this. An early effort at overcoming the drawbacks of job specialization involved horizontally expanding a job through increasing **job scope**—the number of different tasks required in a job and the frequency with which these tasks are repeated. For instance, a dental hygienist's job could be enlarged so that in addition to cleaning teeth, they are updating patient records and sanitizing and storing instruments. This type of job design option is called **job enlargement**.

Most job enlargement efforts that focus solely on increasing the number of tasks don't seem to work. As one employee who experienced such a job redesign said, "Before, I had one lousy job. Now, thanks to job enlargement, I have three lousy jobs!" However, research has shown that *knowledge* enlargement activities (expanding the scope of knowledge used in a job) lead to more job satisfaction, enhanced customer service, and fewer errors.²⁷

JOB ENRICHMENT Another approach to job design is the vertical expansion of a job by adding planning and evaluating responsibilities—**job enrichment**. Job enrichment increases **job depth**, which is the degree of control employees have over their work. In other words, employees are empowered to assume some of the tasks typically done by their managers. Thus, an enriched job allows workers to do an entire activity with increased freedom, independence, and responsibility. In addition, workers get feedback so they can assess and correct their own performance. For instance, if our dental hygienist had an enriched job, they could, in addition to cleaning teeth, schedule appointments (planning) and follow up with clients (evaluating). Although job enrichment may improve the quality of work, employee motivation, and satisfaction, research evidence has been inconclusive as to its usefulness.²⁸

JOB CHARACTERISTICS MODEL Even though many organizations implemented job enlargement and job enrichment programs and experienced mixed results, neither approach provided an effective framework for managers to design motivating jobs. But the **job characteristics model (JCM)** does.²⁹ It identifies five core job dimensions, their interrelationships, and their impact on employee productivity, motivation, and satisfaction. These five core job dimensions are:

1. **Skill variety:** The degree to which a job requires a variety of activities so that an employee can use a number of different skills and talents
2. **Task identity:** The degree to which a job requires completion of a whole and identifiable piece of work
3. **Task significance:** The degree to which a job has a substantial impact on the lives or work of other people
4. **Autonomy:** The degree to which a job provides substantial freedom, independence, and discretion to the individual in scheduling the work and determining the procedures to be used in carrying it out

job design

The way tasks are combined to form complete jobs

job scope

The number of different tasks required in a job and the frequency with which those tasks are repeated

job enlargement

The horizontal expansion of a job by increasing job scope

job enrichment

The vertical expansion of a job by adding planning and evaluating responsibilities

job depth

The degree of control employees have over their work

job characteristics model (JCM)

A framework for analyzing and designing jobs that identifies five primary core job dimensions, their interrelationships, and their impact on outcomes

skill variety

The degree to which a job requires a variety of activities so that an employee can use a number of different skills and talents

task identity

The degree to which a job requires completion of a whole and identifiable piece of work

task significance

The degree to which a job has a substantial impact on the lives or work of other people

autonomy

The degree to which a job provides substantial freedom, independence, and discretion to the individual in scheduling work and determining the procedures to be used in carrying it out



Meaningful work that helps people with physical problems gives occupational therapist Abbey Wash considerable motivation and job satisfaction. Wash's job scores high in skill and task variety plus task significance.

Source: Jeff Siner/Charlotte Observer/TNS/Newscom

feedback

The degree to which carrying out work activities required by a job results in the individual's obtaining direct and clear information about his or her performance effectiveness

5. Feedback: The degree to which doing work activities required by a job results in an individual obtaining direct and clear information about the effectiveness of his or her performance.

The JCM is shown in **Exhibit 14-6**. Notice how the first three dimensions—skill variety, task identity, and task significance—combine to create meaningful work. In other words, if these three characteristics exist in a job, we can predict that the person will view their job as being important, valuable, and worthwhile. Notice, too, that jobs that possess autonomy give the jobholder a feeling of personal responsibility for the results and that if a job provides feedback, the employee will know how effectively they are performing.

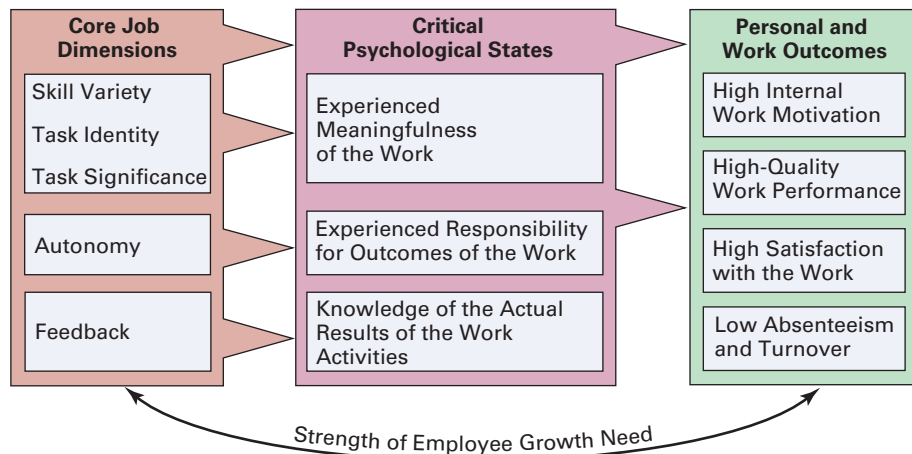
The JCM suggests that employees are likely to be motivated when they *learn* (knowledge of results through feedback) that they *personally* (experienced responsibility through autonomy of work) performed well on tasks that they *care about* (experienced meaningfulness through skill variety, task identity, or task significance).³⁰ The more a job is designed around these three elements, the greater the employee's motivation, performance, and satisfaction and the lower their absenteeism and likelihood of resigning. As the model shows, the links between the job dimensions and the outcomes are moderated by the strength of the individual's growth need (the person's desire for self-esteem and self-actualization). Individuals with a high-growth need are more likely than low-growth-need individuals to experience the critical psychological states and respond positively when their jobs include the core dimensions. This distinction may explain the mixed results with job enrichment: individuals with low-growth need aren't likely to achieve high performance or satisfaction by having their jobs enriched.

The JCM provides specific guidance to managers for job design. These suggestions specify the types of changes most likely to lead to improvement in the five core job dimensions. You'll notice that two suggestions incorporate job enlargement and job enrichment, although the other suggestions involve more than vertical and horizontal expansion of jobs.

1. **Combine tasks.** Put fragmented tasks back together to form a new, larger work module (job enlargement) to increase skill variety and task identity.
2. **Create natural work units.** Design tasks that form an identifiable and meaningful whole to increase employee "ownership" of the work. Encourage employees to view their work as meaningful and important rather than as irrelevant and boring.

Exhibit 14-6
Job Characteristics Model

Source: "Job Characteristics Model," from *Work Redesign*, by J. R. Hackman & G. R. Oldham. Copyright © 1980 by Addison-Wesley (a division of Pearson).



3. **Establish client (external or internal) relationships.** Whenever possible, establish direct relationships between workers and their clients to increase skill variety, autonomy, and feedback.
4. **Expand jobs vertically.** Vertical expansion gives employees responsibilities and controls that were formerly reserved for managers, which can increase employee autonomy.
5. **Open feedback channels.** Direct feedback lets employees know how well they're performing their jobs and whether their performance is improving or not.

The research into the JCM has provided a rich knowledge base for understanding how job design influences employee motivation; however, the research does not directly specify motivating jobs. What are some of the jobs people consider to be more or less meaningful? Research suggests that sources of meaning in work include service to others, realization of full potential, unity with others, and self-integrity. Although certain careers may clearly offer meaning, such as healthcare where workers are serving others, people can find meaning in many different careers when you consider these sources of meaning.³¹ For example, at a tech company, professionals often work in teams, which builds unity and creates meaningful work.

Research into the JCM continues as the structure of work continues to evolve. For instance, one study found that jobs today offer greater skill variety and autonomy—but concluded that the association between the five core job characteristics and satisfaction has remained unchanged over time.³² Other assessments have questioned whether the JCM captures the global shift from a manufacturing economy to a knowledge and service economy by failing to take into account the social dimensions of work.³³

EMERGING PERSPECTIVES ON JOB DESIGN In response to concerns that the JCM may not be totally appropriate for today's jobs, two emerging viewpoints have received attention. Let's take a look at each.

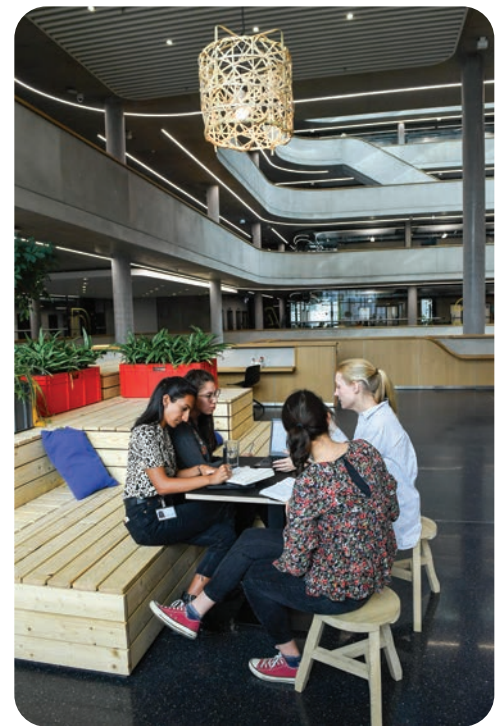
The first, the **relational perspective of work design**, focuses on how people's tasks and jobs are increasingly based on social relationships.³⁴ In jobs today, employees have more interactions and interdependence with coworkers and others both inside and outside the organization. In doing their job, employees rely more and more on those around them for information, advice, and assistance. So what does this mean for designing motivating jobs? It means that managers need to look at important components of those employee relationships such as access to and level of social support in an organization, types of interactions outside an organization, amount of task interdependence, and interpersonal feedback.

Let's look at an example of the relational perspective of work design. As a software user, you expect instructions for use and responses to help chats to make it easy for you to understand the product. Microsoft understands this expectation of customers. Therefore, managers help improve the customer service experience by connecting software developers directly with customers. Interactions with customers give software developers valuable insights to help developers write software that meets technical specifications and is user friendly.

The second perspective, the **proactive perspective of work design**, says that employees are taking the initiative to change how their work is performed.³⁵ They're much more involved in decisions and actions that affect their work. Important job design factors according to this perspective include autonomy (which *is* part of the JCM), amount of ambiguity and accountability, job complexity, level of stressors, and social or relationship context. Each of these has been shown to influence employee proactive behavior. For instance, researchers observed cleaners at a hospital who took the initiative to craft their own jobs. According to one of the researchers, "The cleaners had tons of rooms they had to clean in a very short period of time so they had very little discretion over the number of tasks they had to get done. . . . [T]o make it more meaningful for themselves, they

relational perspective of work design
An approach to job design that focuses on how people's tasks and jobs are increasingly based on social relationships

proactive perspective of work design
An approach to job design in which employees take the initiative to change how their work is performed



The headquarters of the retail giant Zalando in Berlin was created to facilitate social support, consistent with the relational perspective of work design.

Source: Jens Kalaene/dpa-Zentralbild/dpa picture alliance/Alamy Live News/Alamy Stock Photo

high-involvement work practices
Work practices designed to elicit greater input or involvement from workers

would do all types of little things to help the patients and their patients' families."³⁶ One stream of research that's relevant to proactive work design is **high-involvement work practices**, which are designed to elicit greater input or involvement from workers.³⁷ The level of employee proactivity is believed to increase as employees become more involved in decisions that affect their work.

Equity Theory

If someone offered you \$100,000 a year on your first job after graduating from college, you'd probably jump at the offer and report to work enthusiastic, ready to tackle whatever needed to be done, and certainly be satisfied with your pay. How would you react, though, if you found out a month into the job that a coworker—another recent graduate, your age, with comparable grades from a comparable school, and with comparable work experience—was getting \$120,000 a year? You'd probably be upset! Even though in absolute terms, \$100,000 is a lot of money for a new graduate to make (and you know it!), that suddenly isn't the issue. Now you see the issue as what you believe is *fair*—what is *equitable*. The term *equity* is related to the concept of fairness and equitable treatment compared with others who behave in similar ways. Evidence indicates that employees compare themselves to others and that inequities influence how much effort employees exert.³⁸

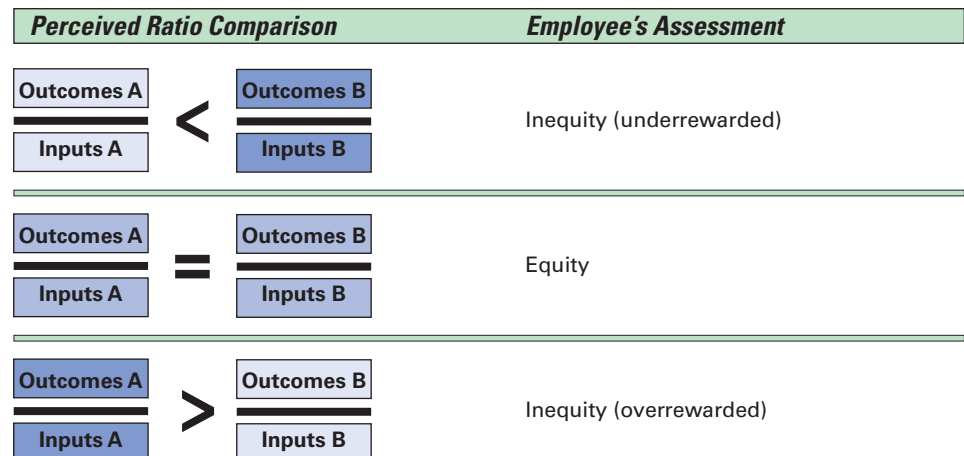
equity theory
The theory that an employee compares their job's input–outcomes ratio with those of relevant others and then corrects any inequity

Equity theory proposes that employees compare what they get from a job (outcomes) in relation to what they put into it (inputs), and then they compare their inputs–outcomes ratio with the inputs–outcomes ratios of relevant others (**Exhibit 14-7**). If an employee perceives their ratio to be equitable in comparison to those of relevant others, there's no problem. However, if the ratio is inequitable, they view themselves as under-rewarded or over-rewarded. When inequities occur, employees attempt to do something about it.³⁹ The result might be lower or higher productivity, improved or reduced quality of output, increased absenteeism, or voluntary resignation. Interestingly, people are pretty good at rationalizing over-rewarding, so under-rewarding tends to have the greatest impact on behavior.

referents
The persons, systems, or selves against which individuals compare themselves to assess equity

The **referent**—the other persons, systems, or selves individuals compare themselves against in order to assess equity—is an important variable in equity theory.⁴⁰ Each of the three referent categories is important. The “persons” category includes other individuals with similar jobs in the same organization but also includes friends, neighbors, or professional associates. Based on what they hear at work or read about in newspapers or trade journals, employees compare their pay with that of others. The “systems” category includes organizational pay policies, procedures, and allocation. For example, the significant difference in pay between CEOs and average employees as described in the chapter opening can create feelings of inequity. The “selves” category refers to inputs–outcomes ratios that are unique to the individual. It reflects

Exhibit 14-7
Equity Theory



past personal experiences and contacts and is influenced by criteria such as past jobs or family commitments.

Originally, equity theory focused on **distributive justice**, the perceived fairness of the amount and allocation of rewards among individuals. More recent research has focused on looking at issues of **procedural justice**, the perceived fairness of the process used to determine the distribution of rewards. This research shows that distributive justice has a greater influence on employee satisfaction than procedural justice, whereas procedural justice tends to affect an employee's organizational commitment, trust in management, and intention to quit.⁴¹ What are the implications for managers? They should consider openly sharing information on how allocation decisions are made, follow consistent and unbiased procedures, and engage in similar practices to increase the perception of procedural justice. By increasing the perception of procedural justice, employees are likely to view the organization positively even if they're dissatisfied with pay, promotions, and other personal outcomes.

distributive justice

Perceived fairness of the amount and allocation of rewards among individuals

procedural justice

Perceived fairness of the process used to determine the distribution of rewards

Expectancy Theory

The most comprehensive explanation of how employees are motivated is **expectancy theory**.⁴² Although the theory has its critics,⁴³ most research evidence supports it.⁴⁴

Expectancy theory states that an individual tends to act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual. It includes three variables or relationships (see **Exhibit 14-8**):

expectancy theory

The theory that an individual tends to act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual

1. **Effort–performance linkage:** The probability perceived by the individual that exerting a given amount of effort will lead to a certain level of performance.
2. **Performance–reward linkage:** The degree to which the individual believes that performing at a particular level is instrumental in attaining the desired outcome.
3. **Attractiveness:** The importance an individual places on the potential outcome or reward that can be achieved on the job. This considers both the goals and needs of the individual.

Although this might sound complex, it really isn't that difficult to visualize. It can be summed up in the following questions: How hard do I have to work to achieve a certain level of performance, and can I actually achieve that level? What reward will performing at that level of performance get me? How attractive is the reward to me, and does it help me achieve my own personal goals? Whether you are motivated to put forth effort (that is, to work hard) at any given time depends on your goals and your perception of whether a certain level of performance is necessary to attain those goals.

Let's use classroom organization as an illustration of how one can use expectancy theory to explain motivation.



Just Born Quality Confections—makers of Peeps and Mike & Ike brands—uses expectancy theory in motivating employees to achieve annual sales goals. The sales team members shown here expected their efforts would result in winning an all-expenses-paid trip to Hawaii. But they failed to meet their goal and instead earned jackets and bomber hats and a trip to Fargo, North Dakota.

Source: Ann Arbor Miller/AP Photo

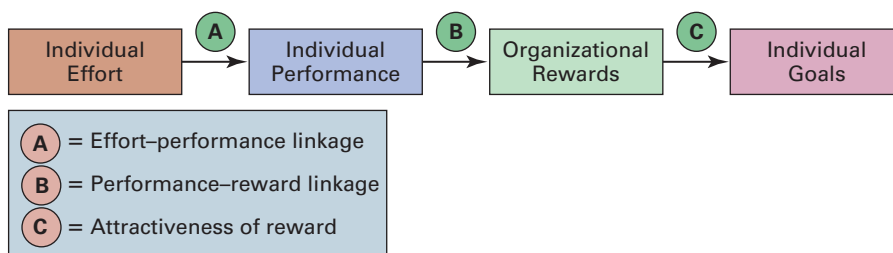


Exhibit 14-8
Expectancy Model

WORKPLACE CONFIDENTIAL Feelings of Unfair Pay

For many employees, nothing is likely to act as a demotivator as much as learning that someone in their organization is getting paid more than they are for the same or a similar job. Depending on your equity sensitivity, someday you might find yourself angry and frustrated because you believe you're not being fairly compensated.

Let's start with the fact that we're not all equally equity sensitive. Equity sensitivity (ES) is a term that developed out of equity theory. ES acknowledges that not all individuals are equivalently sensitive to equity. ES, therefore, is a personality trait based on an individual's preferred input-to-outcome ratios. For our purposes, we will focus on individuals who believe that they are being under-rewarded relative to others.

First, you need to look for evidence that you are not being fairly compensated. Fortunately, many countries and states now have pay transparency laws. The laws differ, but they may require your employer to publish pay ranges or actual pay rates. Do some research online to see if your company is covered by a pay transparency law; if it is, get in touch with your human resources department to ask about access to pay information. If you don't have access to pay information at your company, you can do some research on the external market. Salary websites such as Glassdoor and PayScale.com provide comparative data for many jobs and in different markets.

Two questions to consider based on your research: What's your basis for concluding you're underpaid, and is there a logical explanation for why you might be paid less than someone else in the same or a similar job? Keep in mind that there are a lot of reasons to justify salary differences, including education, skills, length of time with the organization, relevant experience, different performance ratings, location, and cost of living. There's a reason, for instance, that two insurance adjusters working for Liberty Mutual might be paid differently if one works out of New York City and the other out of Birmingham, Alabama.

If you have evidence to support your belief, you'll need a strategy to address your concern. Start by deciding to whom you are going to make your case. Don't assume your manager has solo discretion to adjust your pay. Pay structures, especially in large organizations, are carefully designed and monitored. Although your manager may have some say in recommending pay increases, the final decision usually lies with the human resources department. So you should consider whether you want to present your case to your immediate manager, the human resources manager, or both.

Timing counts! That is, there are times that are better for making your case. The natural time is with your performance evaluation. A strong evaluation strengthens your hand in asking for an adjustment, especially if it is backed up with evidence suggesting that you're underpaid. And what kind of evidence makes your case and helps your manager to get approvals from their superiors? If you have objective data that indicates that others in your organization or community are getting paid more than you are for the same or a similar job, present the facts. Additionally, elaborate on your contributions. Specifically reference your past accomplishments and what you expect to contribute in the future. Ideally, you'll have concrete evidence to make your case, such as how much you brought the organization in sales or how much you saved through increased productivity. If your job doesn't lend itself to such facts, support your case with positive comments on your accomplishments from customers, suppliers, or work colleagues.

Finally, do not take a negative approach in your appeal. Complaining or making threats rarely results in positive outcomes. And saying that you haven't had a raise in years or that you're doing twice as much work as everyone else is also likely to prove unproductive. A positive approach that highlights your interest in growing with the company will more likely yield positive outcome.⁴⁵

Most students prefer an instructor who tells them what is expected of them in the course. They want to know what the assignments and examinations will be like, when they are due or to be taken, and how much weight each carries in the final term grade. They also like to think that the amount of effort they exert in attending classes, taking notes, writing papers, meeting with project team members, and/or studying will be reasonably related to the grade they will make in the course. Let's assume that you, as a student, feel this way. Consider that five weeks into a class you are really enjoying (we'll call it MGT 301), an examination is given back to you. You studied hard for this exam, and you have consistently made As and Bs on exams in other courses to which you have expended similar effort. The reason you work so hard is to make top grades, which you believe are important for getting a good job upon graduation. Also, you are not sure, but you might want to go on to graduate school. Again, you think grades are important for getting into a good graduate school.

Well, the results of that five-week exam are in. The class median was 72. Ten percent of the class scored an 85 or higher and got an A. Your grade was 46; the minimum passing mark was 50. You're mad. You're frustrated. Even more, you're

perplexed. How could you possibly have done so poorly on the exam when you usually score in the top range in other classes by preparing as you did for this one?

Several interesting things are immediately evident in your behavior. Suddenly, you're no longer driven to attend MGT 301 classes regularly. You find that you do not study for the course either. When you do attend classes, you daydream a lot—the result is an empty notebook instead of several pages of notes. One would probably be correct in describing you as “lacking in motivation” in MGT 301. Why did your motivation level change? You know and I know, but let's explain it in expectancy terms.

If we use Exhibit 14-8 to understand this situation, we might say the following: studying and preparing for MGT 301 (effort) are conditioned by their resulting in correctly answering the questions on the exam (performance), which will produce a high grade (reward), which will lead, in turn, to the security, prestige, and other benefits that accrue from obtaining a good job (individual goal).

The attractiveness of the outcome, which in this case is a good grade, is high. But what about the performance–reward linkage? Do you feel that the grade you received truly reflects your knowledge of the material? In other words, did the test fairly measure what you know? If the answer is yes, then this linkage is strong. If the answer is no, then at least part of the reason for your reduced motivational level is your belief that the test was not a fair measure of your performance. If the test was of the essay type, maybe you believe the instructor's grading method was poor. Was too much weight placed on a question that you thought was trivial? Maybe the instructor doesn't like you and was biased in grading your paper. These are examples of perceptions that influence the performance–reward linkage and your level of motivation.

Another possible demotivating force may be the effort–performance relationship. If, after you took the exam, you believe that you could not have passed it regardless of the amount of preparation you had done, then your desire to study will drop. Possibly the instructor wrote the exam under the assumption that you had a considerably broader background in the subject matter. Maybe the course had several prerequisites that you didn't know about, or possibly you had the prerequisites but took them several years ago. The result is the same: You place a low value on your effort leading to answering the exam questions correctly, hence your motivational level decreases, and you lessen your effort.

The key to expectancy theory is therefore understanding an individual's goal—and the linkage between effort and performance; between performance and rewards; and, finally, between rewards and individual goal satisfaction. It emphasizes payoffs, or rewards. As a result, we have to believe that the rewards an organization is offering align with what the employee wants. As a contingency model, expectancy theory recognizes that no universal principle explains what motivates individuals and thus stresses that managers understand why employees view certain outcomes as attractive or unattractive. After all, we want to reward individuals with those things they value positively. Also, expectancy theory emphasizes expected behaviors. Do employees know what is expected of them and how they'll be evaluated? Finally, the theory is concerned with perceptions. Reality is irrelevant. An individual's own perceptions of performance, reward, and goal outcomes—not the outcomes themselves—will determine their motivation (level of effort).

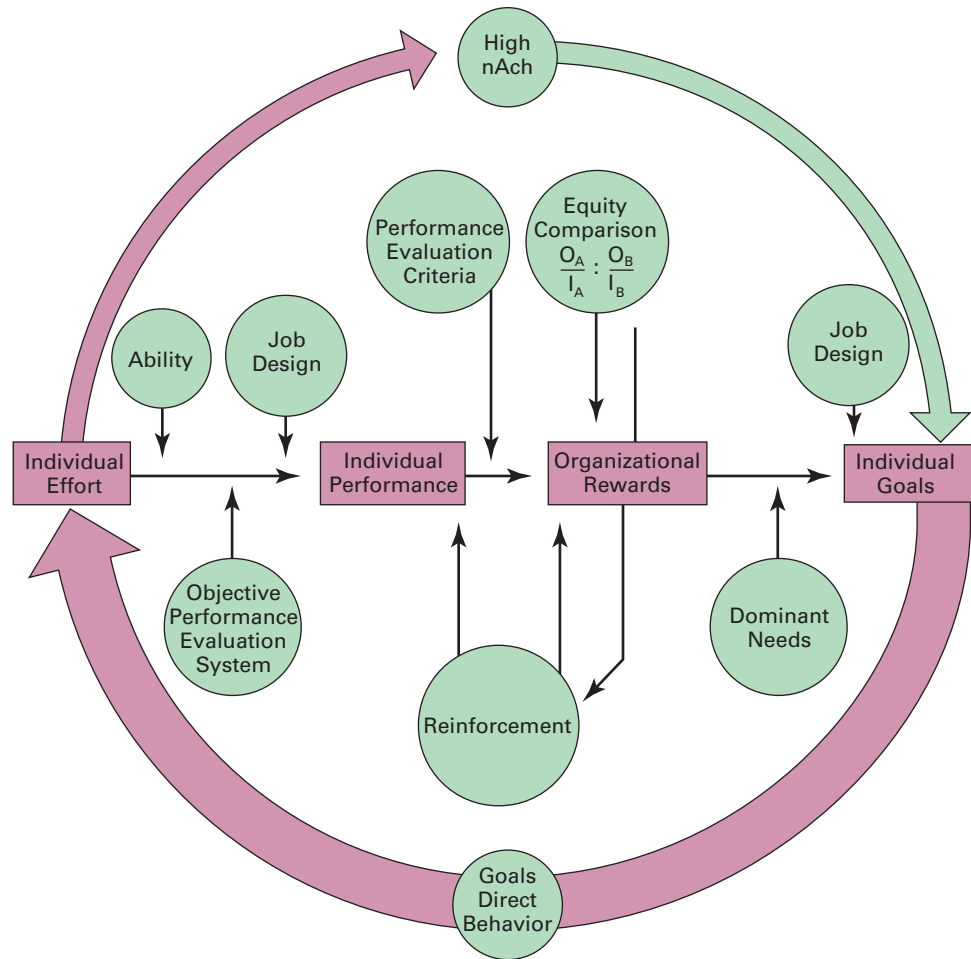
Integrating Contemporary Theories of Motivation

We've presented a number of theories in this chapter. There is a tendency, at this point, to view them independently. This is a mistake. The fact is that many of the ideas underlying the theories are complementary, and your understanding of how to motivate people is maximized when you see how the theories fit together.

Exhibit 14-9 presents a model that integrates much of what we know about motivation. Its basic foundation is the simplified expectancy model shown in Exhibit 14-8. Let's work through Exhibit 14-9, beginning at the left.

Exhibit 14-9

Integrating Contemporary Theories of Motivation



The individual effort box has an arrow leading into it. This arrow flows from the individual's goals. Consistent with goal-setting theory, this goals–effort loop is meant to illustrate that goals direct behavior.

Expectancy theory predicts that an employee will exert a high level of effort if they perceive a strong relationship between effort and performance, performance and rewards, and rewards and satisfaction of personal goals. Each of these relationships is, in turn, influenced by certain factors. For effort to lead to good performance, the individual must have the requisite ability to perform, and the performance evaluation system that measures the individual's performance must be perceived as being fair and objective. The performance–reward relationship will be strong if the individual perceives that it is performance (rather than seniority, personal favorites, or other criteria) that is rewarded. The final link in expectancy theory is the rewards–goals relationship. Need theories would come into play at this point. Motivation would be high to the degree that the rewards an individual received for their high performance satisfied dominant needs consistent with their individual goals.

A closer look at the model also shows that it considers the achievement–need, reinforcement, equity, and JCM theories. The high achiever isn't motivated by the organization's assessment of their performance or organizational rewards, hence the jump from effort to individual goals for those with a high nAch. Remember that high achievers are internally driven as long as the jobs they're doing provide them with personal responsibility, feedback, and moderate risks. They're not concerned with the effort–performance, performance–reward, or rewards–goals linkages.

Reinforcement theory is seen in the model by recognizing that the organization's rewards reinforce the individual's performance. If managers have designed a reward system that is seen by employees as “paying off” for good performance, the rewards

will reinforce and encourage continued good performance. Rewards also play a key part in equity theory. Individuals will compare the rewards (outcomes) they have received from the inputs or efforts they made with the inputs–outcomes ratio of relevant others. If inequities exist, the effort expended may be influenced.

Finally, the JCM is seen in this integrative model. Task characteristics influence job motivation at two places. First, jobs designed around the five job dimensions are likely to lead to higher actual job performance because the individual’s motivation will be stimulated by the job itself; that is, they will increase the linkage between effort and performance. Second, jobs designed around the five job dimensions also increase an employee’s control over key elements in their work. Therefore, jobs that offer autonomy, feedback, and similar task characteristics help to satisfy the individual goals of employees who desire greater control over their work.

CURRENT Issues in Motivation

LO14.4 Discuss current issues in motivation.

Understanding and predicting employee motivation is one of the most popular areas in management research. We’ve introduced you to a number of motivation theories. However, contemporary theories of employee motivation are influenced by some significant workplace issues—the impact of technology, managing cross-cultural challenges, motivating unique groups of workers, and designing appropriate rewards programs.

Technology and Motivation

Constantly advancing technology is impacting how, where, and when we work, influencing motivation in several ways. Without intentionality, technology integration into work could negatively impact motivation because psychological needs are not met.⁴⁶ For example, technology can increase the pace of work, leading to workers feeling a loss of control. Or remote work that provides less in-person interaction could impact employees’ ability to create meaningful relationships at work.⁴⁷

However, with the effective integration of technology in work, companies could increase motivation by providing opportunities to provide meaningful work. For example, as we discussed in **Chapter 13**, artificial intelligence (AI) empowers workers to restructure jobs to be more interesting. Novartis, a Switzerland-based pharmaceutical company, uses AI to speed the development of drugs by quickly studying historical experiments to determine the best opportunities for future product development, eliminating what was previously a tedious process for researchers. Such a shift helps create more meaningful jobs for researchers as they spend their time on more challenging and competence-building tasks.⁴⁸

The flexibility offered by remote work could also positively impact worker motivation as they are able to better manage their lives. To address the need for interaction, many workers prefer hybrid work options. In fact, following the COVID-19 pandemic, 52 percent of workers preferred hybrid work, compared to 11 percent who preferred fully remote work and 37 percent who wanted to return to fully on-site work.⁴⁹ With intentionality, workers can still build relationships while working remotely. For example, in-office casual encounters can be replaced with video-based interactions without an agenda, taking time to socialize online. Or managers can encourage workers to use virtual platforms to interact with each other via online chats.

Managing Cross-Cultural Motivational Challenges

In today’s global business environment, managers can’t automatically assume motivational programs that work in one geographic location are going to work in others. Most current motivation theories were developed in the United States by Americans and about Americans.⁵⁰ Maybe the most blatant pro-American characteristic in



The motivation of these employees working at the research and development facility at the Daihatsu Motor Co. plant near Jakarta, Indonesia, is influenced by their national culture. Indonesia has a strong collectivist culture, where employees are motivated less by receiving individual praise because their culture places a greater emphasis on harmony, belonging, and consensus.

Source: Kyodo/Newscom

these theories is the strong emphasis on individualism and achievement. For instance, both goal-setting and expectancy theories emphasize goal accomplishment as well as rational and individual thought. Let's look at motivation theories to see their level of cross-cultural transferability.

Maslow's needs hierarchy argues that people start at the physiological level and then move progressively up the hierarchy in order. This hierarchy, if it has any application at all, aligns with American culture. In countries like Japan, Greece, and Mexico, where uncertainty avoidance characteristics are strong, security needs would be the foundational layer of the needs hierarchy. Countries that score high on nurturing characteristics—Denmark, Sweden, Norway, the Netherlands, and Finland—would have social needs as their foundational level.⁵¹ We predict, for instance, that group work will be more motivating when the

country's culture scores high on the nurturing criterion.

Another motivation concept that clearly has an American bias is the achievement need. The view that a high achievement need acts as an internal motivator presupposes two cultural characteristics—a willingness to accept a moderate degree of risk (which excludes countries with strong uncertainty avoidance characteristics) and a concern with performance (which applies almost singularly to countries with strong achievement characteristics). This combination is found in countries such as the United States, Canada, and Great Britain.⁵² On the other hand, these characteristics are relatively absent in countries such as Chile and Portugal.

Equity theory has a relatively strong following in the United States, which is not surprising given that US-style reward systems are based on the assumption that workers are highly sensitive to equity in reward allocations. In the United States, equity is meant to closely link pay to performance. However, evidence suggests that in collectivist cultures, especially in the former socialist countries of central and eastern Europe, employees expect rewards to reflect their individual needs as well as their performance.⁵³ Moreover, consistent with a legacy of communism and centrally planned economies, employees exhibited a greater “entitlement” attitude—that is, they expected outcomes to be greater than their inputs.⁵⁴ These findings suggest that US-style pay practices may need to be modified in some countries in order to be perceived as fair by employees.

Despite these cross-cultural differences in motivation, some cross-cultural consistencies are evident. In a study of employees in 13 countries, the top motivators included (ranked from number one on down) being treated with respect, work–life balance, the type of work done, the quality of people worked with, the quality of the organization's leadership, base pay, working in an environment where good service can be provided to others, long-term career potential, flexible working arrangements, learning and development opportunities, benefits, promotion opportunities, and incentive pay or bonuses.⁵⁵

Motivating Unique Groups of Workers

Employees come into organizations with different needs, personalities, skills, abilities, interests, and aptitudes. They have different expectations of their employers and different views of what they think their employer has a right to expect of them. And they vary widely in what they want from their jobs. Given these differences, how can managers do an effective job of motivating the unique groups of employees found in today's workforce? One thing is to understand the motivational requirements of these groups, including diverse employees, professionals, contingent workers, and remote workers.

MOTIVATING A DIVERSE WORKFORCE To maximize motivation among today's workforce, managers need to think in terms of *flexibility*. For instance, studies tell us that men place more importance on having autonomy in their jobs than women.

In contrast, the opportunity to learn, convenient and flexible work hours, and good interpersonal relations are more important to women.⁵⁶ Millennials value social relationships and, in contrast to older workers, are likely to enjoy being part of a team.⁵⁷ Gen Z workers value opportunities for growth, clear responsibilities, and feedback.⁵⁸ Managers need to recognize that what motivates a single parent with two dependent children may be very different from the needs of a single part-time employee or an older employee who is working only to supplement their retirement income. A diverse array of rewards is needed to motivate employees with such diverse needs. For instance, many organizations have developed flexible work arrangements—such as compressed workweeks, flextime, and job sharing, which we discussed in **Chapter 10**—that recognize different needs.

MOTIVATING PROFESSIONALS In contrast to a generation ago, the typical employee today is more likely to be a professional with a college degree than a blue-collar factory worker. What special concerns should managers be aware of when trying to motivate a team of engineers at Intel’s India Development Center, software designers at SAS Institute in North Carolina, or a group of consultants at Accenture in Singapore?

Professionals are different from nonprofessionals.⁵⁹ They have a strong and long-term commitment to their field of expertise. To keep current in their field, they need to regularly update their knowledge, and because of their commitment to their profession, they rarely define their workweek as 8 a.m. to 5 p.m., five days a week.

What motivates professionals? Money and promotions typically are low on their priority list. Why? They tend to be well paid and enjoy what they do. In contrast, job challenge tends to be ranked high. They like to tackle problems and find solutions. Their chief reward is the work itself. An interesting stream of research has focused on the “flow experience.”⁶⁰ *Flow* is a state of total absorption in one’s work, where individuals lose their sense of time and awareness of surrounding activities. It appears to apply most directly to professionals. Managers can maximize flow among professional employees by designing jobs that are challenging, provide opportunities for using creativity, and allow full utilization of employees’ skills. The irony of flow is that it’s self-motivating. The tasks themselves stimulate high levels of performance.

Lastly, keep in mind that professionals tend to be focused on their work as their central life interest, whereas nonprofessionals typically have other interests outside of work that can compensate for needs not met on the job. This suggests that professionals are less likely to stay in jobs that lack challenge or variety, or fail to fully utilize their skills.



Managers of home rental website Airbnb motivate the firm’s young employees at its San Francisco headquarters with an open and collaborative work environment that promotes teamwork and a sense of community and stimulates innovation. Employees have the freedom to work where they want and enjoy amenities such as a cafeteria, a nap room, a library, yoga classes, organic lunches, and \$2,000 each year for personal travel. Source: dpa picture alliance/Alamy Stock Photo

MOTIVATING CONTINGENT WORKERS With the emergence of the gig economy, 86 percent of companies report using contingent workers, and further growth is expected. Contingent workers can include those who choose to be contingent such as consultants and independent contractors, but also may be temporary workers who are unable to find full-time employment. Beyond making sure needs are met and expectations are clear, managers do not typically need to address the motivation of those who choose contingent work, who often are motivated by the flexibility the work provides, as well as the work itself. Further, for those workers that are independent contractors, under IRS guidelines there are limitations in how involved managers can get in directing workers.⁶¹

The more challenging question is how to motivate involuntarily temporary employees. An obvious answer is the opportunity to become a permanent employee. In cases in which permanent employees are selected from a pool of temps, the temps will often work hard in hopes of becoming permanent. A less-obvious answer is the

opportunity for training. The ability of a temporary employee to find a new job is largely dependent on their skills. If an employee sees that the job they are doing can help develop marketable skills, then motivation is increased. From an equity standpoint, when temps work alongside permanent employees who earn more and get benefits for doing the same job, the performance of temps is likely to suffer. Separating such employees or perhaps minimizing interdependence between them might help managers counteract potential problems.⁶²

How do these issues influence contingent workers' job satisfaction? Research shows that differences in job satisfaction between contingent and permanent workers is not significant until we consider the particular contingent work arrangements—temporary employee versus independent contractor.⁶³ Temporary workers are less satisfied than permanent workers. This difference may be explained by the fact that most temporary employees do not receive benefits such as paid vacation and are paid lower wages than earned by comparably skilled permanent workers. In contrast, independent contractors are about as equally satisfied as permanent workers. Why? Organizations are more likely to recognize the importance of independent contractors' contributions because they're mostly highly skilled individuals. For instance, management consultants are well educated and have a proven track record of success.

MOTIVATING REMOTE WORKERS Despite the dramatic increase of remote and hybrid working following the COVID-19 pandemic, there is some uncertainty around strategies to motivate remote workers. With practice outpacing research, managers are calling on what we know about motivation to attempt to positively impact remote workers. As we have noted, just the option to work remotely does motivate some workers. Flexible hours positively impact motivation, however, and thus the flexibility of remote work is important.⁶⁴

The motivational theories we have discussed provide some guidance for managers of remote workers. For example, our understanding of need-based theories suggests remote work may fulfill psychological needs. Remote work gives employees control over their schedule and autonomy, allowing for intrinsic motivation. To provide the right environment for remote workers, managers need to shift their approach from managing time and activity to managing results and outcomes. Further, managers can support remote workers better and positively impact their motivation by setting priorities and helping to solve problems.⁶⁵

One of the challenges for companies is establishing a remote or hybrid work policy. Determining who can work remotely or, if hybrid, how much time employees need to spend in the office is important. If workers perceive the policy as unfair, it could negatively impact motivation. Here procedural justice comes into play in determining a company's policy.⁶⁶

Designing Appropriate Rewards Programs

We conclude this chapter by looking at three reward programs designed to increase employee motivation.

OPEN-BOOK MANAGEMENT Bettina Hein, founder of video technology company Pixability, learned a lesson about secrecy.⁶⁷ In her first company, she lost the trust of her employees when they thought the business was doing well and then she announced major layoffs. "It was so painful that from that day onward we opened all our books to everyone."⁶⁸ When she started Pixability, she adopted open-book management from day one.

In **open-book management**, senior executives share key financial information with all employees so they will be motivated to make better decisions about their work and better able to understand the implications of what they do, how they do it, and the ultimate impact on the bottom line.⁶⁹ Ideally, employees begin to think like owners rather than hired hands.

open-book management
A motivational approach in which an organization's financial statements are shared with all employees

The goal of open-book management is to get employees to think like an owner by seeing the impact their decisions have on financial results. Many employees don't initially have the knowledge or background to understand the financials, so they have to be taught how to read and understand the organization's financial statements. Once employees have this knowledge, however, managers can regularly share the numbers with them. By sharing this information, employees begin to see the link between their efforts, level of performance, and operational results.

EMPLOYEE RECOGNITION PROGRAMS Laura makes \$12 an hour working at her fast-food job in Pensacola, Florida, and the job isn't very challenging or interesting. Yet Laura talks enthusiastically about the job, her boss, and the company that employs her. "What I like is the fact that Guy [her supervisor] appreciates the effort I make. He compliments me regularly in front of the other people on my shift, and I've been chosen Employee of the Month twice in the past six months. Did you see my picture on that plaque on the wall?" Organizations are increasingly realizing what Laura knows: Recognition programs can increase motivation.

An **employee recognition program** is a plan to encourage specific behaviors by formally appreciating specific employee contributions.⁷⁰ These programs range from a spontaneous and private thank-you to widely publicized formal programs in which the procedures for attaining recognition are clearly identified. Everett Clinic in Washington State, for instance, uses a combination of local and centralized initiatives to encourage managers to recognize employees.⁷¹ Employees and managers give "Hero Grams" and "Caught in the Act" cards to colleagues for exceptional accomplishments at work. Part of the incentive is simply to receive recognition, but there are also drawings for prizes based on the number of cards a person receives.

An obvious advantage of recognition programs is that they are inexpensive. Praise is free! With or without financial rewards, they can be highly motivating to employees. Employee recognition programs help create a positive relationship between employees and the managers that provides the recognition and also creates a more positive attachment to the organization.⁷²

PAY-FOR-PERFORMANCE **Pay-for-performance programs** are compensation plans that vary with some measure of individual or organizational performance.⁷³ These programs have long been used to compensate salespeople and executives, but the scope of variable-pay jobs has broadened. Examples of pay-for-performance programs include piece-rate pay plans, merit-based pay, profit sharing, and lump-sum bonuses. What differentiates these forms of pay from more traditional compensation plans is that instead of paying a person for *time* on the job, pay is adjusted to reflect some performance measure. These performance measures might include such things as individual productivity, team or work group productivity, departmental productivity, or the overall organization's profit performance.

Pay-for-performance is probably most compatible with expectancy theory. Individuals should perceive a strong relationship between their performance and the rewards they receive for motivation to be maximized. If rewards are allocated only on nonperformance factors—such as seniority, job title, or across-the-board pay raises—then employees are likely to reduce their efforts. From a motivation perspective, making some or all of an employee's pay conditional on some performance measure focuses their attention and effort toward that measure, then reinforces the continuation of the effort with a reward. If the employee's team's or organization's performance declines, so does the reward. Thus, there's an incentive to keep efforts and motivation strong. The key, in expectancy terms, is ensuring a strong performance–reward relationship so employees feel that their greater performance will yield them rewards that they value.⁷⁴

employee recognition program
a plan to encourage specific behaviors by formally appreciating specific employee contributions

pay-for-performance programs
Compensation plans that vary with some measure of individual or organizational performance



NASA astronaut Kjell Lindgren shakes hands with a Kennedy Space Center employee during an employee appreciation event in Florida. Lindgren, along with crewmates Bob Hines and Jessica Watkins, visited Kennedy to thank employees for supporting NASA's SpaceX Crew-4 launch.

Source: NASA/piemags/Alamy Stock Photo

But do these programs work? For the most part, the answer is yes. Merit and bonus pay, in particular, have been shown to be positively associated with future employee performance.⁷⁵ However, some research suggests that pay-for-performance is not right for all jobs or companies. For example, a pay-for-performance program focused on very specific outcomes, such as sales, may lead employees to focus on only tasks that lead to the pay target, and not promote desirable behaviors such as teamwork or collaboration.⁷⁶

Chapter 14

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO14.1 DEFINE motivation.

Motivation is the process by which a person's efforts are energized, directed, and sustained toward attaining a goal.

The *energy* element is a measure of intensity, drive, or vigor. The high level of effort needs to be *directed* in ways that help the organization achieve its goals. Employees must *persist* in putting forth effort to achieve those goals.

LO14.2 COMPARE and contrast early theories of motivation.

In Maslow's hierarchy, individuals move up the hierarchy of five needs (physiological, safety, social, esteem, and self-actualization) as needs are substantially satisfied. A need that's substantially satisfied no longer motivates.

A Theory X manager believes people don't like to work or won't seek out responsibility, so they have to be threatened and coerced to work. A Theory Y manager assumes people like to work and seek out responsibility, so they will exercise self-motivation and self-direction.

Herzberg's Two-Factor Theory proposed that intrinsic factors associated with job satisfaction were what motivated people. Extrinsic factors associated with job dissatisfaction simply kept people from being dissatisfied. Managers who eliminate factors that create job dissatisfaction do not necessarily motivate employees—they may just keep people from being dissatisfied.

Three-needs theory proposed three acquired needs that are major motives in work: need for achievement, need for affiliation, and need for power.

LO14.3 COMPARE and contrast contemporary theories of motivation.

Goal-setting theory says that specific goals increase performance, and difficult goals, when accepted, result in higher performance than easy goals. Important points in goal-setting theory include intention to work toward a goal as a major source of job motivation; specific hard goals that produce higher levels of output than generalized goals; participation in setting goals as often (but not always) preferable to assigning goals; feedback that guides and motivates behavior, especially self-generated feedback; and contingencies that affect goal setting—goal commitment, self-efficacy, and national culture. Self-efficacy refers to an individual's belief that they are capable of performing a task. People with high self-efficacy often will maintain effort throughout a task and achieve higher performance as a result.

Reinforcement theory says that behavior is a function of its consequences. To motivate, use positive reinforcers to reinforce desirable behaviors. Ignore undesirable behavior rather than punishing it.

Job enlargement involves horizontally expanding job scope by adding more tasks or increasing how many times the tasks are done. Job enrichment vertically expands

job depth by giving employees more control over their work. The job characteristics model says five core job dimensions (skill variety, task identity, task significance, autonomy, and feedback) are used to design motivating jobs. Another job design approach proposed looking at relational aspects and proactive aspects of jobs.

Equity theory focuses on how employees compare their inputs–outcomes ratios to relevant others’ ratios. A perception of inequity will cause an employee to do something about it. Distributive justice has a greater influence on employee satisfaction than procedural justice, whereas procedural justice affects an employee’s organizational commitment, trust in their boss, and intention to quit.

Expectancy theory says an individual tends to act in a certain way based on the expectation that the act will be followed by a desired outcome. Expectancy is the effort–performance linkage (will exerting a given amount of effort lead to a certain level of performance?); instrumentality is the performance–reward linkage (achieving at a certain level of performance will get me a specific reward); and valence is the attractiveness of the reward (is it the reward that I want?).

LO14.4 DISCUSS current issues in motivation.

Managers must cope with four current motivation issues: technology, managing cross-cultural challenges, motivating unique groups of workers, and designing appropriate rewards programs.

Technology can negatively affect motivation through speeding up the pace of work, but it also can positively impact motivation through helping to create more meaningful work. Technology also allows for remote work, which can impact motivation.

Most motivational theories were developed in the United States and have a North American bias. Some theories (Maslow’s needs hierarchy, achievement need, and equity theory) don’t work well for other cultures. However, the desire for interesting work seems important to all workers, and Herzberg’s motivator (intrinsic) factors may be universal.

Managers face challenges in motivating unique groups of workers. A diverse workforce is looking for flexibility. Professionals want job challenge and are motivated by the work itself. Designing professional jobs so that workers experience flow (total absorption in one’s work) often results in high levels of performance. Contingent workers want the opportunity to become permanent or to receive skills training. Managers need to meet the needs of remote workers.

Open-book management is when financial statements (the books) are shared with employees who have been taught what they mean. Employee recognition programs consist of personal attention, approval, and appreciation for a job well done. Pay-for-performance programs are variable compensation plans that pay employees on the basis of some performance measure.

REVIEW AND DISCUSSION QUESTIONS

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| <p>14-1. Do high levels of effort always lead to better job performance? Explain why or why not, using the three elements of motivation.</p> <p>14-2. How do the needs theories of motivation differ from Herzberg’s and McGregor’s early theories of motivation?</p> <p>14-3. How can managers motivate employees using goal-setting, reinforcement, and equity theories together?</p> <p>14-4. What are the different job design approaches to motivation?</p> | <p>14-5. Explain the three critical linkages in expectancy theory and their role in employee motivation.</p> <p>14-6. What issues do managers face in motivating today’s workforce?</p> <p>14-7. Describe open-book management, employee recognition, and pay-for-performance programs.</p> <p>14-8. Can employee recognition and pay-for-performance programs work too well? Discuss.</p> |
|--|--|

PREPARING FOR: My Career

ETHICS DILEMMA

Advocates of open-book management point to the advantages of getting employees to think like owners and to be motivated to make better decisions about how they do their work once they see how their choices impact financial results. However, is there such a thing as “too much openness”? At some companies, employees have access to company financial details, staff performance reviews, and individual pay information.⁷⁷ Some US states and cities have passed laws requiring pay information to be more transparent. For example, New York City’s pay transparency law requires employers

to post the minimum and maximum salary on all job postings.⁷⁸

- 14-9. What are the pros and cons of the open-book management approach at a government agency versus a privately owned business?
- 14-10. What potential ethical issues do you see here? How might managers address these ethical issues?
- 14-11. Does transparency mean managers will be prepared to answer questions from employees on what they need to do to earn more? Or if there are age, race, or gender pay disparities?

SKILLS EXERCISE Developing Your Motivating Employees Skill

About the Skill

Because a simple, all-encompassing set of motivational guidelines is unavailable, the following suggestions draw on the essence of what we know about motivating employees.

Steps in Practicing the Skill

- **Recognize individual differences.** Almost every contemporary motivation theory recognizes that employees are not homogeneous. They have different needs. They also differ in terms of attitudes, personality, and other important individual variables.
- **Match people to jobs.** A great deal of evidence shows the motivational benefits of carefully matching people to jobs. People lacking the skills necessary to perform the job successfully will be at a disadvantage.
- **Use goals.** You should ensure employees have challenging but specific goals along with feedback on how well they are doing in pursuit of those goals. In many cases, these goals should be participatively set.
- **Ensure goals are perceived as attainable.** Regardless of whether goals are attainable, employees who see them as unattainable will reduce their effort. Be sure, therefore, that employees feel confident that increased efforts can lead to achieving performance goals.
- **Individualize rewards.** Because employees have different needs, what acts as a reinforcer for one may not do so for another. Use your knowledge of employee differences to individualize the rewards over which you have control. Some obvious rewards you can allocate include recognition, pay, promotions, autonomy, and the opportunity to participate in goal setting and decision making.
- **Link rewards to performance.** You need to make rewards contingent on performance. Rewarding factors other than performance will only reinforce the importance of those other factors. Key rewards such as pay increases and promotions should be given for the attainment of employees’ specific goals.
- **Check the system for equity.** Ensure that opportunities and rewards or outcomes are equal to the inputs given, without consideration of age, ethnicity, gender, race, or religion. Employees should also be provided enough information so they, too, can view a situation as equitable when employees who give similar inputs receive similar outcomes. On a simplistic level, only experience, ability, effort, and other obvious inputs should explain differences in pay, responsibility, and other obvious outcomes.
- **Do not ignore money.** It is easy to get so caught up in setting goals, creating interesting jobs, and providing opportunities for participation that you forget that money is a major reason why most people work. Thus, the allocation of performance-based wage increases, piece-work bonuses, employee stock ownership plans, and other pay incentives are important in determining employee motivation.

Practicing the Skill

Create a motivational plan for employees with the job titles listed below. Review job postings on LinkedIn or Indeed, or just brainstorm to get ideas on the kinds of rewards or incentives appropriate for each group.

- a. Restaurant manager
- b. Marketing executive
- c. Business analyst
- d. Stockbroker

WORKING TOGETHER Team Exercise

What motivates you to work hard? Consider a job you have held in the past or a student organization you have been involved in. What about the job or work with the student organization was motivating? Or, if you were not motivated, what was missing? According to expectancy theory,

what could management or the organization's leaders have done differently? Get into groups of three or four students and share your reflections. Identify some common themes that appeared across the group and be prepared to share your group's ideas with the class.

MY TURN TO BE A MANAGER

- Goal setting is a good habit to get into. Set specific and challenging goals for ways to make your résumé stand out more within the next two months. Put these goals in an email and send them to two people who know you well. Ask for feedback on the goals you have set for yourself to determine if your goals are challenging enough. Use their input to adjust your goals before you begin working on accomplishing these goals. Track your progress toward achieving the goals. Reflect on the benefits of goal setting and use this knowledge to revise your process before you begin again.
- Describe a task you recently completed well while also exerting a high level of effort. Explain your behavior using one of the contemporary motivation approaches described in this chapter.
- Pay attention to times when you are highly motivated and times when you are not. Write down a description of these. What internal and external factors account for the difference in your level of motivation?
- Interview three managers about how they motivate their employees. What have they found that works the best? Write up your findings in a report and be prepared to present them in class.
- Using the job characteristics model, redesign two of the following jobs in a way that makes them more motivating: retail store sales associate, Uber driver, computer programmer, accountant, financial planner, and server at a restaurant. In a written report, describe a specific action you would take for each of the five core job dimensions for each job to make it more intrinsically motivating.
- Think seriously about what you want from your job after graduation. Using the list of job factors in the “What Motivates You?” *It's Your Career* feature near the beginning of the chapter, list what is important to you. Think about how and where you will discover a job to help you get those things.
- Find three examples of employee recognition programs from organizations you are familiar with, with brands you respect, or from articles you find. Write a report describing your examples and evaluating your thoughts on the various approaches.
- Research pay-for-performance programs. Do these programs seem to be effective at motivating employees? Evaluate if you would want to receive your compensation from such a program. Do you think any of your friends would be interested in these programs? Why or why not? Is there a type of person motivated by pay-for-performance programs?
- Research “best practices in motivating and retaining employees in the workplace” online. Post some thoughts describing what you feel are the best recommendations to social media. Present your findings and feedback from your post to a small group of friends or the class.
- In contrast to a generation ago, the typical employee today is more likely to be a professional with a college degree or a service worker than a blue-collar factory worker. What unique concerns should managers be aware of when trying to motivate a team of professionals or service workers that might not apply to factory workers? Specifically, discuss with a group of students how the current issues in motivation apply to these workers.
- Go to Statista at <https://www.statista.com>. Research motivation, student motivation, and employee motivation. What data is interesting, surprising, and informative?
- One incentive commonly offered to key employees and top-tier executives in publicly traded companies is an incentive stock option. Essentially, these employees can buy company stock at a discounted price and sell their stock after a two-year vesting period. Incentive stock options are a form of compensation offered on top of the employees' salaries or as a reward instead of a traditional salary raise. Many companies believe these stock options, like other benefits, attract and retain highly skilled workers when the company cannot currently afford to pay competitive base salaries. Do some research and evaluate the advantages and disadvantages of this incentive.

CASE APPLICATION 1

Motivating Employees Who Love the Outdoors at REI

REI, the outdoor retailer, has become a regular on *Fortune's* “100 Best Companies to Work For” list, appearing over 20 times.⁷⁹ REI has also won other notable best-place-to-work awards, like Glassdoor's Employees' Choice Award.⁸⁰ Both awards are based on employees' opinions about what it is like working for their companies. One employee's Glassdoor review described how at REI, there are “fellow co-workers who really, really love their jobs and love working there, and want you to love working there too.”⁸¹

REI designed some of its benefits to appeal to employees with outdoor interests. For instance, there are “Yay Days”—two paid days each year for employees to participate in a favorite outdoor activity or help maintain outdoor spaces. “People literally use [Yay Days] to go have fun in the outdoors. When you request your Yay Day, you tell your manager what you're doing with it,” explained Raquel Karls, senior vice president of Human Resources at REI.⁸² The company also started the #OptOutside initiative several years ago, closing all stores on Black Friday to encourage employees and customers to enjoy the outdoors rather than work or shop.

There are other benefits that are not outdoor-oriented but also enhance the experience of being an REI employee. For example, REI offers up to six weeks of paid parental leave. There are annual incentive plans, company contributions to employee retirement plans, and tuition reimbursement offerings. All employees get a 50 percent discount on REI brands. Employees working at least 20 hours per week are eligible for health insurance. And once an employee has worked at REI for 15 years, they receive four weeks of paid sabbatical in addition to their standard vacation time.⁸³

DISCUSSION QUESTIONS

- 14-12. In what ways does the work environment at REI help satisfy one of the needs in the three-needs theory?
- 14-13. How could expectancy theory explain the motivation employees draw from the outdoor-oriented benefits offered at REI?
- 14-14. What else could REI do to improve how it motivates its employees?
- 14-15. When hiring employees not working in REI's stores, like human resource managers, computer programmers, warehouse workers, and the like, should a preference be given to more outdoor-oriented candidates?

CASE APPLICATION 2

Motivating Under Constraints at Televerde

Most of the employees at Televerde, a technology-focused business-to-business marketing firm, wear orange to work every day. It is not a company-mandated uniform or an unusual approach to fashion. It is what they have to wear because they are actually incarcerated at a women's prison. These Televerde employees work by phone, securing sales leads for large technology companies. Inmates who have worked at Televerde are much less likely to return to prison upon being released. (Their recidivism rate is 80 percent lower than the national average.) And they have helped Televerde become highly successful, with a compound annual growth rate of 8.5 percent over the last decade.⁸⁴

Televerde's employees are paid more than most prison employees, but prison regulations mandate that they cannot be paid more than the federal minimum wage. Prisons also do not allow employees to earn raises, bonuses, or promotions. That means

that motivational techniques used at Televerde cannot rely entirely on money. So, how are inmates motivated at Televerde?

New employees are told that “as soon as you come through that door, you are a coworker.” Employees are called by name (not by their prisoner ID number). Newcomers are told of the professional development opportunities available to them, including a professional book club, eligibility for scholarships to pay for higher education, and a six-month series of training workshops in the year before they are released to help with the transition. They are also eligible to work at Televerde’s corporate office upon release.

There are numerous milestones that employees must clear as part of their training, including presenting a business plan, making practice phone calls with mentors, and passing exams. Performance goals and employee progress toward those goals are written on a whiteboard for all to see. The purpose of the whiteboard is to allow employees to measure their performance against an objective standard. Televerde discourages employees from comparing their performance against each other, which would create competition and a lack of cohesion.

Employees receive frequent one-on-one feedback from trainers, and recognition is provided for deserved accomplishments. Any time an employee secures a sales lead, she rings a bell, signaling both employees and managers to applaud. Employees earn award certificates for excellent performance, and winners tend to display these certificates in their workspaces. As one employee put it, it is through these expressions of earned respect “that we gain confidence. And the more confident you become inside, the more confident you sound on the phone. . . . So of course that brings more success and then more confidence, and it feeds on itself in a positive snowball effect.” Twenty-five percent of prison-based employees continue for the company after they are released. But that is not the only place where they might work. As former Televerde CEO Jim Hooker said, “These women can walk into any job at market prices.”⁸⁵

DISCUSSION QUESTIONS

- 14-16. Using examples, describe the assumptions about human nature, Theory X or Theory Y, that best apply to managers at Televerde.
- 14-17. Analyze this case using the integrative model in Exhibit 14-9.
- 14-18. How might self-efficacy increase for inmates who work at Televerde?
- 14-19. In what ways could the relational perspective of work design be applied to Televerde’s approach? Are there other aspects of this perspective that Televerde might consider adding to what it already does?
- 14-20. What would be an example of how Televerde might implement a high-involvement work practice to complement what it currently does?

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Chapter 15

Managing Groups and Teams

Learning Objectives

15.1 *Define groups and the stages of group development.*

15.2 *Describe the major components that determine group performance and satisfaction.*

15.3 *Define teams and best practices influencing team performance.*

German-based software company SAP introduced #FocusFriday to guarantee workers undisturbed working time with no meetings. Employees are encouraged to avoid scheduling meetings on Fridays to allow themselves and the teams they work with focused time each week to catch up on action items on their to-do lists or spend time on personal professional development. The #FocusFriday initiative is part of a company-wide effort to make meetings more meaningful. With an increase in remote work, managers at SAP are faced with a challenge encouraging team interaction; as a result, they often hold more virtual meetings to have face time with their teams. This increase in meetings makes it difficult for workers to work productively, and this initiative hopes to address this concern.¹

Why do organizations need teams? What do these teams look like? How can managers build effective teams? We will look at answers to these questions throughout this chapter. Before we can understand teams, however, we first need to understand some basics about groups and group behavior.

Management Myth: All team conflicts are dysfunctional.

Management Reality: Team conflict often leads to an improvement in team performance.

GROUPS and Group Development

LO15.1 Define groups and the stages of group development.

Firefighters live or die on the effectiveness of their teammates. They may use different tactics and standard procedures, but fire departments all over the world depend on one common denominator: teamwork. If any member of the team fails at their task, lives can be lost.

Although most groups in organizations don't deal with life-or-death situations, and managers don't literally put out fires, managers do rely on work groups to accomplish objectives. But what do we mean by the term "group"?

What Is a Group?

group

Two or more interacting and interdependent individuals who come together to achieve specific goals

A **group** is defined as two or more interacting and interdependent individuals who come together to achieve specific goals. Groups can be either formal or informal. *Formal groups* are work groups defined by the organization's structure and have designated work assignments and specific tasks directed at accomplishing organizational goals. **Exhibit 15-1** provides some examples. *Informal groups* are social groups. These groups occur naturally in the workplace and tend to form around friendships and common interests. For example, five employees from different departments who regularly eat lunch together are an informal group.

Stages of Group Development

Research shows that groups develop through five stages.² As shown in **Exhibit 15-2**, these five stages are *forming*, *storming*, *norming*, *performing*, and *adjourning*.

forming stage

The first stage of group development in which people join the group and then define the group's purpose, structure, and leadership

The **forming stage** has two phases. The first occurs as people join the group. In a formal group, people join because of some work assignment. Once they've joined, the second phase begins: defining the group's purpose, structure, and leadership. This phase involves a great deal of uncertainty as members "test the waters" to determine what types of behavior are acceptable. This stage is complete when members begin to think of themselves as part of a group.

storming stage

The second stage of group development, characterized by intragroup conflict

The **storming stage** is appropriately named because of the intragroup conflict. There's conflict over who will control the group and what the group needs to be doing. During this stage, a relatively clear hierarchy of leadership and agreement on the group's direction emerge.

norming stage

The third stage of group development, characterized by close relationships and cohesiveness

The **norming stage** is one in which close relationships develop and the group becomes cohesive. There's now a strong sense of group identity and camaraderie. This stage is complete when the group structure solidifies and the group has assimilated a common set of expectations (or norms) regarding member behavior.

performing stage

The fourth stage of group development, when the group is fully functional and works on the group's task

The fourth stage is the **performing stage**. The group structure is in place and accepted by group members. Their energies have moved from getting to know and understand each other to working on the group's task. This is the last stage of development for permanent work groups. However, for temporary groups—project teams, task forces, or similar groups that have a limited task to do—the final stage is **adjourning**. In this stage, the group prepares to disband. The group focuses its attention on wrapping up activities instead of task performance. Group members react in different ways. Some are upbeat and thrilled about the group's accomplishments. Others may be sad over the loss of camaraderie and friendships.

adjourning

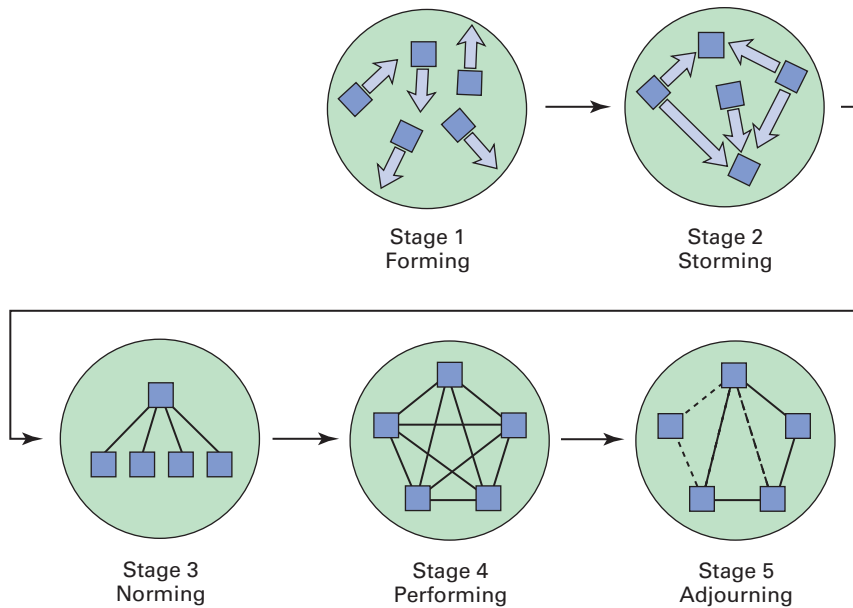
The final stage of group development for temporary groups, during which group members are concerned with wrapping up activities rather than task performance

Many of you have probably experienced these stages as you've worked on a group class project. Group members are selected or assigned and then meet for the first time.

Exhibit 15-1

Examples of Formal Work Groups

- **Command groups:** Groups determined by the organizational chart and composed of individuals who report directly to a given manager.
- **Task groups:** Groups composed of individuals brought together to complete a specific job task; their existence is often temporary because when the task is completed, the group disbands.
- **Cross-functional teams:** Groups that bring together the knowledge and skills of individuals from various work areas or groups whose members have been trained to do each other's jobs.
- **Self-managed teams:** Groups that are essentially independent and that, in addition to their own tasks, take on traditional managerial responsibilities such as hiring, planning and scheduling, and evaluating performance.

Exhibit 15-2
Stages of Group Development

There's a "feeling out" period to assess what the group is going to do and how it's going to be done. What usually follows is a battle for control: Who's going to be in charge? Once this issue is resolved and a "hierarchy" agreed upon, the group identifies specific work that needs to be done, who's going to do each part, and dates by which the assigned work needs to be completed. General expectations are established. These decisions form the foundation for what you hope will be a coordinated group effort culminating in a successfully completed project. Once the project is complete and turned in, the group breaks up. Of course, some groups don't get much beyond the forming or storming stages. These groups may have serious interpersonal conflicts, turn in disappointing work, and get lower grades.

Does a group become more effective as it progresses through the first four stages? This may be generally true, but what makes a group effective is a complex issue. Under some conditions, high levels of conflict can be conducive to high levels of group performance. In some situations, groups in the storming stage outperform those in the norming or performing stages. Also, groups don't always proceed sequentially from one stage to the next. Sometimes, groups are storming and performing at the same time. Groups even occasionally regress to previous stages; therefore, don't assume that all groups precisely follow this process or that performing is always the most preferable stage. Think of this model as a general framework that underscores the fact that groups are dynamic entities, and managers need to know the stage a group is in so they can better understand the problems and issues most likely to surface.



As a permanent work group in the performing stage, the kitchen staff at HILTL, a vegetarian restaurant in Zurich, Switzerland, prepare a dish. Everyone on the team has a strong sense of group identity and focuses their energies on creating a delectable dining experience for their guests.

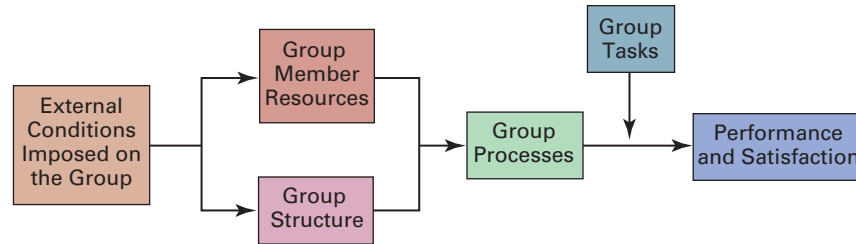
Source: CNMages/Alamy Stock Photo

WORK Group Performance and Satisfaction

LO15.2 Describe the major components that determine group performance and satisfaction.

Why *are* some groups more successful than others? Why do some groups achieve high levels of performance and high levels of member satisfaction and others do not? **Exhibit 15-3** presents the major factors that determine group performance and satisfaction.³ Let's look at each.

Exhibit 15-3 Group Performance/Satisfaction Model



External Conditions Imposed on the Group

Work groups are affected by the external conditions imposed on them, such as the organization's strategy, authority relationships, formal rules and regulations, availability of resources, employee selection criteria, the performance evaluation system and culture, and the general physical layout of the group's workspace or the virtual resources for remote teams. For instance, a quality-improvement group at Boeing has to live with Boeing's corporate hiring criteria, budget constraints, company policies, and employee evaluation system.

Group Member Resources

A group's performance potential depends to a large extent on the resources each individual brings to the group. These resources include knowledge, abilities, skills, and personality traits, and they determine what members can do and how effectively they will perform in a group. Interpersonal skills—especially conflict management and resolution, collaborative problem solving, and communication—consistently emerge as important for high performance by work groups.⁴

Personality traits also affect group performance because they strongly influence how the individual will interact with other group members. Research has shown that traits viewed as positive in US culture (such as sociability, self-reliance, and independence) tend to be positively related to group productivity and morale. In contrast, negative personality characteristics, such as the Dark Triad discussed in **Chapter 13**, as well as authoritarianism, dominance, and unconventionality, tend to be negatively related to group productivity and morale.⁵ Although there are some concerns with the validity of personality assessments, some managers use them to help improve group functioning. Understanding others' personalities or tendencies can help the group find more effective approaches to work together.⁶

Group Structure

Work groups aren't unorganized crowds. They have an internal structure that shapes members' behavior and influences group performance. The structure defines roles, norms, conformity, status systems, group size, group cohesiveness, and leadership. Let's look at the first six of these aspects of group structure. We'll discuss leadership in **Chapter 16**.

ROLES We introduced the concept of roles in **Chapter 1** when we discussed what managers do. (Remember Mintzberg's managerial roles?) Of course, managers aren't the only individuals in an organization who play a variety of roles. The concept of roles applies to all employees and to their lives outside an organization as well. (Think of the various roles you play: student, friend, sibling, employee, church member, spouse or significant other, etc.)

A **role** refers to behavior patterns expected of someone occupying a given position in a social unit.⁷ In a group, individuals are expected to do certain things because of their position (role) in the group. These roles are generally oriented toward either getting work done or keeping up group member morale.⁸ Think about groups you've been in and the roles you played in those groups. Were you continually trying to keep the group focused on getting its work done? If so, you were performing a task accomplishment role. Or were you more concerned that group members had the opportunity to offer ideas and that they were satisfied with the experience? If so, you were

role
Behavior patterns expected of someone occupying a given position in a social unit

performing a group member satisfaction role. Both roles are important to the group's ability to function effectively and efficiently.

NORMS All groups have **norms**—standards or expectations that are accepted and shared by a group's members.⁹ Norms dictate things such as work output levels, absenteeism, promptness, and the amount of socializing on the job.

For example, most military branches have well-known norms. Norms of behavior in the US Army include an expectation to hand salute superiors when dismissed, stand at attention when talking to an officer, and not appear in a uniform when under the influence of alcohol.¹⁰

Although every group has its own unique set of norms, common organizational norms focus on effort and performance, dress, and loyalty. The most widespread norms are those related to work effort and performance. Work groups typically provide their members with explicit cues on how hard to work, level of output expected, when to look busy, when it's acceptable to goof off, and the like. These norms are powerful influences on an individual employee's performance. They're so powerful that you can't predict someone's performance based solely on their ability and personal motivation; that is, the pressure of a group's expectations can override a member's skill and drive. Dress norms frequently dictate what's acceptable to wear to work. If the norm is more formal dress, anyone who dresses casually may face subtle pressure to conform. Finally, loyalty norms can influence whether individuals work late, work on weekends, or move to locations they might not prefer to live.



Group norms such as dress and meeting structure influence group cohesiveness and performance. Many organizations today encourage group norms that are more informal.

Source: Sergei Tolmachev/123RF

norms

Standards or expectations that are accepted and shared by a group's members

CONFORMITY Because individuals want to be accepted by groups to which they belong, they're susceptible to pressures to conform.¹¹ Early experiments done by Solomon Asch demonstrated the impact conformity has on an individual's judgment and attitudes.¹² In these experiments, groups of seven or eight people were asked to compare two cards held up by the experimenter. One card had three lines of different lengths and the other had one line that was equal in length to one of the three lines on the other card (see **Exhibit 15-4**). Each group member was to announce aloud which of the three lines matched the single line. Asch wanted to see what would happen if members began to give incorrect answers. Would pressures to conform cause individuals to give wrong answers just to be consistent with the others? The experiment was "fixed" so that all but one of the members (the unsuspecting subject) were told ahead

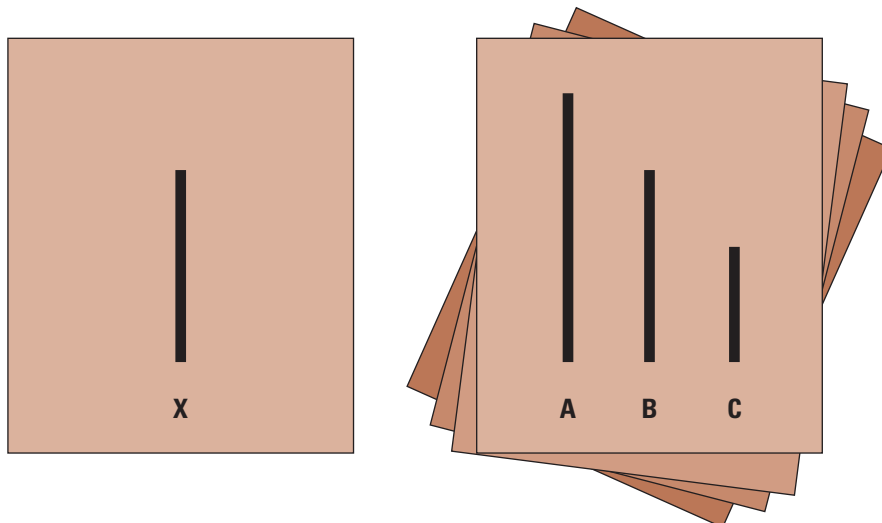


Exhibit 15-4
Examples of Asch's Cards

of time to start giving obviously incorrect answers after one or two rounds. Over many experiments and trials, the unsuspecting subject conformed over a third of the time.

Are these conclusions still valid? For the most part, yes.¹³ Managers shouldn't ignore conformity because it can be a powerful force in groups. Group members often want to be seen as one of the group and avoid being visibly different. We find it more pleasant to agree than to be disruptive, even if being disruptive may improve the group's effectiveness. So we conform. But conformity can go too far, especially when an individual's opinion differs significantly from that of others in the group. In such a case, the group often exerts intense pressure on the individual to align their opinion to conform to others' opinions, a phenomenon known as **groupthink**. Groupthink seems to occur when group members hold a positive group image they want to protect and when the group perceives a collective threat to this positive image.¹⁴ Sometimes, groupthink can lead to catastrophic outcomes. For example, two Boeing plane crashes in 2018 and 2019 taking 346 lives are partially attributed to groupthink. Investigations of the crashes found that test pilots had concerns, but the leadership team agreed to continue to move forward without exploring alternatives for possible concerns with the software system that caused the crashes.¹⁵

groupthink

When a group exerts extensive pressure on an individual to align their opinion with others' opinions

STATUS SYSTEMS Status systems are an important factor in understanding groups.¹⁶ **Status** is a prestige grading, position, or rank within a group. As far back as researchers have been able to trace groups, they have found status hierarchies. Status can be a significant motivator with behavioral consequences, especially when individuals see a disparity between what they perceive their status to be and what others perceive it to be.¹⁷

status

A prestige grading, position, or rank within a group

Status may be informally conferred by characteristics such as education, age, skill, or experience. Anything can have status value if others in the group evaluate it that way. Of course, just because status is informal doesn't mean it's unimportant or hard to determine who has it or who does not. Group members have no problem placing people into status categories and usually agree about who has high or low status.

Status is also formally conferred, and it's important for employees to believe the organization's formal status system is congruent—that is, the system shows consistency between the perceived ranking of an individual and the status symbols they are given by the organization. For instance, status incongruence would occur when a supervisor earns less than their subordinates, a desirable office is occupied by a person in a low-ranking position, or paid country club memberships are provided to division managers but not to vice presidents. Employees expect the “things” an individual receives to be congruent with their status. When they're not, employees can become stressed, may question the authority of their managers, or may not be motivated by job promotion opportunities.

GROUP SIZE Does the size of a group affect the group's overall performance? Yes, but the preferred size depends on what the group is attempting to accomplish.¹⁸

Research indicates, for instance, that small groups are faster than larger ones at completing tasks. Members of smaller groups also have a higher level of trust and commitment to the group.¹⁹ However, for groups engaged in problem solving, large groups consistently get better results than smaller ones. What do these findings mean in terms of specific numbers? Large groups—those with a dozen or more members—are good for getting diverse input. Smaller groups may be better for working together long-term.

social loafing

The tendency for individuals to expend less effort when working collectively than when working individually

One important research finding related to group size concerns **social loafing**, which is the tendency for an individual to expend less effort when working collectively than when working alone.²⁰ Social loafing may occur because people believe others in the group aren't doing their fair share or because the relationship between an individual's input and the group's output is not clear. These conditions can encourage individuals to become “free riders” and coast on the group's efforts.

The implications of social loafing are significant. When managers use groups, they need to identify individual efforts as well as the group's overall performance. If not, group productivity and individual satisfaction may decline.²¹

GROUP COHESIVENESS Cohesiveness is important because it has been found to be related to a group’s productivity. Groups in which there’s a lot of internal disagreement and lack of cooperation are less effective in completing their tasks than groups in which members generally agree, cooperate, and like each other. Research in this area has focused on **group cohesiveness**, or the degree to which members are attracted to a group and share the group’s goals.²²

Research has generally shown that highly cohesive groups are more effective than less-cohesive ones.²³ However, the relationship between cohesiveness and effectiveness is complex. A key moderating variable is the degree to which the group’s attitude aligns with its goals or with the goals of the organization.²⁴ (See **Exhibit 15-5**.) The more cohesive the group, the more its members will follow its goals. If the goals are desirable (for instance, high output, quality work, cooperation with individuals outside the group), a cohesive group is more productive than a less-cohesive group. But if cohesiveness is high and attitudes are unfavorable (such as that low-quality work is considered acceptable by group members), productivity decreases. If cohesiveness is low but goals are supported, productivity increases, but not as much as when both cohesiveness and support are high. When cohesiveness is low and goals are not supported, productivity is not significantly affected.



Group cohesiveness is high for this operating room surgical team at a New York hospital as it performs spinal surgery. The success of surgical and operative procedures and patients’ pain control and safety requires individual expertise plus high levels of concentration, coordination, cooperation, agreement, and respect for each other among group members.

Source: David Grossman/Alamy Stock Photo

Group Processes

Next we look at the processes that go on within a work group. These processes are important to understanding work groups because they influence group performance and satisfaction positively or negatively. An example of a positive process factor is the synergy of four people on a marketing research team who are able to generate far more ideas as a group than the members could produce individually. However, the group also may have negative process factors such as social loafing, high levels of conflict, or poor communication. We’ll look at two important group processes: group decision making and conflict management.

GROUP DECISION MAKING It’s a rare organization that doesn’t use meetings, committees, task forces, review panels, study teams, or other similar groups to make decisions. Most workers spend the equivalent of two days a week either in meetings or responding to emails.²⁵ One study on CEOs found they spend nearly three-quarters of their time in meetings.²⁶ Undoubtedly, a large portion of that time is spent formulating problems, developing solutions, and determining how to implement the solutions. It’s possible for groups to be assigned any of the eight steps in the decision-making process we discussed in **Chapter 3**.

group cohesiveness

The degree to which group members are attracted to one another and share the group’s goals

		Cohesiveness	
		High	Low
Alignment of Group and Organizational Goals	High	Strong Increase in Productivity	Moderate Increase in Productivity
	Low	Decrease in Productivity	No Significant Effect on Productivity

Exhibit 15-5
Group Cohesiveness and Productivity

What advantages do group decisions have over individual decisions?²⁷ One is that groups generate more complete information and knowledge. They bring a diversity of experiences and perspectives to the decision-making process that an individual cannot. In addition, groups generate more diverse alternatives because they have a greater amount and diversity of information. Next, groups increase acceptance of a solution. Group members are reluctant to fight or undermine a decision they helped develop. Finally, groups increase legitimacy. Decisions made by groups may be perceived as more legitimate than decisions made by one person.

Group decisions also have their disadvantages. One is that groups almost always take more time to reach a solution than it would take an individual. Another is that a dominant and vocal minority can heavily influence the final decision. In addition, groupthink can undermine critical thinking in the group and harm the quality of the final decision. Finally, in a group, members share responsibility, but the responsibility of any single member is ambiguous.

Determining whether groups are effective at making decisions depends on the criteria used to assess effectiveness.²⁸ If accuracy, creativity, and degree of acceptance are important, then a group decision may work best. However, if speed and efficiency are important, then an individual decision may be the best. In addition, decision effectiveness is influenced by group size. Although a larger group provides more diverse representation, it also requires more coordination and time for members to contribute their ideas. Evidence indicates that groups of five, and to a lesser extent seven, are the most effective for making decisions.²⁹ Having an odd number in the group helps avoid decision deadlocks. Also, these groups are large enough for members to shift roles and withdraw from unfavorable positions but still small enough for quieter members to participate actively in discussions.

What techniques can managers use to help groups make more creative decisions? **Exhibit 15-6** describes three possibilities.

- conflict**
Perceived incompatible differences that result in interference or opposition
- traditional view of conflict**
The view that all conflict is bad and must be avoided
- human relations view of conflict**
The view that conflict is a natural and inevitable outcome in any group
- interactionist view of conflict**
The view that some conflict is necessary for a group to perform effectively

CONFLICT MANAGEMENT Another important group process is how a group manages conflict. As a group performs its assigned tasks, disagreements inevitably arise. **Conflict** is *perceived* incompatible differences resulting in some form of interference or opposition. Whether the differences are real is irrelevant, if people in a group perceive that differences exist, then there is conflict.

Three different views have evolved regarding conflict.³⁰ The **traditional view of conflict** argues that conflict must be avoided—that it indicates a problem within the group. Another view, the **human relations view of conflict**, argues that conflict is a natural and inevitable outcome in any group and need not be negative; it has potential to be a positive force in contributing to a group’s performance. The third and most recent view, the **interactionist view of conflict**, proposes not only that conflict can

Exhibit 15-6
Creative Group Decision Making

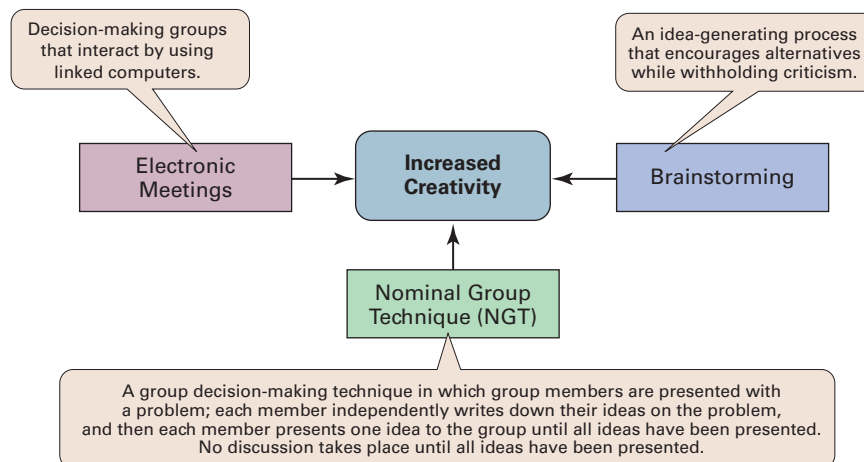
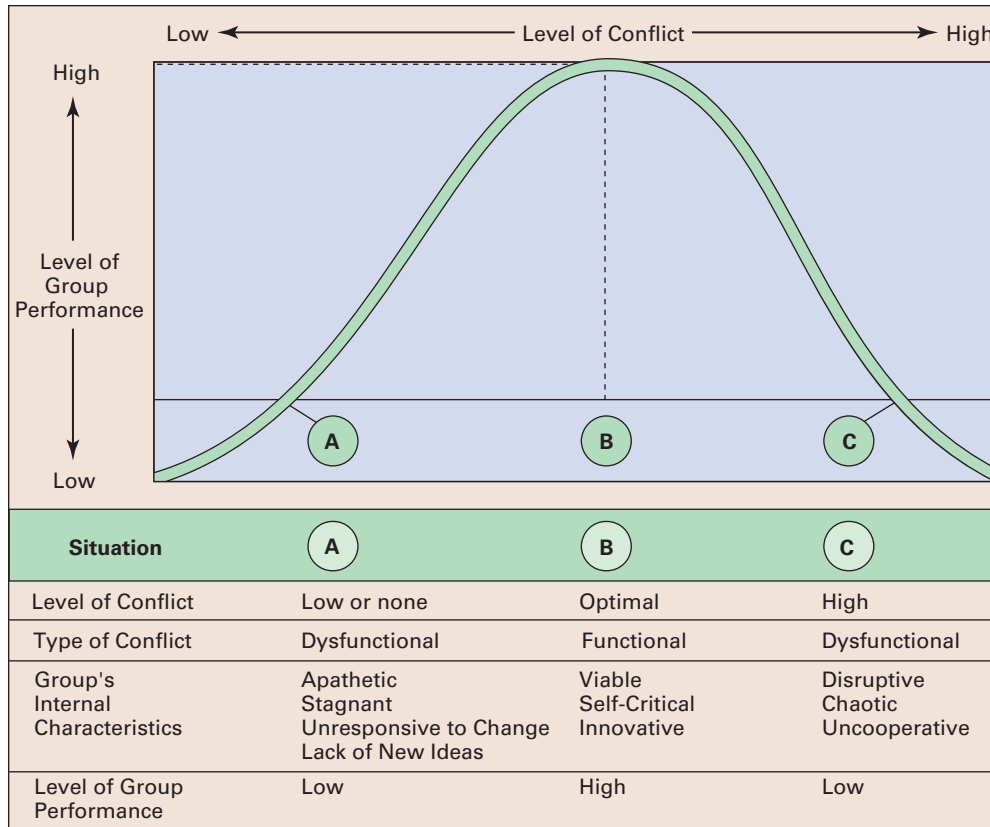


Exhibit 15-7
Conflict and Group Performance



be a positive force in a group but also that some conflict is *absolutely necessary* for a group to perform effectively.

The interactionist view doesn't suggest that all conflicts are good. Some conflicts—**functional conflicts**—are constructive and support the goals of the work group and improve its performance. Other conflicts—**dysfunctional conflicts**—are destructive and prevent a group from achieving its goals. **Exhibit 15-7** illustrates the challenges facing managers at different levels of conflict.

When is conflict functional, and when is it dysfunctional? Research indicates that you need to look at the *type* of conflict.³¹ **Task conflict** relates to the content and goals of the work. **Relationship conflict** focuses on interpersonal relationships. **Process conflict** refers to how the work gets done. Research shows that *relationship* conflicts are almost always dysfunctional because the interpersonal hostilities increase personality clashes and decrease mutual understanding, and the tasks don't get done. On the other hand, low levels of process conflict and low to moderate levels of task conflict are functional. For *process* conflict to be productive, it must be minimal. Otherwise, intense arguments over who should do what may become dysfunctional and can lead to uncertainty about task assignments, increase the time to complete tasks, and result in members working at cross-purposes. However, a low to moderate level of *task* conflict consistently has a positive effect on group performance because it stimulates discussion of ideas that help groups be more innovative.

There is some emerging research on the source of conflict and the impact on team performance. Is a team conflict caused by one person? An interaction between two people? A subgroup? Or is it an entire team conflict? Research suggests entire team conflict is rare, and that most conflict emerges at a more specific origin and grows. Conflict that initiates from one person or a dyad is more likely to be functional conflict. The important learning for managers is that conflict may have a different effect depending on the source, and managers may need to take a different approach to help teams move through conflict.³²

functional conflicts

Conflicts that support a group's goals and improve its performance

dysfunctional conflicts

Conflicts that prevent a group from achieving its goals

task conflict

Conflicts over content and goals of the work

relationship conflict

Conflict based on interpersonal relationships

process conflict

Conflict over how work gets done

Group Tasks

At Hackensack University Medical Center in New Jersey, daily reviews of each patient in each nursing unit are conducted in multidisciplinary rounds by groups of nurses, case managers, social workers, and an in-hospital doctor.

These groups perform tasks as varied as prescribing drugs and recommending a patient be discharged. Employee groups at Lockheed Martin's New York facility custom build complex products such as ground-based radar systems. And Accenture relies on groups to provide consulting services to clients. Each of these groups has a different type of task to accomplish.

As Exhibit 15-3 showed, the impact that group processes have on group performance and member satisfaction is moderated by the task the group is doing. More specifically, it's the *complexity* and *interdependence* of tasks that influence a group's effectiveness.³³

Tasks can be characterized as either simple or complex. Simple tasks are routine and standardized. Complex tasks tend to be novel or nonroutine. Evidence indicates that the more complex the task, the more a group benefits from group discussion about alternative work methods. For instance, a software development team may need to find and fix bugs in software coding. Group members don't need to discuss such alternatives for a simple task, but they can rely on standard operating procedures. However, the same team may need to work on developing new features for the software, which is a complex task that requires planning and collaboration. Additionally, a high degree of interdependence among the tasks that group members must perform means they'll need to interact more. Thus, effective communication and controlled conflict are most relevant to group performance when tasks are complex and interdependent.

TURNING Groups into Effective Teams

LO15.3 Define teams and best practices influencing team performance.

Team-based work is a core feature of today's organizations. And teams are likely to continue to be popular. Why? Research suggests that teams typically outperform individuals when the tasks being done require multiple skills, judgment, and experience.³⁴ Organizations are using team-based structures because they've found that teams are more flexible and responsive to changing events than traditional departments or other permanent work groups. Teams have the ability to quickly assemble, deploy, refocus, and disband. In this section, we'll discuss what a work team is, the different types of teams organizations might use, and how to develop and manage work teams.

The Difference Between Groups and Teams

Most of you are probably familiar with teams, especially if you've watched or participated in organized sports events. *Work teams* differ from *work groups* and have their own unique traits (see **Exhibit 15-8**). Work groups interact primarily to share information and to make decisions to help each member do their job more efficiently and effectively. There's no need or opportunity for work groups to engage in collective work that requires joint effort. On the other hand, **work teams** are groups whose members work intensely on a specific, common goal using their positive synergy, individual and mutual accountability, and complementary skills.

Types of Work Teams

Teams can do a variety of things. They can design products, provide services, negotiate deals, coordinate projects, offer advice, and make decisions.³⁵ For instance, at Rockwell Automation's facility in North Carolina, teams are used in work process optimization projects. At Sylvania, the New Ventures Group creates cool LED-based products. At Arkansas-based Acxiom Corporation, a team of human resource

work teams

Groups whose members work intensely on a specific, common goal using their positive synergy, individual and mutual accountability, and complementary skills

Work Teams	Work Groups
<ul style="list-style-type: none"> ■ Leadership role is shared ■ Accountable to self and team ■ Team creates specific purpose 	<ul style="list-style-type: none"> ■ One leader clearly in charge ■ Accountable only to self ■ Purpose is same as broader organizational purpose
<ul style="list-style-type: none"> ■ Work is done collectively ■ Meetings characterized by open-ended discussion and collaborative problem-solving ■ Performance is measured directly by evaluating collective work output ■ Work is decided upon and done together ■ Can be quickly assembled, deployed, refocused, and disbanded 	<ul style="list-style-type: none"> ■ Work is done individually ■ Meetings characterized by efficiency; no collaboration or open-ended discussion ■ Performance is measured indirectly according to its influence on others ■ Work is decided upon by group leader and delegated to individual group members

professionals planned and implemented a cultural change. And every summer weekend at any NASCAR race, you can see work teams in action during drivers' pit stops.³⁶ The four most common types of work teams are problem-solving teams, self-managed work teams, cross-functional teams, and virtual teams.

Problem-solving teams are teams from the same department or functional area involved in efforts to improve work activities or to solve specific problems. Members share ideas or offer suggestions on how work processes and methods can be improved. However, these teams are rarely given the authority to implement any of their suggested actions. For instance, a large Midwest university in the United States assembled a team of faculty members to study how to increase faculty retention. The team completed a variety of activities, including interviews with current and former faculty members. Then, members prepared a report for the university's provost in which they discussed their findings and recommendations. The decision of whether to implement any of the recommendations, however, rested with the provost and not the committee.

Although problem-solving teams are helpful, they don't go far enough in getting employees involved in work-related decisions and processes. This shortcoming led companies like GE, Google, Zappos, 3M, and Hewlett-Packard to introduce another type of team, a **self-managed work team**—a formal group of employees who operate without a manager and are responsible for a complete work process or segment. A self-managed team is responsible for getting the work done *and* for managing themselves, which usually includes scheduling work, assigning tasks to members, collective control over the pace of work, making operating decisions, and taking action on problems.

A recent survey found that 79 percent of *Fortune* 1000 companies have some form of self-managed teams, but they are not just for big companies. Pennsylvania-based New Pig, which makes workplace safety and spill containment products, has self-managed teams to help employees contribute to its mission of keeping the environment safe from gas, oil, and other pollutants. The teams at New Pig are created to help implement new and innovative ideas. Teams are formed based on the expertise needed for the innovation; they set objectives and a timeline and then do the work necessary to develop and implement the new idea.³⁷

The third type of team is the **cross-functional team**, which we introduced in **Chapter 12** and defined as a work team composed of individuals from various functional specialties. Many organizations use cross-functional teams. For example, General Motors uses cross-functional teams of sculptors, systems analysts, engineers, and creative designers to come up with innovative car designs. Software developer Gitlab uses cross-functional “working groups” to execute on company initiatives such

Exhibit 15-8 Groups Versus Teams

Sources: J. R. Katzenbach and D. K. Smith, “The Wisdom of Teams,” *Harvard Business Review*, July–August 2005, 161; and A. J. Fazzari and J. B. Mosca, “Partners in Perfection: Human Resources Facilitating Creation and Ongoing Implementation of Self-Managed Manufacturing Teams in a Small Medium Enterprise,” *Human Resource Development Quarterly* (Fall 2009): 353–376.



In race car competitions, effective teamwork by pit crews is critical for success.

Source: Derek Meijer/Alamy Stock Photo

problem-solving team

A team from the same department or functional area that's involved in efforts to improve work activities or to solve specific problems

self-managed work team

A work team that operates without a manager and is responsible for a complete work process or segment

cross-functional team

A work team composed of individuals from various functional specialties

virtual team

A work team that uses computer technology to link physically dispersed members and achieve a common goal

as developing new features or responding to customer concerns. The groups have a project sponsor and follow a standardized process for working together including using meeting templates.³⁸

The final type of team is the **virtual team**, a team that uses computer technology to link physically dispersed members and achieve a common goal. They collaborate online—using communication links such as virtual collaboration platforms, corporate social media, videoconferencing, and email—whether members are nearby or continents apart.³⁹ Virtual teams emerged many years ago as technology allowed companies with multiple locations to bring together experts from different locations to work together. However, during the COVID-19 pandemic, many companies quickly shifted to virtual teams, accelerating managers' need to learn how to effectively manage in the virtual environment. One study found that virtual teams that succeeded during the pandemic leveraged virtual collaboration platforms (discussed more later in this section), created new norms for virtual interactions, and showed care and compassion for one another.⁴⁰ Another study suggested that managers need to focus on the workflow—how virtual teams interact and contribute to shared documents and team resources. The performance of virtual teams generally improves as team members learn how to work together and best use technology to accomplish their goals.⁴¹

IT'S YOUR CAREER

Maximizing Outcomes Through Negotiation

A key to success in management and in your career is knowing how to negotiate effectively to maximize outcomes.

A young lawyer was recently asked, "So, what did you learn in three years of law school?" She replied, "Everything is negotiable!"

Lawyers aren't the only people who spend a good part of their time negotiating. Managers negotiate with employees, bosses, colleagues, suppliers, and sometimes even customers. And each of us, in our daily lives, will find ourselves having to negotiate with parents, spouses, children, friends, neighbors, and car salespersons—just to name the obvious.

We know a great deal about what effective negotiators do.⁴² Here are some brief suggestions to hone your skills at negotiating:

- **Do your homework.** Gather as much pertinent information as possible before your negotiation. Know yourself. How do you feel about negotiating? Is it something you're comfortable doing? Do you just want it to be over? Recognize your own negotiating strengths and weaknesses. But also, know who you're negotiating with before you begin. Try to assess their strengths and weaknesses. You can't make good decisions without understanding your, and the other person's, situation.

- **Assess goals.** In addition to gauging the personal/people aspects, take the time to assess your own goals and the other party's goals and interests. Know what you want, but also try to anticipate what the other person wants. And . . . maybe even go one step further by trying to anticipate what the other person thinks you want.
- **Begin with a positive proposal.** Concessions tend to be reciprocated, so start with something positive. Often, if you expect more, you get more. Your optimism may become a self-fulfilling prophecy.
- **Address problems, not personalities.** Concentrate on the negotiation issues, not on the personal characteristics of your opponent. Don't take the issues or the other person's behavior personally. Don't let the negotiation get sidetracked by personal issues that have nothing to do with what you're negotiating.
- **Pay attention to the interpersonal aspects of the negotiation process.** Negotiating is communicating. Trust is an important part of that communication. Work at building trust by telling the truth, being trustworthy, and honoring your commitments. Also, listen with your ears and your eyes. Pay attention to important nonverbal messages, facial expressions, and voice inflections. Listen—really listen—to what the other person is saying verbally and nonverbally.
- **Pay little attention to initial offers.** Initial offers tend to be extreme and idealistic. Treat them as such. Negotiating is a process, not a one-and-done interaction.
- **Emphasize win-win solutions.** Frame options in terms of your opponent's interests and look for solutions that can allow both you and the person you're negotiating with to declare a victory.

Creating Effective Work Teams

Teams don't always achieve high levels of performance. However, research on teams provides insights into the characteristics typically associated with effective teams.⁴³ We've summarized these characteristics and listed them in **Exhibit 15-9**.

CLEAR GOALS High-performance teams have a clear understanding of the goal to be achieved. Members are committed to the team's goals, know what they're expected to accomplish, and understand how they will work together to achieve these goals.

RELEVANT SKILLS Effective teams are composed of competent individuals who have the necessary technical and interpersonal skills to achieve the desired goals while working well together. This last point is important because not everyone who is technically competent has the interpersonal skills to work well as a team member.

MUTUAL TRUST Effective teams are characterized by high mutual trust among members; that is, members believe in each other's ability, character, and integrity.

UNIFIED COMMITMENT Unified commitment is characterized by dedication to the team's goals and a willingness to expend extraordinary amounts of energy to achieve them. Members of an effective team exhibit intense loyalty and dedication to the team and are willing to do whatever it takes to help their team succeed.

GOOD COMMUNICATION Not surprisingly, effective teams are characterized by good communication. Members convey messages, verbally and nonverbally, between each other in ways that are readily and clearly understood. Also, feedback helps guide team members and correct misunderstandings. Like couples who have been together for many years, members of high-performing teams are able to quickly and efficiently share ideas and feelings.

NEGOTIATING SKILLS Effective teams are continually making adjustments as to who does what. This flexibility requires team members to possess negotiating skills. Because problems and relationships regularly change within teams, members need to be able to confront and reconcile differences.

APPROPRIATE LEADERSHIP Effective leaders are important. They can motivate a team to follow them through the most difficult situations. How? By clarifying goals, demonstrating that change is possible by overcoming inertia, increasing the self-confidence of team members, and helping members to more fully realize their

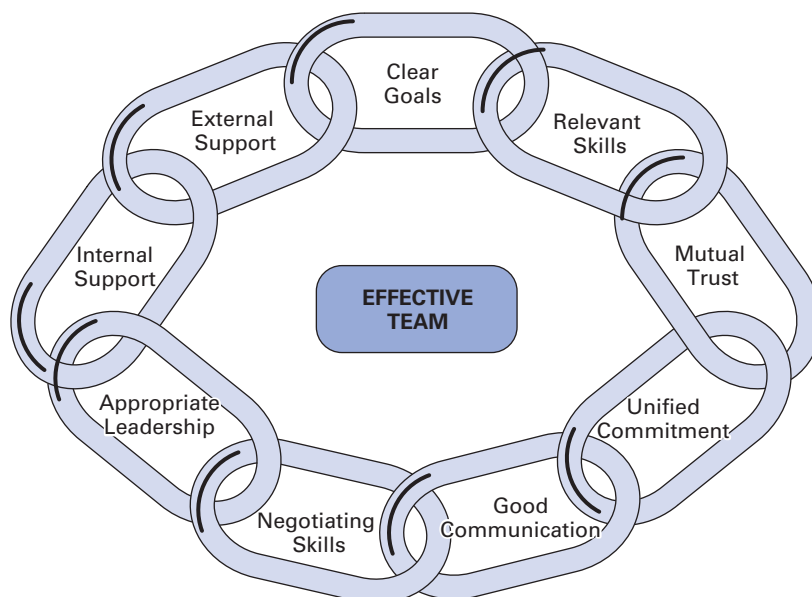


Exhibit 15-9
Characteristics of Effective Teams

potential. Increasingly, effective team leaders act as coaches and facilitators. They help guide and support the team but don't control it.

INTERNAL AND EXTERNAL SUPPORT The final condition necessary for an effective team is a supportive climate. Internally, the team should have a sound infrastructure, which means proper training, a clear and reasonable measurement system that team members can use to evaluate their overall performance, an incentive program that recognizes and rewards team activities, and a supportive human resource system. The right infrastructure should support members and reinforce behaviors that lead to high levels of performance. Externally, managers should provide the team with the resources needed to get the job done.

Technology and Teams

Emerging technologies impact team interactions. Although virtual teams have existed for many years, advancing technology is becoming a key resource for team effectiveness. Here we will explore virtual collaboration platforms and the impact of artificial intelligence.

VIRTUAL COLLABORATION PLATFORMS Most companies today use some version of a virtual collaboration platform such as Microsoft Teams or Slack to support team collaboration. IT teams such as software developers have used these platforms for many years, but there was a 44 percent increase in use from 2019 to 2021 as companies engaged in remote work during the COVID-19 pandemic; now, 79 percent of companies use a designated virtual collaboration platform.⁴⁴ Virtual collaboration platforms include features such as shared workspaces or dashboards, messaging options such as chat features or discussion boards, shared document storage, videoconferencing, and project management tools.⁴⁵ There is evidence that using these platforms not only facilitates virtual teams but also can enhance productivity for all teams. For example, one study found that using the Slack platform helped teams improve information sharing and transparency, increase informal communication, and lessen dependency on email.⁴⁶

ARTIFICIAL INTELLIGENCE What if a member of your team is a robot? Although humans have worked alongside machines for a long time, artificial intelligence (AI) is advancing the capabilities of machines to allow them to collaborate with humans. In some cases, the AI is fully embodied in the physical form of a robot; in others, AI serves as a virtual contributor to a team. This advancement in human–technology interaction creates unique challenges for managers. In the past, the manager's role was to ensure that someone on a team could work with the technology. But as the technology becomes an active member of the team, taking on executive functions such as selecting other team members or intervening in team decisions, managers must facilitate effective relationships between the humans and technology agents. For example, managers will need to understand the limitations of the technology and advise or



AI may join a team as a fully embodied robot or via a computer program where the team leader interacts with the AI to support the team.

Source: (left) pitinan/123RF; (right) StockLite/Shutterstock

intervene when humans need to take control of the work.⁴⁷ Beyond contributing as a team member, AI tools can also augment teams to improve team functioning; for example, AI tools can use recordings of team discussions to diagnose problems using collaborative problem solving and give team members advice on how to improve.⁴⁸

WORKPLACE CONFIDENTIAL Handling Difficult Coworkers

We've all been around people who, to put it nicely, are difficult to get along with. These people might be chronic complainers, they might be meddlers who think they know everything about everyone else's job and don't hesitate to tell you so, or they might exhibit any number of other unpleasant interpersonal characteristics. They can make your job extremely hard and your workday very stressful if you don't know how to deal with them. Being around difficult people tends to bring out the worst in all of us. What can you do? How do you learn to get along with these difficult people?

We suggest you start by recognizing that it's the behavior of the coworker that is getting to you, not the person themselves. Don't make this personal. Understanding the behavior will help you identify the source of the problem and how it might be solved.

Next, ask yourself: To what degree might I be contributing to the problem? The key here is just to remove any controllable factors that you might be bringing to the situation. For instance, do you tend to be moody, and if so, is that a contributing factor? If you're on a team project with the person, are you being too pushy or demanding? Because your behavior is controllable, the difficulty might be eliminated quickly by your making a few changes.

Now consider the source of your coworker's behavior. What is it, specifically, that bothers you? Put yourself in that person's shoes and attempt to see things from their perspective.

It's important to assess the source of your coworker's behavior. It makes a big difference whether you're dealing with just a clash of styles or whether you're facing a toxic worker. The latter has something inside—such as anger or distrust—that infects those around them. Conflicts with toxic types are more difficult to resolve.

A clash of styles might include different importance placed on promptness, deadlines, or ways of communicating. Or it might include how the two of you handle change, stressful situations, mistakes, excessive talking, or interruptions. The key here is recognizing that you're not dealing with objective states of right and wrong. Rather, the source of the difficulty is different ways of doing or seeing things.

So how do you handle differences in style? Here are some common types of difficult people you're likely to meet at work and some strategies for dealing with them.

- **The aggressive types:** With these types, you need to stand up for yourself; give them time to run down; don't worry about being polite, jump in if you need to; get their attention carefully; speak from your own point of view; avoid a head-on fight; and be ready to be friendly.
- **The complainers:** With the complainers, you need to listen attentively; acknowledge their concerns; be prepared

to interrupt their litany of complaints; don't agree, but do acknowledge what they're saying; state facts without comment or apology; and switch them to problem solving.

- **The silent or nonresponsive types:** With these types, you need to ask open-ended questions; use the friendly, silent stare; don't fill the silent pauses for them in conversations; comment on what's happening; and help break the tension by making them feel more at ease.
- **The know-it-all experts:** The keys to dealing with these types are to be on top of things; listen to and acknowledge their comments; question firmly, but don't confront; avoid being a counterexpert; and work with them to channel their energy in positive directions.

The toxic coworker provides a tougher challenge. This person is destructive and abusive. Although they often have a number of desirable traits, such as charm, leadership, and impression management skills, they also have a dark side. In **Chapter 13** we explored the Dark Triad: psychopathy, Machiavellianism, and narcissism. Psychopathy is a personality disorder. It's characterized by a lack of remorse and empathy. Psychopaths are emotionally cold and disconnected. And unlike those who make newspaper headlines, most live relatively normal lives—including working for a living. Machiavellian types are master manipulators. They're cunning and duplicitous. Not surprisingly, they are often your boss or upper-level manager. This is because these people are very good at exhibiting charm and impressing others. The third component of toxicity is narcissism. Narcissists are highly self-centered people who are egotistical and think the world revolves around them. Studies have found that Machiavellian and narcissistic types use "soft" tactics like compliments and reason to get their way; psychopathic individuals use "hard" tactics such as assertiveness and direct manipulations.

So how do you deal with a toxic coworker? Experts suggest that the best advice is to physically distance yourself from them. Keep a safe distance away in order to avoid getting sucked into the toxicity. Toxic behavior is contagious! If physical avoidance isn't an option, try to distance yourself mentally and emotionally. This can best be achieved by setting boundaries. Tell your toxic coworker what you will and won't accept. It may take a lot of repetition, but hold to your boundaries. In addition, make clear the consequences if the boundaries are crossed. And be prepared to take your complaints about inappropriate behavior to your superiors. If it gets to this stage, make sure your complaint is succinct and professional. You want to make it clear which workplace rules are being broken and how this action affects yours, and others', work performance.⁴⁹

Chapter 15

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO15.1 DEFINE groups and the stages of group development.

A group is two or more interacting and interdependent individuals who come together to achieve specific goals. Formal groups are work groups defined by the organization's structure and have designated work assignments and specific tasks directed at accomplishing organizational goals. Informal groups are social groups.

The forming stage consists of two phases: joining the group and defining the group's purpose, structure, and leadership. The storming stage is one of intragroup conflict over who will control the group and what the group will be doing. The norming stage is when close relationships and cohesiveness develop as norms are determined. The performing stage is when group members begin to work on the group's task. The adjourning stage is when the group prepares to disband.

LO15.2 DESCRIBE the major components that determine group performance and satisfaction.

The major components that determine group performance and satisfaction include external conditions, group member resources, group structure, group processes, and group tasks.

External conditions, such as availability of resources, organizational goals, and other factors, affect work groups. Group member resources (knowledge, skills, abilities, personality traits) can influence what members can do and how effectively they will perform in a group.

Group roles generally involve getting the work done or keeping up group member morale. Group norms are standards or expectations shared by group members and dictate things such as work output levels, absenteeism, and promptness. Pressures to conform can heavily influence a person's judgment and attitudes. If carried to extremes, groupthink can be a problem. Status systems can be a significant motivator with individual behavioral consequences, especially when individuals believe others perceive their status differently than they do themselves. What size group is most effective and efficient depends on the task the group is supposed to accomplish. Cohesiveness is related to a group's productivity as a function of how aligned the group's goals are with the organization's goals.

Group decision making and conflict management are important group processes that play a role in performance and satisfaction. If accuracy, creativity, and degree of acceptance are important, a group decision may work best. Relationship conflicts are almost always dysfunctional. Low levels of process conflicts and low to moderate levels of task conflicts are functional. Effective communication and controlled conflict are most relevant to group performance when tasks are complex and interdependent.

LO15.3 DEFINE teams and best practices influencing team performance.

Characteristics of work groups include a strong, clearly focused leader; individual accountability; purpose that's the same as the broader organizational mission; individual work product; efficient meetings; effectiveness measured by influence on others; and the ability to discuss, decide, and delegate together. Characteristics of teams include shared leadership roles; individual and mutual accountability; specific team

purpose; collective work products; meetings with open-ended discussion and active problem solving; performance measured directly on collective work products; and the ability to discuss, decide, and do real work.

A problem-solving team is one that's focused on improving work activities or solving specific problems. A self-managed work team is responsible for a complete work process or segment and manages itself. A cross-functional team is composed of individuals from various specialties. A virtual team uses technology to link physically dispersed members in order to achieve a common goal.

The characteristics of an effective team include clear goals, relevant skills, mutual trust, unified commitment, good communication, negotiating skills, appropriate leadership, and internal and external support.

Finally, technology is changing the way teams interact through the use of virtual collaboration platforms and the inclusion of artificial intelligence to support team functioning.

REVIEW AND DISCUSSION QUESTIONS

- 15-1. Describe the different types of groups and the five stages of group development.
- 15-2. Explain how external conditions and group member resources affect group performance and satisfaction.
- 15-3. Separately discuss how group structure, processes, and tasks influence group performance and satisfaction. How might remote work improve group performance and satisfaction?
- 15-4. Compare work groups and teams.
- 15-5. Describe the most common types of work teams.
- 15-6. Rank the characteristics of an effective team in terms of the most important characteristic of an effective team to the least important characteristic. Justify your rankings.
- 15-7. Explain the types of difficult people and how to handle them when managing teams.

PREPARING FOR: My Career

ETHICS DILEMMA

When coworkers work closely on a team project, is there such a thing as becoming too close? As more workers friend and follow their colleagues on social media, the boundaries between people's personal and work lives become less clear. These connections mean people become privy to details about their coworkers' off-duty activities, including their relationship status, that otherwise would have remained private. Sometimes coworkers are prone to oversharing their personal information on social media.⁵⁰ For example, assume you and your team just finished a major project. You went to your favorite lunch spot alone for a much-needed break to escape work and have a celebratory moment. During lunch, you reviewed your social media, and the first thing to pop up caused you to learn a colleague was training for a 20-mile bike race and planned to shave their *entire* body to reduce aerodynamic drag. Two other coworkers posted detailed stories about their

plans for a romantic date night together. Another colleague commented "niiiiicccccce" to their posted romantic plans.

- 15-8. What do you think? Why do some coworkers share so much personal information on social media?
- 15-9. A recent survey revealed that 51 percent of employees said they have had an office romance.⁵¹ Another survey found that workers in their 20s and 30s view workplace romances more positively than older generations do.⁵² Should colleagues refrain from posting about relationships with coworkers on social media? Explain your reasoning.
- 15-10. What are the ethical implications of managing oversharing coworkers? Is sharing too much information about their hobbies, tattoos, religion, food interests, relationships, and children just normal human behavior?

SKILLS EXERCISE Developing Your Coaching Skills

About the Skill

Effective team managers are usually described as coaches rather than bosses. Like coaches, their team members expect them to provide instruction, guidance, advice, and encouragement to help team members improve their job performance.

Steps in Practicing the Skill

- **Analyze ways to improve the team's performance and capabilities.** A coach looks for opportunities for team members to expand their capabilities and improve performance. How? You can use the following behaviors: Observe your team members' behaviors on a day-to-day basis. Ask questions of them: Why do you do a task this way? Can it be improved? What other approaches might be used? Show genuine interest in team members as individuals, not merely as employees. Respect them individually. Listen to each employee.
- **Create a supportive climate.** The coach is responsible for reducing barriers to development and facilitating a climate that encourages personal performance improvement. How? You can use the following behaviors: Create a climate that contributes to a free and open exchange of ideas. Offer help and assistance. Give guidance and advice when asked. Encourage your team. Be upbeat. Do not use threats. Ask, "What did we learn from this that can help us in the future?" Reduce obstacles. Assure team members that you value their contribution to the team's goals. Take personal

responsibility for the outcome, but do not rob team members of their full responsibility. Validate team members' efforts when they succeed. Point to what was missing when they fail. Never blame team members for poor results.

- **Influence team members to change their behavior.** The ultimate test of coaching effectiveness is whether an employee's performance improves. You must encourage ongoing growth and development. How can you do this? Try the following behaviors: Recognize and reward small improvements and treat coaching as a way of helping employees to continually work toward improvement. Use a collaborative style by allowing team members to participate in identifying and choosing among improvement ideas that are to be implemented. Break difficult tasks down into simpler ones. Model the qualities you expect from your team. If you want openness, dedication, commitment, and responsibility from your team members, demonstrate these qualities yourself.

Practicing the Skill

Find a friend or classmate you can coach on a project or challenging assignment. Maybe it is a coworker, a new member of a student organization you belong to, or a friend taking a challenging course you have already taken. Following the guidance above, practice your coaching skills by working with your friend or classmate to improve their performance.

WORKING TOGETHER Team Exercise

After five years as a top application developer at a software company, you are promoted to a team leader position. In this role, you will lead a new team of five employees responsible for creating new products. The team must work together from idea inception to final product testing. The employees assigned to your work team have been with the company for less than a year and have not worked together before. Take a few minutes to

consider some of your new role's challenges. Next, work in groups of three or four students to create a plan to begin leading your new team. Review the relationship between group cohesiveness and productivity in Exhibit 15-5 and the characteristics of effective teams in Exhibit 15-9. Write down your plan to build these characteristics with your team and be prepared to share your plan with the class.

MY TURN TO BE A MANAGER

- Think of a group to which you belong (or have belonged). Trace its development through the stages of group development as shown in Exhibit 15-2. How closely did its development parallel the group development model? How might the group development model be used to improve this group's effectiveness?
- Using this same group, write a report describing the following things about this group: types of roles played by each member, group norms, group conformity issues, status system, size of the group and how effective/efficient it is, and group cohesiveness.
- Using the same group, describe how decisions are made. Is the process effective? Efficient? Describe what types of conflicts often arise (relationship, process, or task) and how those conflicts are handled. Add this information to your report on the group's development and structure.

- Select two of the characteristics of effective teams listed in Exhibit 15-9 and develop a team-building exercise for each characteristic that will help a group improve that characteristic. Be creative. Write a report describing your exercises, and be sure to explain how your exercises will help a group improve or develop that characteristic.
- Often, new teams that must become productive quickly start off by writing ground rules or a team working agreement. Conduct some research on team working agreements and create a summary of what such an agreement might include. When assigned your next team project, try writing a team working agreement to kick off your project.

CASE APPLICATION 1

US Women's Soccer: A Team in Transition

The Women's World Cup, held every four years, is the premier women's soccer tournament. Expanded from 24 to 32 nations, the 2023 Women's World Cup was a critical challenge for the US Women's National Soccer team. The two-time defending champions were favored to win it all. However, as a team in transition, the previously dominant US team was seen as more beatable.

The team was a mixture of experienced veteran stars and players with little international soccer experience. Of the 23 team members, only nine US players were on the 2019 World Cup championship team; it was the first World Cup competition for all 11 starters. For example, forward Alyssa Thompson had just finished eighth grade when the team won the 2019 World Cup. As the second-youngest American to appear in a Women's World Cup and the first player to be drafted into the US National Women's Soccer team directly from high school, she had the talent to compete with the world's best players but lacked experience.⁵³ She and the other rookies joined legendary veterans who were wrapping up their careers, such as Megan Rapinoe in her fourth World Cup and last before retirement.⁵⁴

The 2023 World Cup represented a changing of the guard for the US team as younger players replaced older players, learning the team culture that led to so much success. Being a player on the US team means living up to high expectations, winning, and dominating at the highest level. The US women's team's culture includes a commitment to hard work and pushing their physical limits. The US women's team has held the number one rank in FIFA for five consecutive years and has never been lower than number two in the world rankings since the rankings began in 2003. It is the only nation to have qualified for all nine of the Women's World Cups, won four titles, and placed second or third four times.

For the United States, being a team in transition in 2023 meant they lacked some of the chemistry needed to dominate in the tournament. Their reliance on new team members meant fewer gametime experiences together as a national team and less team chemistry. Before the 2019 World Cup, the US women's team spent 36 days together team building in training camp and played three non-competitive games in preparation. Strangely, the 2023 team spent fewer days in training camp, just 26 days in camp leading into the World Cup, instead of more and played just one non-competitive game. To build chemistry during the tournament, veterans offered words of encouragement behind closed hotel-room doors, in training sessions, at team meals, and during halftime at matches. The women sometimes played like a group of freelancers struggling to unite as a high-performing team, and outsiders faulted their poor team chemistry.⁵⁵

Unfortunately, their challenges led to an early exit from the tournament. Going into a match against Sweden in the knockout round of 16 teams, the United States had a record of four wins, one draw, and one loss. The defending champions lost to Sweden in a game decided by penalty kicks and headed home. Vlatko Andonovski, the US coach, said after the game, "I think we came out today and showed what we're all about. The grit, the resilience, the fight, the bravery. Unfortunately, soccer can be

cruel sometimes.” This was the team’s earliest-ever exit from the Women’s World Cup. After their victory, Sweden’s team celebrated like it had won the World Cup, while the US team just looked stunned.⁵⁶

DISCUSSION QUESTIONS

- 15-11. What are the norms for the US Women’s National Soccer team?
- 15-12. How might different group development stages apply to this team? In your answer, note how making changes to cohesiveness might impact the stages of group development and the team’s performance in the World Cup.
- 15-13. What kinds of conflict do you think might impact the US team at different points, from training camp through competing in the World Cup? Which types of conflict will hinder and enhance the effectiveness of the team in the future?
- 15-14. Which characteristics of an effective team does the US team have? Which are missing? Could technology be used to support building the team’s cohesiveness leading up to the World Cup? Explain.

CASE APPLICATION 2

Taylor Swift’s Bonuses Cause Their Own “Swift Quake”

Taylor Swift’s Eras Tour was both a massive success and a massive production to execute. Her three-hour-plus, 44-song live show covers themes from her 17-year career. The 52-date sold-out US tour was an ambitious effort with elaborate stage designs being put up and taken down quickly.⁵⁷ Fans, nearly 54,000 per show, paid an average ticket price of \$250 to see Swift’s era-themed rooms moving on stage and screen with coordinated dance numbers, an acoustic set, and 10 outfit changes during each show. Obviously, there is a whole lot to pay attention to on stage.⁵⁸

Of course, Taylor Swift’s seemingly one-woman show required a significant team effort. Her fashion alone represented the work of several of the world’s most prominent designers, and she needed help changing costumes several times each show. The technically ambitious stage show, created and executed by designers and a variety of workers, showcased different albums of Swift’s career with unique backdrops.⁵⁹ Other team members included the 50-plus truckers transporting sets and equipment from one stadium to the next, caterers to feed everyone, workers handing out LED wristbands that sync up to songs in unison when Swift is singing, and many more.

And even if it did not seem significant, each team member played a role in the fans’ concert experience. Chelsea Pike remembered her experience of handing out LED wristbands as fulfilling. She said, “There are thousands of screaming fans running at you wanting the [wristband], that’s their holy grail,” and “People were crying, saying we made their life, this is their dream come true. I know not every concert or every event is going to be like that.” Mia Hartounian, who also handed out wristbands, said, “It really made me feel like I was a part of something bigger than myself.”⁶⁰

To make it happen, the tour had advance teams delivering, prepping, and assembling the stage for shows at each stadium. During the tour, it was common for the team to live on the road. Sometimes they slept during the day and worked at night away from their families for 24 weeks. Clearly, these tasks are part of the behind-the-scenes work making the unique concert experience for Swift’s fans, known as Swifties. Apparently, the team’s contribution to the Eras Tour was not lost on Swift either. Scott Swift, Taylor’s father, made a surprise visit to a truck driver meeting to announce that Taylor felt everybody should receive a bonus. While a \$5,000 to \$10,000 bonus is often given to truck drivers at the end of large stadium tours, Taylor offered a handwritten note to each driver along with a \$100,000 bonus, obviously a significant amount to workers with an average salary in the United States of around \$84,000. Swift also gave bonuses

totaling over \$55 million to other crew members such as dancers, musicians, lighting and sound technicians, and caterers on the tour.⁶¹

Fans agree that Taylor Swift's tour, including the contribution made by her the team, was a resounding success. If the idiom that people vote with their feet is true, then Swift fans at a downtown Seattle concert used their feet to shake the ground so hard it registered signals on a nearby seismometer equivalent to a magnitude 2.3 earthquake twice a night for two nights. The so-called "Swift Quake" is not the only record associated with this tour. It became one of the biggest in concert history by grossing over \$1 billion. "What we're seeing on this particular Taylor tour is almost like a once-in-a-lifetime phenomenon," said Jarred Arfa, executive vice president and head of global music at Independent Artist Group. "It's pretty astonishing."⁶²

DISCUSSION QUESTIONS

- 15-15. Is Taylor Swift's Eras Tour really a team effort? Why or why not?
- 15-16. Why were crew members such as dancers, musicians, lighting and sound technicians, caterers, and even truck drivers on tour motivated to perform well on tour? Did status play a role in the team functioning well during the tour? Explain.
- 15-17. How important is it for a leader like Taylor Swift to recognize and reward her team? What challenges do Swift's generous rewards pose for future tours and other artists?
- 15-18. What characteristics of effective work teams must be in place to make this tour so successful?

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Learning Objectives

- 16.1 Define** leader and leadership.
- 16.2 Compare** and contrast early theories of leadership.
- 16.3 Describe** the three major contingency theories of leadership.
- 16.4 Describe** contemporary views of leadership.
- 16.5 Compare** the various theories of leadership for their validity.
- 16.6 Discuss** 21st-century issues affecting leadership.

What does leadership look like? When Russia invaded Ukraine in March 2022, many observers would say that Ukraine's President Volodymyr Zelenskyy demonstrated great leadership. One might not expect to find a leader in a former television actor, but Zelenskyy's response to the invasion demonstrated a leadership style that those observing from around the world admired. Despite an extreme risk of danger, he stayed rooted in the Kyiv capital to rally the morale of his brutalized country, standing up for his country's ideals. In the face of unequal odds and putting his own fear aside, he stood his ground, and his words inspired confidence in the troops that went into battle. His skillset and ability to relate to people and tap into their emotions have helped inspire his country and build global support. In response to Zelenskyy's leadership, the EU quickly placed tough financial sanctions on Russia, and tech companies, oil giants, and sporting associations shut down business with Russia.¹

Management Myth: Leaders are born, not made.

Management Reality: Leadership is a skill that managers can build with awareness and effort.

WHO Are Leaders, and What Is Leadership?

LO16.1 Define leader and leadership.

Our definition of a **leader** is someone who can influence others and who has managerial authority. **Leadership** is a process of leading a group and influencing that group to achieve its goals. It's what leaders do.

leader

Someone who can influence others and who has managerial authority

leadership

A process of influencing a group to achieve goals

Are all managers leaders? Because leading is one of the four management functions, yes, ideally, all managers *should* be leaders. Thus, we're going to study leaders and leadership from a managerial perspective.² Leaders and leadership, like motivation, are organizational behavior topics that have been researched a lot. Most of that research has been aimed at answering the question: *What is an effective leader?* Let's look at some early leadership theories that attempted to answer that question.

EARLY Leadership Theories

LO16.2 Compare and contrast early theories of leadership.

People have been interested in leadership since they started coming together in groups to accomplish goals. However, it wasn't until the early part of the 20th century that researchers actually began to formally study leadership. These early leadership theories focused on the *leader* (leadership trait theories) and how the *leader interacted* with their group members (leadership behavior theories).

Leadership Traits

Researchers at the University of Florida and University of North Carolina reported that taller men, compared to shorter men, tended to possess higher levels of social esteem, become successful leaders, earn more money, and have greater career success.³ What does a study of height have to do with trait theories of leadership? Well, that's also what leadership trait theories have attempted to do—identify certain traits that all leaders have.

Leadership research in the 1920s and 1930s focused on isolating leader traits—that is, characteristics—that would differentiate leaders from nonleaders. Some of the traits studied included physical stature, appearance, social class, emotional stability, fluency of speech, and sociability. Despite the best efforts of researchers, it proved impossible to identify a set of traits that would *always* differentiate a leader (the person) from a nonleader. Maybe it was a bit optimistic to think that a set of consistent and unique traits would apply universally to all effective leaders, no matter whether they were in charge of Procter & Gamble, the Moscow Ballet, the country of France, a local collegiate chapter of Alpha Chi Omega, a McDonald's franchise, or Oxford University. However, later attempts to identify traits consistently associated with *leadership* (the process of leading, not the person) were more successful. Ten traits shown to be associated with effective leadership are described briefly in **Exhibit 16-1**.

Researchers eventually recognized that traits alone were not sufficient for identifying effective leaders, because explanations based solely on traits ignored the interactions of leaders and their group members as well as situational factors. Possessing the appropriate traits only made it more likely that an individual would be an effective leader. Therefore, leadership research from the late 1940s to the mid-1960s concentrated on the preferred behavioral styles that leaders demonstrated. Researchers wondered whether something unique in what effective leaders *did*—in other words, in their *behavior*—was the key.

Leadership Behaviors

Carter Murray, CEO of the advertising agency FCB, once told a colleague, “Look, I think you're amazing, incredibly talented and you can do even more than you think in your wildest dreams. And I am not going to manage you to do that. You will determine that yourself.”⁴ In contrast, Elon Musk built a reputation as the CEO of Tesla and SpaceX of being harsh and unforgiving, telling workers who did not want to return to the office following the COVID-19 pandemic that they could “pretend to work someplace else.”⁵ These two leaders, as you can see, behaved in two very different ways. What do we know about leader behavior, and how can it help us in our understanding of what an effective leader is?

Exhibit 16-1
Ten Traits Associated with Leadership

1. **Drive.** Leaders exhibit a high effort level. They have a relatively high desire for achievement, they are ambitious, they have a lot of energy, they are tirelessly persistent in their activities, and they show initiative.
2. **Desire to lead.** Leaders have a strong desire to influence and lead others. They demonstrate the willingness to take responsibility.
3. **Honesty and integrity.** Leaders build trusting relationships with followers by being truthful or nondeceitful and by showing high consistency between word and deed.
4. **Self-confidence.** Followers look to leaders for an absence of self-doubt. Leaders, therefore, need to show self-confidence in order to convince followers of the rightness of their goals and decisions.
5. **Intelligence.** Leaders need to be intelligent enough to gather, synthesize, and interpret large amounts of information, and they need to be able to create visions, solve problems, and make correct decisions.
6. **Job-relevant knowledge.** Effective leaders have a high degree of knowledge about the company, industry, and technical matters. In-depth knowledge allows leaders to make well-informed decisions and to understand the implications of those decisions.
7. **Extraversion.** Leaders are energetic, lively people. They are sociable, assertive, and rarely silent or withdrawn.
8. **Proneness to guilt.** Guilt proneness is positively related to leadership effectiveness because it produces a strong sense of responsibility for others.
9. **Emotional intelligence.** Empathetic leaders can sense others' needs, listen to what followers say (and don't say), and read the reactions of others.
10. **Conscientiousness.** People who are disciplined and able to keep commitments have an apparent advantage when it comes to leadership.⁶

Researchers hoped that the **behavioral theories of leadership** would provide more definitive answers about the nature of leadership than did the trait theories.⁷ The four main leader behavior studies are summarized in **Exhibit 16-2**.

behavioral theories of leadership
Theories that identify behaviors that differentiate effective leaders from ineffective leaders

Exhibit 16-2

Behavioral Theories of Leadership

	Behavioral Dimension	Conclusion
University of Iowa	<p>Democratic style: Involving subordinates, delegating authority, and encouraging participation</p> <p>Autocratic style: Dictating work methods, centralizing decision making, and limiting participation</p> <p>Laissez-faire style: Giving the group freedom to make decisions and complete work</p>	The democratic style of leadership was most effective, although later studies showed mixed results.
Ohio State	<p>Consideration: Being considerate of followers' ideas and feelings</p> <p>Initiating structure: Structuring work and work relationships to meet job goals</p>	High-high leaders (high in consideration and high in initiating structure) achieved high subordinate performance and satisfaction, but not in all situations.
University of Michigan	<p>Employee oriented: Emphasized interpersonal relationships and taking care of employees' needs</p> <p>Production oriented: Emphasized technical or task aspects of job</p>	Employee-oriented leaders were associated with high group productivity and higher job satisfaction.
Managerial Grid	<p>Concern for people: Measured leader's concern for subordinates on a scale of 1 to 9 (low to high)</p> <p>Concern for production: Measured leader's concern for getting the job done on a scale of 1 to 9 (low to high)</p>	Leaders performed best with a 9,9 style (high concern for production and high concern for people).

autocratic style

A leader who dictates work methods, makes unilateral decisions, and limits employee participation

democratic style

A leader who involves employees in decision making, delegates authority, and uses feedback as an opportunity for coaching employees

laissez-faire style

A leader who lets the group make decisions and complete the work in whatever way it sees fit

initiating structure

The extent to which a leader defines their role and the roles of group members in attaining goals

consideration

The extent to which a leader has work relationships characterized by mutual trust and respect for group members' ideas and feelings

high-high leader

A leader high in both initiating structure and consideration behaviors

managerial grid

A two-dimensional grid for appraising leadership styles



Apple's former senior vice president of retail, Angela Ahrendts, is an employee-oriented leader. Her compassionate and nurturing behavior toward subordinates helps them realize their full potential, inspires them to succeed, and results in their loyalty and job satisfaction. Caring for her employees has contributed to Ahrendts's success as an entrepreneur and business leader. She has recently left Apple and is now on the board at Airbnb, where she's been charged with building community among customers.

Source: PA Images/Alamy Stock Photo

UNIVERSITY OF IOWA STUDIES The University of Iowa studies explored three leadership styles to find which was the most effective.⁸ The **autocratic style** described a leader who dictated work methods, made unilateral decisions, and limited employee participation. The **democratic style** described a leader who involved employees in decision making, delegated authority, and used feedback as an opportunity for coaching employees. Finally, the **laissez-faire style** leader let the group make decisions and complete the work in whatever way it saw fit. The researchers' results seemed to indicate that the democratic style contributed to both good quantity and quality of work.

Had the Iowa group found the answer to the question of the most effective leadership style? Unfortunately, it wasn't that simple. Later studies of the autocratic and democratic styles showed mixed results. For instance, the democratic style sometimes produced higher performance levels than the autocratic style, but at other times it didn't. However, more consistent results were found when a measure of employee satisfaction was used. Group members were more satisfied under a democratic leader than under an autocratic one.⁹

Now leaders had a dilemma. Should they focus on achieving higher performance or on achieving higher member satisfaction? This recognition of the dual nature of a leader's behavior—that is, focus on the task and focus on the people—was also a key characteristic of the other behavioral studies.

THE OHIO STATE STUDIES The Ohio State studies identified two important dimensions of leader behavior.¹⁰ Beginning with a list of more than 1,000 behavioral dimensions, the researchers eventually narrowed it down to just two that accounted for most of the leadership behavior described by group members. The first was called **initiating structure**, which referred to the extent to which a leader defined their role and the roles of group members in attaining goals. It included behaviors that involved attempts to organize work, work relationships, and goals. The second was called **consideration**, which was defined as the extent to which a leader had work relationships characterized by mutual trust and respect for group members' ideas and feelings. A leader who was high in consideration helped group members with personal problems, was friendly and approachable, and treated all group members as equals. They showed concern for (were considerate of) their followers' comfort, well-being, status, and satisfaction. Research found that a leader who was high in both initiating structure and consideration (a **high-high leader**) sometimes achieved high group task performance and high group member satisfaction, but not always.

UNIVERSITY OF MICHIGAN STUDIES Leadership studies conducted at the University of Michigan at about the same time as those done at Ohio State also hoped to identify behavioral characteristics of leaders that were related to performance effectiveness. The Michigan group also came up with two dimensions of leadership behavior, which they labeled employee-oriented and production-oriented.¹¹ Leaders who

were *employee-oriented* were described as emphasizing interpersonal relationships. The *production-oriented* leaders, in contrast, tended to emphasize the task aspects of the job. Unlike the other studies, the Michigan researchers concluded that leaders who were employee-oriented were able to get high group productivity and high group member satisfaction.

THE MANAGERIAL GRID The behavioral dimensions from these early leadership studies provided the basis for the development of a two-dimensional grid for appraising leadership styles. This **managerial grid** used the behavioral dimensions “concern for people” (the vertical part of the grid) and “concern for production” (the horizontal part of the grid) and evaluated a leader's use of these behaviors, ranking them

on a scale from 1 (low) to 9 (high).¹² Although the grid had 81 potential categories into which a leader's behavioral style might fall, only five styles were named: impoverished management (1,1, or low concern for production, low concern for people), task management (9,1, or high concern for production, low concern for people), middle-of-the-road management (5,5, or medium concern for production, medium concern for people), country club management (1,9, or low concern for production, high concern for people), and team management (9,9, or high concern for production, high concern for people). Of these five styles, the researchers concluded that managers performed best when using a 9,9 style. Unfortunately, the grid offered no answers to the question of what made a manager an effective leader; it only provided a framework for conceptualizing leadership style. In fact, little substantive evidence supports the conclusion that a 9,9 style is most effective in all situations.¹³

Leadership researchers were discovering that predicting leadership success involved something more complex than isolating a few leader traits or preferable behaviors. They began looking at situational influences; specifically, which leadership styles might be suitable in different situations and what these different situations might be.

CONTINGENCY Theories of Leadership

LO16.3 Describe the three major contingency theories of leadership.

“The corporate world is filled with stories of leaders who failed to achieve greatness because they failed to understand the context they were working in.”¹⁴ In this section, we examine three contingency theories—Fiedler, Hersey-Blanchard, and path-goal—that focus on context. Each looks at defining leadership style and the situation and attempts to answer the *if-then* contingencies (that is, *if* this is the context or situation, *then* this is the best leadership style to use).

The Fiedler Model

The first comprehensive contingency model for leadership was developed by Fred Fiedler.¹⁵ The **Fiedler contingency model** proposed that effective group performance depended on properly matching the leader's style and the amount of control and influence in the situation. The model was based on the premise that a certain leadership style would be most effective in different types of situations. The keys were to (1) define those leadership styles and the different types of situations, and then (2) identify the appropriate combinations of style and situation.

Fiedler proposed that a key factor in leadership success was an individual's basic leadership style, either task-oriented or relationship-oriented. To measure a leader's style, Fiedler developed the **least-preferred coworker (LPC) questionnaire**. This questionnaire contained 18 pairs of contrasting adjectives—for example, pleasant–unpleasant, cold–warm, boring–interesting, or friendly–unfriendly. Respondents were asked to think of all the coworkers they had ever had and to describe that one person they *least enjoyed* working with by rating them on a scale of 1 to 8 for each of the 18 sets of adjectives (the 8 always described the positive adjective out of the pair, and the 1 always described the negative adjective out of the pair).

If the leader described the least-preferred coworker in relatively positive terms (in other words, a “high” LPC score), then the respondent was primarily interested in good personal relations with coworkers and the style would be described as *relationship-oriented*. In contrast, if you saw the least-preferred coworker in relatively unfavorable terms (a low LPC score), you were primarily interested in productivity and getting the job done; thus, your style would be labeled as *task-oriented*. Fiedler did acknowledge that a small number of people might fall between these two extremes and not have a cut-and-dried leadership style. One other important point is that Fiedler

Fiedler contingency model

A leadership theory proposing that effective group performance depends on the proper match between a leader's style and the degree to which the situation allows the leader to control and influence

least-preferred coworker (LPC) questionnaire

A questionnaire that measures whether a leader is task or relationship oriented

assumed a person's leadership style was fixed and stable, regardless of the situation. In other words, if you were a relationship-oriented leader, you'd always be one, and the same would be true for being task-oriented.

After an individual's leadership style had been assessed through the LPC, it was time to evaluate the situation in order to match the leader with the situation. Fiedler's research uncovered three contingency dimensions that defined the key situational factors in leader effectiveness.

leader-member relations

One of Fiedler's situational contingencies that describes the degree of confidence, trust, and respect employees have for their leader

task structure

One of Fiedler's situational contingencies that describes the degree to which job assignments are formalized and structured

position power

One of Fiedler's situational contingencies that describes the degree of influence a leader has over activities such as hiring, firing, discipline, promotions, and salary increases

- **Leader-member relations:** The degree of confidence, trust, and respect employees have for their leader; rated as either good or poor
- **Task structure:** The degree to which job assignments are formalized and structured; rated as either high or low
- **Position power:** The degree of influence a leader has over activities such as hiring, firing, discipline, promotions, and salary increases; rated as either strong or weak

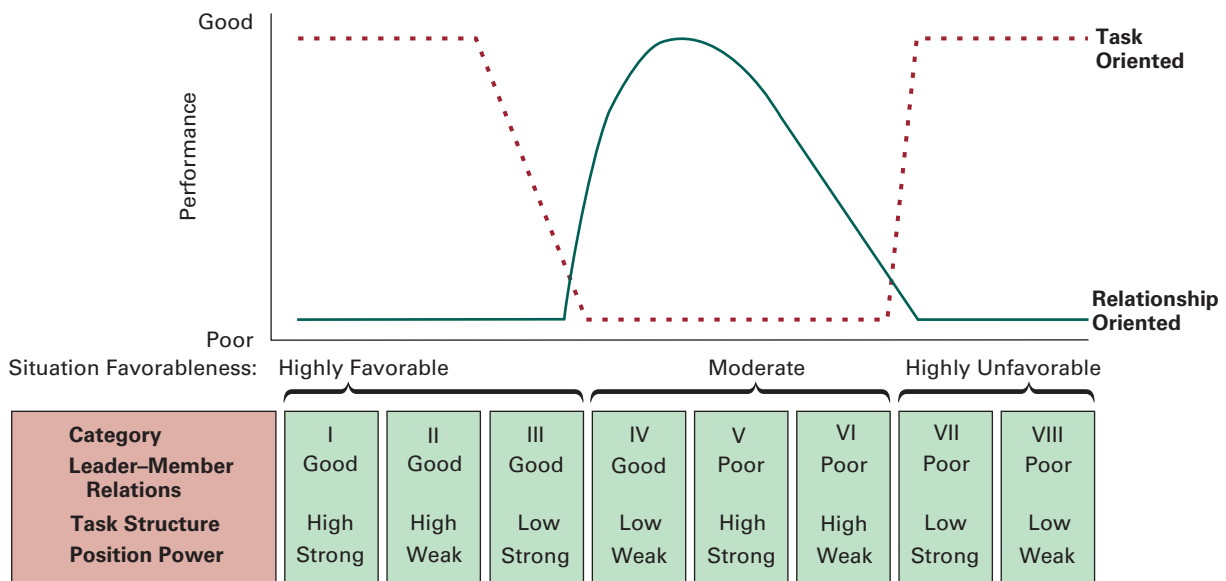
Each leadership situation was evaluated in terms of these three contingency variables, which, when combined, produced eight possible situations that were either favorable or unfavorable for the leader. (See Exhibit 16-3.) Categories I, II, and III were classified as highly favorable for the leader; categories IV, V, and VI were moderately favorable for the leader; and categories VII and VIII were described as highly unfavorable for the leader.

Once Fiedler had described the leader variables and the situational variables, he had everything he needed to define the specific contingencies for leadership effectiveness. To do so, he studied 1,200 groups where he compared relationship-oriented versus task-oriented leadership styles in each of the eight situational categories. He concluded that task-oriented leaders performed better in very favorable situations and in very unfavorable situations. (See the top of Exhibit 16-3, where performance is shown on the vertical axis and situation favorableness is shown on the horizontal axis.) On the other hand, relationship-oriented leaders performed better in moderately favorable situations.

Because Fiedler treated an individual's leadership style as fixed, only two ways could improve leader effectiveness. First, you could bring in a new leader whose style better fit the situation. For instance, if the group situation was highly unfavorable but was led by a relationship-oriented leader, the group's performance could be improved

Exhibit 16-3

The Fiedler Model



by replacing that person with a task-oriented leader. The second alternative was to change the situation to fit the leader. This could be done by restructuring tasks; by increasing or decreasing the power that the leader had over factors such as salary increases, promotions, and disciplinary actions; or by improving leader–member relations.

Research testing the overall validity of Fiedler’s model has shown considerable evidence to support the model.¹⁶ However, his theory wasn’t without critics. The major criticism is that it’s probably unrealistic to assume that a person can’t change their leadership style to fit the situation. Effective leaders can, and do, change their styles. Another is that the LPC wasn’t very practical. Finally, the situation variables were difficult to assess.¹⁷ In spite of these shortcomings, the Fiedler model showed that effective leadership style needed to reflect situational factors.

Hersey and Blanchard’s Situational Leadership Theory

Paul Hersey and Ken Blanchard developed a leadership theory that has gained a strong following among management development specialists.¹⁸ This model, called **situational leadership theory (SLT)**, is a contingency theory that focuses on followers’ readiness. Before we proceed, two points need clarification: why a leadership theory focuses on the followers and what is meant by the term *readiness*.

The emphasis on the followers in leadership effectiveness reflects the reality that it *is* the followers who accept or reject the leader. Regardless of what the leader does, the group’s effectiveness depends on the actions of the followers. This important dimension has been overlooked or underemphasized in most leadership theories. And **readiness**, as defined by Hersey and Blanchard, refers to the extent to which people have the ability and willingness to accomplish a specific task.

SLT uses the same two leadership dimensions that Fiedler identified: task and relationship behaviors. However, Hersey and Blanchard go a step further by considering each as either high or low and then combining them into four specific leadership styles, described as follows:

- **Telling (high task–low relationship):** The leader defines roles and tells people what, how, when, and where to do various tasks.
- **Selling (high task–high relationship):** The leader provides both directive and supportive behavior.
- **Participating (low task–high relationship):** The leader and followers share in decision making; the main role of the leader is facilitating and communicating.
- **Delegating (low task–low relationship):** The leader provides little direction or support.

The final component in the model is the four stages of follower readiness:

- **R1:** People are both *unable and unwilling* to take responsibility for doing something. Followers aren’t competent or confident.
- **R2:** People are *unable but willing* to do the necessary job tasks. Followers are motivated but lack the appropriate skills.
- **R3:** People are *able but unwilling* to do what the leader wants. Followers are competent, but don’t want to do something.
- **R4:** People are both *able and willing* to do what is asked of them.

SLT essentially views the leader–follower relationship as being like that of a parent and a child. Just as a parent needs to relinquish control when a child becomes more mature and responsible, so, too, should leaders. As followers reach higher levels of readiness, the leader responds not only by decreasing control over their activities but also by decreasing relationship behaviors. The SLT says if followers are at R1 (*unable and unwilling* to do a task), the leader needs to use the telling style and give clear and specific directions; if followers are at R2 (*unable and willing*), the leader needs to use the selling style and display high task orientation to compensate for the followers’ lack of ability and high relationship orientation to get followers to “buy

situational leadership theory (SLT)
A leadership contingency theory that focuses on followers’ readiness

readiness
The extent to which people have the ability and willingness to accomplish a specific task

into” the leader’s desires; if followers are at R3 (*able* and *unwilling*), the leader needs to use the participating style to gain their support; and if employees are at R4 (both *able* and *willing*), the leader doesn’t need to do much and should use the delegating style.

SLT has intuitive appeal. It acknowledges the importance of followers and builds on the logic that leaders can compensate for ability and motivational limitations in their followers. However, research efforts to test and support the theory generally have been disappointing.¹⁹ Possible explanations include internal inconsistencies in the model as well as problems with research methodology. Despite its appeal and wide popularity, we have to be cautious about any enthusiastic endorsement of SLT.

Path-Goal Model

Another approach to understanding leadership is Robert House’s **path-goal theory**, which states that it’s the leader’s job to provide followers with information, support, or other resources necessary to achieve goals. Path-goal theory takes key elements from the expectancy theory of motivation.²⁰ The term *path-goal* is derived from the belief that effective leaders remove the roadblocks and pitfalls so that followers have a clearer path to help them get from where they are to the achievement of their work goals.

House identified four leadership behaviors:

- **Directive leader:** Lets subordinates know what’s expected of them, schedules work to be done, and gives specific guidance on how to accomplish tasks
- **Supportive leader:** Shows concern for the needs of followers and is friendly
- **Participative leader:** Consults with group members and uses their suggestions before making a decision
- **Achievement-oriented leader:** Sets challenging goals and expects followers to perform at their highest level

In contrast to Fiedler’s view that a leader couldn’t change their behavior, House assumed that leaders are flexible and can display any or all of these leadership styles depending on the situation.

As **Exhibit 16-4** illustrates, path-goal theory proposes two situational or contingency variables that moderate the leadership behavior–outcome relationship: those in the *environment* that are outside the control of the follower (factors including task structure, formal authority system, and the work group) and those that are part of the personal characteristics of the *follower* (including locus of control, experience, and perceived ability). Environmental factors determine the type of leader behavior required if subordinate outcomes are to be maximized; personal characteristics of the follower determine how the environment and leader behavior are interpreted. The theory proposes that a leader’s behavior won’t be effective if it’s redundant with what the environmental structure is providing or is incongruent with follower characteristics. For example, some predictions from path-goal theory are:

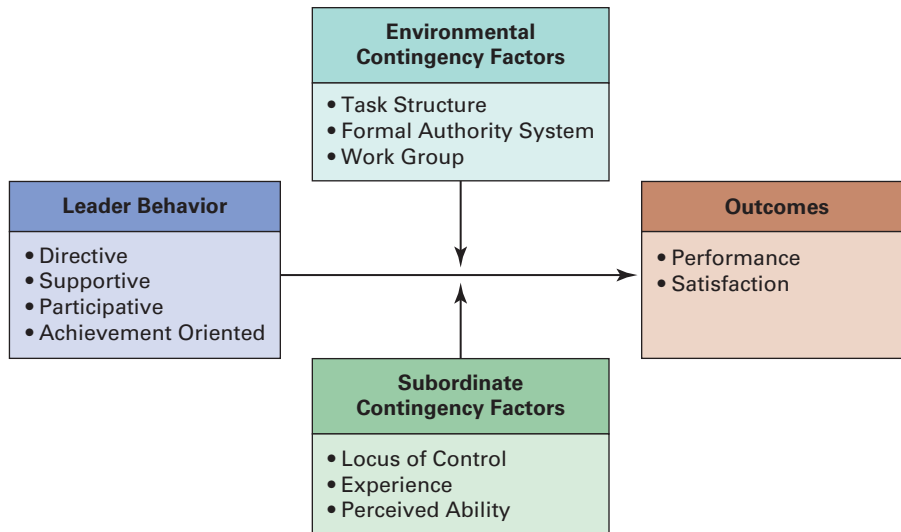
- Directive leadership leads to greater satisfaction when tasks are ambiguous or stressful than when they are highly structured and well laid out. The followers aren’t sure what to do, so the leader needs to give them some direction.
- Supportive leadership results in high employee performance and satisfaction when subordinates are performing structured tasks. In this situation, the leader only needs to support followers, not tell them what to do.
- Directive leadership is likely to be perceived as redundant among subordinates with high perceived ability or with considerable experience. These followers are quite capable, so they don’t need a leader to tell them what to do.
- The clearer and more bureaucratic the formal authority relationships, the more leaders should exhibit supportive behavior and de-emphasize directive behavior. The organizational situation has provided the structure as far as what is expected of followers, so the leader’s role is simply to support.

path-goal theory

A leadership theory that says the leader’s job is to assist followers in attaining their goals and to provide direction or support needed to ensure that their goals are compatible with the goals of the group or organization



Dan Reynolds (left), leader of the group Imagine Dragons, uses the participative approach of the path-goal theory. His approach to songwriting is that each member writes songs constantly and works on putting together their songs as a group. Reynolds strives to create a shared environment in which band members work together as a unit. Source: Derek Storm/Everett Collection/Alamy Stock Photo

Exhibit 16-4
Path-Goal Model

- Directive leadership will lead to higher employee satisfaction when there is substantive conflict within a work group. In this situation, the followers need a leader who will take charge.
- Subordinates with an internal locus of control will be more satisfied with a participative style. Because these followers believe they control what happens to them, they prefer to participate in decisions.
- Subordinates with an external locus of control will be more satisfied with a directive style. These followers believe that what happens to them is a result of the external environment, so they would prefer a leader who tells them what to do.
- Achievement-oriented leadership will increase subordinates' expectancies that effort will lead to high performance when tasks are ambiguously structured. By setting challenging goals, followers know what the expectations are.

A review of the research to test path-goal theory suggests mixed support.²¹ To summarize the model, however, an employee's performance and satisfaction are likely to be positively influenced when the leader chooses a leadership style that compensates for shortcomings in either the employee or the work setting. However, if the leader spends time explaining tasks that are already clear or when the employee has the ability and experience to handle them without interference, the employee is likely to see such directive behavior as redundant or even insulting.

CONTEMPORARY Views of Leadership

LO16.4 Describe contemporary views of leadership.

What are the latest views of leadership? Given the widespread interest in the topic of leadership, you won't be surprised to learn that there are a number of new and interesting directions in leadership research. We review a number of them in the following pages.

Leader–Member Exchange (LMX) Theory

Have you ever been in a group in which the leader had “favorites” who made up their in-group? If so, that's the premise behind leader–member exchange (LMX) theory.²²

Leader–member exchange theory (LMX) says leaders create in-groups and out-groups, and those in the in-group will have higher performance ratings, less turnover, and greater job satisfaction.

LMX theory suggests that early on in the relationship between a leader and a given follower, a leader will implicitly categorize a follower as an “in” or an “out.” That relationship tends to remain fairly stable over time. Leaders also encourage LMX

leader–member exchange theory (LMX)

The leadership theory that says leaders create in-groups and out-groups and those in the in-group will have higher performance ratings, less turnover, and greater job satisfaction

by rewarding those employees with whom they want a closer linkage and punishing those with whom they do not.²³ For the LMX relationship to remain intact, however, both the leader and the follower must invest in the relationship.

It's not exactly clear how a leader chooses who falls into each category, but evidence shows that in-group members have demographic, attitude, personality, and even gender similarities with the leader, or they have a higher level of competence than out-group members.²⁴ The leader does the choosing, but the follower's characteristics drive the decision.

Research on LMX has been generally supportive. It appears that leaders do differentiate among followers; that these disparities are not random; and that followers with in-group status will have higher performance ratings, engage in more helping or "citizenship" behaviors at work, and report greater satisfaction with their boss.²⁵

charismatic leader

Someone to whom followers attribute heroic or extraordinary leadership abilities when they observe certain behaviors and tend to give power



Jacinda Ardern is a charismatic leader. The former prime minister of New Zealand demonstrated empathy, authenticity, and even humor as she led her country.
Source: Jeremy Sutton-Hibbert/Alamy Stock Photo

Charismatic Leadership

Former prime minister of New Zealand Jacinda Ardern's service in office was a challenge as she led her country through a terrorist attack, a natural disaster, and a global pandemic. Observers suggest that it was her approach to leading that earned her the respect of the country, demonstrating empathy, authenticity, and even humor as she overcame these tough obstacles.²⁶ Ardern is what we call a **charismatic leader**—that is, someone to whom followers attribute heroic or extraordinary leadership abilities when they observe certain behaviors and tend to give power.²⁷

A number of authors have attempted to identify personal characteristics of the charismatic leader.²⁸ The most comprehensive analysis identified five such characteristics: they have a vision, the ability to articulate that vision, a willingness to take risks to achieve that vision, a sensitivity to both environmental constraints and follower needs, and behaviors that are out of the ordinary.²⁹

An increasing body of evidence shows impressive correlations between charismatic leadership and high performance and satisfaction among followers.³⁰ Although one study found that charismatic CEOs had no impact on subsequent organizational performance, charisma is still believed to be a desirable leadership quality.³¹ But we can't ignore that charisma has a potential downside. Charismatic leaders who are larger than life don't necessarily act in the best interests of their organizations.³² Research has shown that individuals who are narcissistic are also higher in some behaviors associated with charismatic leadership. Many charismatic—but corrupt—leaders have allowed their personal goals to override the goals of their organizations. For example, Elizabeth Holmes was able to raise millions of dollars for her company Theranos by convincing investors that the technology she developed to run blood tests with a single drop of blood worked—even though she never shared any data to support her claim. She was later found guilty of fraud.³³ Hopefully the corrupt charismatic leaders such as Holmes stand out largely because they're the exceptions.

If charisma is desirable, can people learn to be charismatic leaders? Or are charismatic leaders born with their qualities? Although a small number of experts still think that charisma can't be learned, most believe that individuals can be trained to exhibit charismatic behaviors.³⁴ For example, researchers have succeeded in teaching undergraduate students to "be" charismatic. How? They were taught to articulate a far-reaching goal, communicate high performance expectations, exhibit confidence in the ability of subordinates to meet those expectations, and empathize with the needs of their subordinates; they learned to project a powerful, confident, and dynamic presence; and they practiced using a captivating and engaging voice tone. The researchers also trained the student leaders to use charismatic nonverbal behaviors, including leaning toward the follower when communicating, maintaining direct eye contact, and having a relaxed posture and animated facial expressions. In groups with these "trained"

charismatic leaders, members had higher task performance, higher task adjustment, and better adjustment to the leader and to the group than did group members who worked in groups led by noncharismatic leaders.

One last thing we should say about charismatic leadership is that it may not always be needed to achieve high levels of employee performance. It may be most appropriate when the follower's task has an ideological purpose or when the environment involves a high degree of stress and uncertainty.³⁵ This distinction may explain why, when charismatic leaders surface, it's more likely to be in politics, religion, or wartime, or when a business firm is starting up or facing a survival crisis. For example, Martin Luther King Jr. used his charisma to bring about social equality through nonviolent means, and Steve Jobs achieved unwavering loyalty and commitment from Apple's technical staff in the early 1980s by articulating a vision of personal computers that would dramatically change the way people lived.

Transformational-Transactional Leadership

Many early leadership theories viewed leaders as **transactional leaders**; that is, leaders who lead primarily by using social exchanges (or transactions). Transactional leaders guide or motivate followers to work toward established goals by exchanging rewards for their productivity.³⁶ But another type of leader—a **transformational leader**—stimulates and inspires (transforms) followers to achieve extraordinary outcomes. Examples include Satya Nadella at Microsoft and Jeff Bezos, former CEO of Amazon. They pay attention to the concerns and developmental needs of individual followers; they change followers' awareness of issues by helping those followers look at old problems in new ways; and they are able to excite, arouse, and inspire followers to exert extra effort to achieve group goals.

Transactional and transformational leadership shouldn't be viewed as opposing approaches to getting things done.³⁷ Transformational leadership develops from transactional leadership. Transformational leadership produces levels of employee effort and performance that go beyond what would occur with a transactional approach alone. Moreover, transformational leadership is more than charisma because the transformational leader attempts to instill in followers the ability to question not only established views, but also those views held by the leader.³⁸

transactional leaders

Leaders who lead primarily by using social exchanges (or transactions)

transformational leaders

Leaders who stimulate and inspire (transform) followers to achieve extraordinary outcomes

Learning from FAILURE Childhood Lessons on Failure

Sarah Blakely, founder of the shapewear company Spanx, which was valued at \$1.2 billion when the Blackstone Investment Bank bought a majority stake in 2021, learned about failure as a child. Her dad regularly asked her at the dinner table, "What have you failed at this week?" And then he would celebrate when he learned she tried something and failed. This early experience of talking about and even celebrating failures helped her reframe the idea of failure as something that is expected. She learned the outcome of what you do is not what is important; it is about trying and the gift of what you learn when you fail.

She was lucky to learn this lesson early, because she experienced a lot of failure before founding Spanx. For instance, she wanted to become a lawyer, but she failed the LSAT exam twice. And then she spent seven years

trying to sell fax machines before coming up with the idea for her shapewear when she had to attend an event and did not like how her white pants looked. Cutting the feet off some tights to wear under the pants, she realized that she had created something of value. Using her savings to create a prototype and making mistakes along the way, she launched Spanx in 2000. Eventually, the company took off and in 2012, she became the youngest female self-made billionaire.

Because she does not fear failure, she also has embraced a leadership style that went against advice she received early in her career. Many told her to get prepared to fight, that "business is war." She ignored the advice and chose to approach business her way, leading with empathy, intuition, and vulnerability instead.³⁹

The evidence supporting the superiority of transformational leadership over transactional leadership is overwhelmingly impressive. For instance, studies that looked at managers in different settings, including the military and business, found that transformational leaders were evaluated as more effective, higher performers, more promotable than their transactional counterparts, and more interpersonally sensitive.⁴⁰ In organizations that engage in project-based work, transformational leaders have been found to be more effective due to the high level of change, uncertainty, and complexity involved in project-based work.⁴¹ In addition, evidence indicates that transformational leadership is strongly correlated with lower turnover rates and higher levels of productivity, employee satisfaction, creativity, goal attainment, follower well-being, and corporate entrepreneurship, especially in start-up firms.⁴²

Authentic Leadership

Ted Lasso is about a fictional character, but the show highlights a coach who demonstrates strong leadership characteristics. Throughout the show, the Ted Lasso character provides advice such as “doing the right thing is never wrong” and “courage is about being willing to try.” As a coach in a sport he never played, Ted Lasso is honest about his shortcomings and exudes positivity, all characteristics of an authentic leader.⁴³

Authentic leadership focuses on the moral aspects of being a leader. Authentic leaders know who they are, know what they believe in, and act on those values and beliefs openly and candidly. More specifically, authentic leaders have been found to possess four qualities: they are self-aware, are transparent, openly solicit views that challenge their deeply held positions, and are guided by strong moral standards.⁴⁴ They’re also typically humble.

The combination of these qualities leads followers to consider them as ethical people and trust them as a result. When leaders practice what they preach, or act on their values openly and candidly, followers tend to develop a strong affective commitment and trust in their leader and, to a lesser degree, to improve their performance and organizational citizenship behavior.⁴⁵

Ethical Leadership

The airline industry was hit hard by the COVID-19 pandemic. With travel on hold, many airlines had to make tough decisions, including laying off workers. Delta Air Lines, however, was able to navigate the challenge with a priority of people over profits, finding other cost-cutting strategies to avoid layoffs. Delta’s CEO Ed Bastian led that vision, stating that every morning during the early days of the pandemic he thought “today’s decisions are going to reveal the character of this company.” Bastian’s actions reflect his commitment to ethical leadership, which was recognized by the Society for Human Resource Management, which named him the 2023 Ethical Leader of the Year.⁴⁶

Leadership is not value-free. In assessing its effectiveness, we need to address the *means* that a leader uses to achieve goals as well the content of those goals. The role of the leader in creating the ethical expectations for all members is crucial.⁴⁷ Ethical top leadership not only influences direct followers, but also spreads all the way down the command structure, because top leaders set expectations and expect lower-level leaders to behave consistent with ethical guidelines.⁴⁸ In fact,

research suggests that the ethical or unethical behavior of leaders has long-lasting effects on the moral behavior of employees by impacting the overall work environment.⁴⁹

Leaders rated as highly ethical tend to be evaluated very positively by their subordinates, who are also more satisfied and committed to their jobs and experience less strain and turnover intentions.⁵⁰ Followers of such leaders are also more motivated,

authentic leadership

Leaders who know who they are, know what they believe in, and act on those values and beliefs openly and candidly



Ed Bastian, the CEO of Delta Air Lines, is an example of an ethical leader. In 2023 he was recognized by the Society for Human Resource Management as the Ethical Leader of the Year. Source: Everett Collection Inc./Alamy Stock Photo

perform better, and engage in more organizational citizenship behaviors and fewer counterproductive work behaviors.⁵¹

Servant Leadership

Why is Ukraine's President Zelenskyy, whom we mentioned in the chapter opener, considered a good leader? Some argue it's because he puts his people first, seeing his role as serving his country. Instead of hiding in fear, he took to the streets to reassure the public that the country was ready to defend itself against Russia.⁵² In fact, he stated the importance of leaders serving others in his inaugural address, saying, "We need people in power who will serve the people. This is why I really do not want my pictures in your offices, for the president is not an icon, an idol, or a portrait. Hang your kids' photos instead and look at them each time you are making a decision."⁵³

Servant leadership is an "other-oriented" approach to leadership, where the leader looks outward.⁵⁴ Servant leaders go beyond their self-interest and focus on opportunities to help followers grow and develop. What's unique about servant leadership is that relative to other approaches to leadership, it puts the needs of followers ahead of attending to one's own needs. Its specific characteristics include caring about followers' personal problems and well-being, empowering followers with responsibility and decision-making influence, helping subordinates grow and succeed, and serving as a model of integrity.⁵⁵ Servant leadership can be a challenge; some find the approach to be emotionally depleting due to devoting significant time and energy to others. However, research has shown that leaders who are skilled at seeing others' perspectives find servant leadership less depleting.⁵⁶

One study of 71 general managers of restaurants in the United States and over 1,000 of their employees found that servant leaders tend to create a culture of service, which in turn improves restaurant performance and enhances employees' attitudes and performance by increasing employees' identification with the restaurant.⁵⁷ Another study of Chinese hairstylists found similar results, with servant leadership predicting customer satisfaction and stylists' service performance.⁵⁸

One interesting aside is that servant leadership may be more prevalent and effective in certain cultures.⁵⁹ When asked to draw images of leaders, for example, US subjects tended to draw them in front of the group, giving orders to followers. Singaporeans, in contrast, tended to draw leaders at the back of the group, acting more to gather a group's opinions together and then unify them from the rear. This suggests that the East Asian prototype is more like a servant leader, which might mean servant leadership is more effective in these cultures.

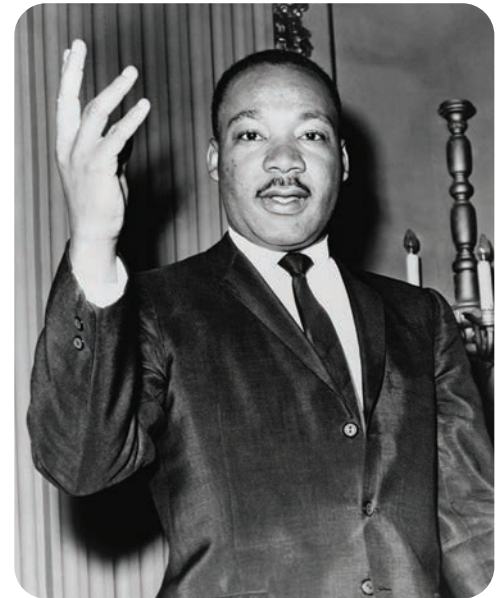
Emergent Leadership

Whereas most leadership research focuses on top-down leaders who have formal and legitimate leadership roles, the growing number of organic and flexible organizations has created opportunities to examine informal leaders. **Emergent leadership** occurs when the leader of a group or team naturally arises instead of being appointed. Emergent leaders are those who are perceived by their peers as being leaderlike and accepted as the informal leader. They lead at the team level, have not been formally appointed, and do not play a permanent role. Although theories on emergent leadership have been researched for decades, the growth of informal management and flatter organizational hierarchies has led to an increased focus on the characteristics of emerging leaders and how an organization can effectively leverage their talent.⁶⁰

How do you recognize an emergent leader? It is the person in a group or team who is detecting and solving problems, setting meeting agendas, keeping track of deadlines, assigning tasks, and providing team members feedback. For example, when

servant leadership

Leadership that goes beyond self-interest and focuses on opportunities to help followers grow and develop



Dr. Martin Luther King Jr. provides an example of servant leadership, which is defined as leadership that goes beyond self-interest and focuses on opportunities to help followers grow and develop.

Source: GL Archive/Alamy Stock Photo

emergent leadership

When the leader of a group or team naturally arises instead of being appointed

the COVID-19 pandemic led many workplaces to shift to remote work, formal leadership in many companies was focused on high-level strategic concerns; informal leaders emerged on teams to support workers transitioning to remote work.⁶¹

Followership

Here's a statement beyond debate: You can't be a leader without any followers! So leaders can only be as effective as their ability to engage followers. Research tends to prioritize the leader, but we are learning more about the role of the follower in effective leadership.⁶²

The leader–follower interaction is two-way. First, it's obvious that leaders need to motivate and engage their followers to achieve end goals. But often overlooked is the fact that followers influence the attitudes, aptitudes, and behaviors of leaders.⁶³ The two need to work together to move the collective forward.⁶⁴ Leadership is a process that emerges from a relationship between leaders and followers who are bound together as part of the same social group. For success, followers need a set of skills that are complementary to those of the leader.⁶⁵ In fact, evidence suggests that followers are not just passive recipients of a leader's influence; rather, they actively make sense of and even shape a leader's behavior.⁶⁶

What defines a good follower? Through most of the 20th century, the answer was unquestioned obedience and deference to a leader. However, as the nature of work has changed, requiring more cooperation and group work, the importance of followers has emerged, and a good follower can help a leader succeed.⁶⁷ Today, as leaders engage in less unilateral decision making and more collaboration, great followership is characterized by a different set of qualities:⁶⁸

- ***They can manage themselves.*** Effective followers are self-directed. They are self-motivated and can work without close supervision.
- ***They are strongly committed to a purpose outside themselves.*** Effective followers are committed to something—a cause, a product, a work team, an idea, an organization—in addition to the cares of their own lives. Most people like working with colleagues who are emotionally, as well as physically, committed to their work.
- ***They are enthusiastic.*** They approach their work with a positive attitude. They “buy into” their leader's vision.
- ***They build their competence and focus their efforts for maximum impact.*** Effective followers master skills that will be useful to their organization, and they hold higher performance standards than their job or work group requires.
- ***They are courageous, honest, and credible.*** Effective followers establish themselves as independent, critical thinkers whose knowledge and judgment can be trusted. They hold high ethical standards, give credit where credit is due, and aren't afraid to admit their mistakes.

INTEGRATING Theories of Leadership

LO16.5 Compare the various theories of leadership for their validity.

We've introduced a number of leadership theories in this chapter. Let's try to see what commonalities might exist among these theories, how they might be complementary or overlap, and how they can be integrated to help you better understand what makes an effective leader.

Traits

Let's begin with traits. Although there is no single trait or set of traits that are unique to leaders, several traits seem to regularly appear in research studies of leaders. We noted 10 of them in Exhibit 16-1. Of these, the most powerful appear to be intelligence,

emotional intelligence, and conscientiousness.⁶⁹ But these traits may more accurately reflect the *perception* of leadership rather than actual leadership *effectiveness*. Our conclusion is that even if traits play a role in defining leaders, their role is small and dependent on situational factors.

Behaviors

The behavioral theories we discussed focused on a number of dimensions: democratic, autocratic, and laissez-faire styles; directive and participative; initiating structure and consideration; employee-oriented and production-oriented; concern for people and concern for production. Even the most cursory review of these dimensions suggests considerable overlap, if not redundancy. In addition, transitional, transformational, charismatic, and leader–member exchange theories all include leadership behaviors.

Efforts to streamline these behaviors have found that three metacategories encompass almost all of these:⁷⁰

- **Task-oriented behavior:** This describes transactional leader behavior, initiating structure, directive behavior, and production orientation.
- **Relations-oriented behavior:** This describes leaders who care about their followers' needs, treat members equally, and are friendly and approachable. This would describe consideration, a democratic style, employee and people oriented, participative behavior, transformational leadership, and LMX's in-group.
- **Change-oriented behavior:** This leader behavior includes communicating a vision of change, encouraging innovative thinking, and risk-taking. It's a major component of both transformational and charismatic leadership.

Using these three behaviors, researchers have found that relations-oriented leadership accounted for most of the differences in both employee commitment and job performance.⁷¹

In terms of reducing redundancy and confusion, efforts at comparing ethical and authentic leadership with transformational leadership found considerable overlap. Specifically, it appears that transformational leadership encompasses almost all of the same variables as ethical and authentic leadership.⁷² So although both authentic and ethical leadership may help in understanding a few focused employee outcomes, they don't "offer much that transformational leadership does not already provide."⁷³ Meanwhile, transformational leadership does appear to be related to employee commitment, trust, satisfaction, and performance.

Contingency Factors

There is no shortage of contingency factors that have been introduced to help explain when leaders are most likely to be effective. Some, however, appear to be more relevant. We'll look at four.

A follower's *experience* appears important. The more experience an employee has, the less dependent they are on a leader. It appears a leader's guidance is particularly important when an employee is new. But experienced employees don't require close supervision and are likely to find task-oriented behavior by a leader as unnecessary or even insulting.

A follower's *ability* also appears important. Like experience, high levels of ability allow employees to perform their work with minimal supervision.

Culture has consistently proven to be a highly relevant contingency variable in leadership.⁷⁴ *Organizational culture* shapes what leadership style is appropriate. Regardless of a leader's predisposition, what's defined as "appropriate" in a prison or military organization is likely to be very different than in a consulting firm or an academic department in a university. *National culture* also shapes what's appropriate and acceptable. The same relations-oriented style that's appropriate and effective in Sweden is likely to be seen as weak and ineffective in Mexico.

LEADERSHIP Issues in the 21st Century

LO16.6 Discuss 21st-century issues affecting leadership.

Today's leaders face some important issues. In this section, we look at several of them.

Managing Power

Where do leaders get their power—that is, their right and capacity to influence work actions or decisions? Five sources of leader power have been identified: legitimate, coercive, reward, expert, and referent.⁷⁵

legitimate power

The power a leader has as a result of their position in the organization

Legitimate power and authority are the same. Legitimate power represents the power a leader has as a result of their position in the organization. Although people in positions of authority are also likely to have reward and coercive power, legitimate power is broader than the power to coerce and reward.

coercive power

The power a leader has to punish or control

Coercive power is the power a leader has to punish or control. Followers react to this power out of fear of the negative results that might occur if they don't comply. Managers typically have some coercive power, such as being able to suspend or demote employees or to assign them work they find unpleasant or undesirable.

reward power

The power a leader has to give positive rewards

Reward power is the power to give positive rewards. A reward can be anything a person values, such as money, favorable performance appraisals, promotions, interesting work assignments, friendly colleagues, and preferred work shifts or sales territories.

expert power

Power that's based on expertise, special skills, or knowledge

Expert power is power based on expertise, special skills, or knowledge. If an employee has skills, knowledge, or expertise that's critical to a work group, that person's expert power is enhanced.

referent power

Power that arises because of a person's desirable resources or personal traits

Finally, **referent power** is the power that arises because of a person's desirable resources or personal traits. It develops out of admiration of another and a desire to be like that person. Referent power explains why celebrities are paid millions of dollars to endorse products in commercials. Marketing research shows that people like Ariana Grande, Kim Kardashian, and LeBron James have the power to influence your choice of beauty products and athletic shoes.

Most effective leaders rely on several different forms of power to affect the behavior and performance of their followers. For example, the commanding officer of a military submarine employs different types of power in managing their crew and equipment. They give orders to the crew (legitimate), praise them (reward), and discipline those who commit infractions (coercive). As an effective leader, they also strive to have expert power (based on their expertise and knowledge) and referent power (based on their being admired) to influence their crew.

Developing Credibility and Trust

We saw the importance trust plays in a variety of leadership theories. In fact, it's probably fair to say that a lack of credibility and trust is likely to undermine leadership. But how can leaders build credibility and trust? Let's start with making sure we know what the terms mean and why they're so important.

credibility

The degree to which followers perceive someone as honest, competent, and able to inspire

The main component of **credibility** is honesty. Surveys show that honesty is consistently singled out as the number one characteristic of admired leaders. "Honesty is absolutely essential to leadership. If people are going to follow someone willingly, whether it be into battle or into the boardroom, they first want to assure themselves that the person is worthy of their trust."⁷⁶ In addition to being honest, credible leaders are competent and inspiring. They are personally able to effectively communicate their confidence and enthusiasm. Thus, followers judge a leader's credibility in terms of their honesty, competence, and ability to inspire.

trust

The belief in the integrity, character, and ability of a leader

Trust is closely entwined with the concept of credibility; in fact, the terms are often used interchangeably. **Trust** is defined as the belief in the integrity, character, and ability of a leader. Followers who trust a leader are willing to be vulnerable to the leader's actions because they are confident that their rights and interests will not be abused.⁷⁷ Research has identified five dimensions that make up the concept of trust:⁷⁸

WORKPLACE CONFIDENTIAL Dealing with a Micromanager

Micromanaging has been described as probably the most common complaint about a boss. What exactly is *micromanaging*, and what can you do if you find yourself working for a micromanager?

A micromanager is someone who wants to control every particular aspect, down to the smallest detail, of your work. For you, it can be very frustrating, stressful, and demoralizing. What are some signs that you are being micromanaged? Your manager checks on your progress multiple times a day, asks for frequent updates, tells you how to complete tasks, is obsessed with meaningless details, or becomes irritated if you make a decision on your own. But just monitoring your work doesn't make your boss a micromanager. Every manager has a responsibility for controlling activities for which they are responsible. And good managers are detail oriented. The difference is that micromanagers obsess on details, lose sight of priorities, and behave as if they don't trust you. Good managers, on the other hand, understand the value of delegation. Unfortunately, you might not always have one of these.

There's a long list of reasons why your boss might be micromanaging you, including insecurity, lack of trust in others, risk aversion, or lack of confidence in your ability. Additionally, other reasons might be having too little to do, thinking they are being helpful, or just being a control freak.

Self-assessment: If you feel that you are being micromanaged, the place to start is with self-assessment. Ask yourself: "Is it *me*?" Is there any reason your boss might feel the need to micromanage? For instance, have you shown up late to work? Have you missed some deadlines? Have you been distracted at work lately? Have you made mistakes that have reflected negatively on your boss? Start your assessment by making sure that your manager's behavior isn't rational and reasonable.

New to the job: The next question to ask is: Are either you or your manager new on the job? If you're new, your manager may just be temporarily monitoring your work until they are confident of your ability and you prove yourself. If your manager is new, either to the current position or in their first managerial position, be patient as they adjust. Micromanaging is not uncommon among new managers who, with little experience, are fearful of delegation and

being held accountable for results. And experienced managers, in a new position, may be overly controlling until they're confident of your abilities. So if either you or your boss is new, you might want to give it some time.

Changing conditions: A final step before you take any action should be to assess whether conditions have changed. If your boss's micromanaging behavior is a change from past behavior, consider whether it might be justified by changing conditions. Is your organization going through layoffs? Is there a major reorganization going on? Has your manager been given additional projects with pressing deadlines? Is there new upper-level leadership at the company? Any of these types of conditions can increase stress and lead your boss to micromanaging. If the conditions creating stress are temporary, the strong oversight behavior may be just short term.

Talk to your manager: If you've come to the conclusion that your manager's behavior isn't temporary and it's creating difficulties for you to do your job properly, you and your manager need to talk. It's very possible your manager is unaware that there's a problem. In a nonconfrontational voice, specifically explain how the oversight is impacting your work, creating stress, and making it harder for you to perform at your full capabilities. You want to demonstrate that you've got things under control and that you know what is expected of you.

Keep your manager updated: In addition to talking to your manager, you want to alleviate any concerns that work isn't being done correctly or that your manager might be unable to answer questions about your work progress. This is best achieved by regularly updating your manager on your work's status. No one likes surprises, especially ones that might reflect negatively on their management skills. This can best be achieved by proactively providing updates before they're requested.

Reinforce your manager's positive behaviors: When your manager leaves you alone, express gratitude about the hands-off approach. By positively reinforcing trust, you increase the probability that it will continue. Over time, when combined with your regular updates and your solid performance, you're very likely to see a decline in the micromanaging behavior.⁷⁹

- **Integrity:** Honesty and truthfulness
- **Competence:** Technical and interpersonal knowledge and skills
- **Consistency:** Reliability, predictability, and good judgment in handling situations
- **Loyalty:** Willingness to protect a person, physically and emotionally
- **Openness:** Willingness to share ideas and information freely

Of these five dimensions, integrity seems to be the most critical when someone assesses another's trustworthiness.⁸⁰ Both integrity and competence were seen in our earlier discussion of leadership traits to be consistently associated with leadership. Workplace changes have reinforced why such leadership qualities are important. For instance, the

trends toward empowerment and self-managed work teams have reduced many of the traditional control mechanisms used to monitor employees. If a work team is free to schedule its own work, evaluate its own performance, and even make its own hiring decisions, trust becomes critical. Employees have to trust managers to treat them fairly, and managers have to trust employees to conscientiously fulfill their responsibilities.

Also, leaders have to increasingly lead others who may not be in their immediate work group or may even be physically separated—members of cross-functional or virtual teams, individuals who work for suppliers or customers, and perhaps even people who represent other organizations through strategic alliances. These situations don't allow leaders the luxury of falling back on their formal positions for influence. Many of these relationships, in fact, are fluid and fleeting, so the ability to quickly develop trust and sustain that trust is crucial to the success of the relationship. Research suggests that leaders can build trust by behaving in a way that shows compassion and also communicating with humility.⁸¹

Why is it important that followers trust their leaders? Research has shown that trust in leadership is significantly related to positive job outcomes, including job performance, organizational citizenship behavior, job satisfaction, and organizational commitment.⁸²

Now, more than ever, managerial and leadership effectiveness depends on the ability to gain the trust of followers.⁸³ Downsizing, financial challenges, and the increased use of temporary employees have undermined employees' trust in their leaders and shaken the confidence of investors, suppliers, and customers. Today's leaders are faced with the challenge of rebuilding and restoring trust with employees and with other important organizational stakeholders.

Leading Virtual Teams

CEO Matt Mullenweg of tech company Automattic Inc., known for its websites including Tumblr and Wordpress, leads a remote workforce of more than 1,300 employees across 76 countries. The company's agile, empowered teams have helped grow the company to a \$3 billion valuation, and Mullenweg notes, "If we make it look easy, it's because we work incredibly hard at it."⁸⁴ We discussed the growth of virtual teams in **Chapter 15** and know that many companies have at least some remote workers. Because they lack the "face-to-face" feature of other types of teams, they provide a unique challenge to managers. Specifically, how do you lead people who are physically separated and might be in different time zones, geographic locations, or residing in a different culture?

With a lack of in-person contact, many leaders find it difficult to achieve work group cohesion and to actually ensure that work is being completed. The significant increase in virtual work during the COVID-19 pandemic highlighted many of these challenges to leaders. For example, many companies attempted to replicate in-person interactions by increasing contact through video meetings, but too much video time can lead to exhaustion and burnout.⁸⁵ Leaders need to take a different approach in the virtual environment.

So what are some strategies for virtual leaders? Beyond ensuring the right technology is in place to support communication, leading virtual teams requires work establishing norms and expectations, building collaborative relationships, and establishing trust.⁸⁶ Building relationships, in particular, requires leaders to find ways to stay connected, meaning going beyond just video meetings and actually checking in on workers to make sure they have what they need. Essentially, they need to lead with empathy.⁸⁷ Further, without physical presence, virtual leaders must shift from managing time and activity to focusing on outcomes and results.⁸⁸

Leadership Training

We know that some people have traits that make them good leaders, but evidence suggests that with effort, individuals can become better leaders.⁸⁹ Although it requires a personal commitment to develop leadership skills, many companies invest in leadership

training. In fact, organizations around the globe spend billions of dollars, yen, and euros on leadership training and development. In the United States alone, it has been estimated that companies spend more than \$92 billion a year on formal training and development.⁹⁰ These efforts take many forms—from \$50,000 leadership programs offered by universities such as Harvard and organizations such as Disney to sailing experiences at the Outward Bound School.

Is leadership training effective? A number of individual studies have been done on leadership effectiveness with mixed results.⁹¹ However, a comprehensive review of over 300 studies found very encouraging results when certain conditions are met. It was found that leadership training composed of multiple sessions and combining information, demonstration, and practice methods was effective in creating real behavioral change and in positively influencing organizational and subordinate outcomes.⁹²

More specifically, there is some consensus about characteristics of effective leadership training. One is contextualization (ensuring that learning is set in the strategy and culture of the organization); another is personalization (enabling participants to seek out learning related to their aspirations).⁹³

First, let's recognize the obvious: Some people don't have what it takes to be a leader. Period. For instance, evidence indicates that leadership training is more likely to be successful with individuals who are high self-monitors rather than low self-monitors. Such individuals have the flexibility to change their behavior as different situations may require. In addition, organizations may find that individuals with higher levels of a trait called "motivation to lead" are more receptive to leadership development opportunities.⁹⁴

What kinds of things can individuals learn that might be related to being a more effective leader? It may be a bit optimistic to think that "vision creation" can be taught, but implementation skills can be taught. People can be trained to develop "an understanding about content themes critical to effective visions."⁹⁵ We can also teach skills such as trust-building and mentoring. And leaders can be taught situational analysis skills. They can learn how to evaluate situations, how to modify situations to make them fit better with their style, and how to assess which leader behaviors might be most effective in given situations.

TRAINING ON ARTIFICIAL INTELLIGENCE Throughout the text, we have discussed how AI is impacting the practice of management. Unlike some other technologies, AI does not require you to be a data scientist or IT specialist to leverage its potential, but leaders do need to become AI literate to effectively integrate AI into an organization's strategy. Leaders have increasingly become data-driven, and harnessing the power of AI to improve organizational decision making and streamline processes offers leaders an opportunity to reallocate their time to focus on leader responsibilities such as mentoring and motivating workers.

Experts suggest three paths to prepare leaders to engage with AI. First, through individual learning and self-study. There are also third-party resources for leader training programs, such as a company's IT provider. Finally, larger organizations may want to consider developing their own internal training programs. And as we discussed in **Chapter 7**, leaders need training specifically on AI ethical issues. In addition to training, organizations may consider adding a chief artificial intelligence officer to their leadership team to help optimize AI.⁹⁶

When Leadership May Not Be Important

Despite the belief that some leadership style will always be effective regardless of the situation, leadership may not always be important! Data from numerous studies collectively demonstrate that, in many situations, whatever actions leaders exhibit are



US Naval Forces Europe-Africa Fleet Master Chief Raymond Kemp Sr. speaks to a multinational group of senior enlisted leaders during the Combined Joint Maritime Enlisted Leadership Development Program (ELDP), Back Bone University.
Source: AB Forces News Collection/Alamy Stock Photo

irrelevant. Certain individual, job, and organizational variables can act as *substitutes* for leadership or *neutralize* the leader's effect to influence their followers.⁹⁷

Neutralizers make it impossible for leader behavior to make any difference to follower outcomes. They negate the leader's influence. Substitutes, on the other hand, make a leader's influence not only impossible but also unnecessary. They act as a replacement for the leader's influence. For instance, characteristics of employees such as their experience, training, "professional" orientation, or indifference toward organizational rewards can substitute for, or neutralize the effect of, leadership. Experience and training can replace the need for a leader's support or ability to create structure and reduce task ambiguity. Jobs that are inherently unambiguous and routine or that are intrinsically satisfying may place fewer demands on the leadership variable. And organizational characteristics like explicit formalized goals, rigid rules and procedures, and cohesive work groups can also replace formal leadership.

Chapter 16

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO16.1 DEFINE leader and leadership.

A leader is someone who can influence others and who has managerial authority. Leadership is a process of leading a group and influencing that group to achieve its goals. Managers should be leaders because leading is one of the four management functions.

LO16.2 COMPARE and contrast early theories of leadership.

Early attempts to define leader traits were unsuccessful, although later attempts found eight traits associated with leadership.

The University of Iowa studies explored three leadership styles. The only conclusion was that group members were more satisfied under a democratic leader than under an autocratic one. The Ohio State studies identified two dimensions of leader behavior—initiating structure and consideration. A leader high in both those dimensions at times achieved high group task performance and high group member satisfaction, but not always. The University of Michigan studies looked at employee-oriented leaders and production-oriented leaders. They concluded that leaders who were employee oriented could get high group productivity and high group member satisfaction. The managerial grid looked at leaders' concern for production and concern for people, and identified five leader styles. Although it suggested that a leader who was high in concern for production and high in concern for people was the best, there was no substantive evidence for that conclusion.

As the behavioral studies showed, a leader's behavior has a dual nature: a focus on the task and a focus on the people.

LO16.3 DESCRIBE the three major contingency theories of leadership.

Fiedler's model attempted to define the best style to use in particular situations. He measured leader style—relationship oriented or task oriented—using the least-preferred coworker questionnaire. Fiedler also assumed a leader's style was fixed. He measured three contingency dimensions: leader-member relations, task structure, and position power. The model suggests that task-oriented leaders performed best in very favorable and very unfavorable situations, and relationship-oriented leaders performed best in moderately favorable situations.

Hersey and Blanchard's situational leadership theory focused on followers' readiness. They identified four leadership styles: telling (high task–low relationship), selling (high task–high relationship), participating (low task–high relationship), and delegating (low task–low relationship). They also identified four stages of readiness: unable and unwilling (use telling style), unable but willing (use selling style), able but unwilling (use participative style), and able and willing (use delegating style).

The path-goal model developed by Robert House identified four leadership behaviors: directive, supportive, participative, and achievement oriented. He assumed that a leader can and should be able to use any of these styles. The two situational contingency variables were found in the environment and in the follower. Essentially, the path-goal model says that a leader should provide direction and support as needed; that is, structure the path so the followers can achieve goals. The path-goal model proposes that a leader's behavior won't be effective if it's redundant with what the environmental structure is providing or is incongruent with follower characteristics.

LO16.4 DESCRIBE contemporary views of leadership.

Leader–member exchange theory (LMX) says that leaders create in-groups and out-groups and that those in the in-group will have higher performance ratings, less turnover, and greater job satisfaction.

A charismatic leader is an enthusiastic and self-confident leader whose personality and actions influence people to behave in certain ways. People can learn to be charismatic.

A transactional leader exchanges rewards for productivity, while a transformational leader stimulates and inspires followers to achieve goals. Transformational leaders have been associated with better outcomes than transactional leaders.

Authentic leadership focuses on the moral aspects of being a leader. Authentic leaders also openly solicit views that challenge their own positions and are self-aware, transparent, and humble. Ethical leaders create a culture in which employees feel that they could and should do a better job. Servant leaders go beyond their self-interest and focus on opportunities to help followers grow and develop. Emergent leaders naturally arise from a group or team instead of being appointed.

Followership recognizes the role of followers in the leadership process. Not only do leaders need to motivate followers, but followers also influence the attitudes and behaviors of leaders.

LO16.5 COMPARE the various theories of leadership for their validity.

If traits play a role in defining leaders, their role is small and dependent on situational factors. In terms of behaviors, relationship-oriented leadership appears to account for most of the differences in both employee commitment and job performance. And transformational leadership encompasses almost all of the same variables as ethical and authentic leadership. Among contingency factors, the most relevant appear to be follower's experience and ability, organizational culture, and national culture.

LO16.6 DISCUSS 21st-century issues affecting leadership.

The five sources of a leader's power are legitimate (authority or position), coercive (punish or control), reward (give positive rewards), expert (special expertise, skills, or knowledge), and referent (desirable resources or traits).

Today's leaders face the issues of managing power, developing trust, leading virtual teams, and becoming an effective leader through leadership training.

REVIEW AND DISCUSSION QUESTIONS

- 16-1. What conclusions from the four theories on leadership behavior are most important? Are supervisors born able to initiate structure, set goals, involve subordinates, delegate authority, encourage participation, or show consideration? Explain.
- 16-2. According to Fiedler's contingency model of leadership, how do leaders use the least-preferred coworker (LPC) questionnaire to find the best leadership style for their situation?
- 16-3. If employees vary in their ability and willingness to perform tasks at work, how do leaders determine the amount of direction and support to provide each employee? Hint: consider the situational leadership and path-goal theories.
- 16-4. Why are the relationships between the leader and their subordinates important to the leader-member exchange theory? Are these relationships different in the presence of a charismatic leader?
- 16-5. Differentiate between transactional and transformational leaders and between ethical and servant leaders.
- 16-6. Which source of a leader's power is most effective and why? Rank the five sources from most to least effective.
- 16-7. Micromanaging can make a well-intentioned leader less effective. How can the leader's followers gain more autonomy and empowerment when needed?
- 16-8. Why is trust between leaders and employees important? Give an example of how a leader can demonstrate credibility to employees in a face-to-face, hybrid, and remote work environment.

PREPARING FOR: My Career

ETHICS DILEMMA

Shakespeare's play *Henry V* describes how the king disguises himself as a common soldier to walk among his troops to determine the army's morale before the battle at Agincourt.⁹⁸ In a modernized spin, you can observe a similar dynamic on the show *Undercover Boss*.⁹⁹ It features a company's "boss" working undercover in their own company to determine how the organization really works. Typically, the executive works undercover for a week, and then the employees the leader has worked with are summoned to company headquarters and either rewarded

or punished for their actions. Bosses from organizations ranging from White Castle and College HUNKS Hauling Junk and Moving to NASCAR and Dippin' Dots have participated.

- 16-9. Do you think a credible leader would need to go undercover? Is it ethical for a leader to go undercover in their organization? Why or why not?
- 16-10. What ethical issues could arise? How would an authentic leader deal with those issues?

SKILLS EXERCISE Choosing an Effective Group Leadership Style Skill

About the Skill

Effective leaders are skillful at helping the individuals and groups they lead to be successful. Working one-on-one or with a group means adapting your leadership style to be consistently effective. Situational factors, including follower characteristics, are critical to evaluate as you select your leadership style for one-on-one interactions. When interacting with a group, the stage of group development, task structure, position power, leader-member relations, employees' job characteristics, organizational culture, and national culture are key situational factors to consider when determining the most appropriate leadership style.

Steps in Practicing the Skill

Use the following suggestions to choose an appropriate leadership style when leading groups:

- **Determine the stage your group or team is operating in: forming, storming, norming, or performing.** Because each team stage involves specific and different issues and behaviors, it is essential to know the stage your team is in. *Forming* is the first stage of group development, during which people join a group, become familiar with each other, and then help begin to define the group's purpose. *Storming* is the second stage, characterized by intragroup conflict. *Norming* is the third stage, characterized by

consistency and agreement about how work is assigned and allocated. *Performing* is the fourth stage, when the group is cohesive and performs at a high level. Each stage has certain leader behaviors that are more appropriate:

- **Forming:** Helpful leader behaviors include having all team members introduce themselves to one another, answering member questions to establish a foundation of trust and openness, modeling the behaviors you expect from the team members, and clarifying the team's goals, procedures, and expectations.
- **Storming:** These behaviors include identifying sources of conflict and directing it toward functional types of conflict. It may be necessary to adopt a mediator role, encourage a win-win philosophy, restate the team's vision and its core values and goals, encourage open discussion, encourage analysis of team processes in order to identify ways to improve, enhance team cohesion and commitment, and provide recognition to individual team members as well as the team.
- **Norming:** These behaviors should include securing yourself as the team's leader, showing consistency in how you direct the team to accomplish its goals, providing performance feedback to individual team members and the team as a whole, encouraging the team to articulate a vision for the future, and finding ways to publicly and openly communicate the team's vision.
- **Performing:** Appropriate leader behaviors for this stage include providing regular and ongoing performance feedback, fostering innovation and innovative behavior, stepping back from directing how work must be done by encouraging team members to accomplish the work in ways that capitalize on their strengths, celebrating achievements (large and small), and advocating for the

team whenever it needs additional support or resources to continue doing its work.

- **Monitor the group for changes in behavior and adjust your leadership style accordingly.** Because a group is not a static entity, it will go through up periods and down periods. You should adapt your leadership style to the needs of the situation. If the group appears to need more direction from you, provide it. If it is functioning at a high level, remove obstacles and provide additional resources to help it function at an even higher level.

Practicing the Skill

The following suggestions are activities you can do to practice the behaviors in choosing an effective leadership style:

1. Think of a group or team you currently belong to or have been a part of, or think of a college or professional team you follow closely. What type of leadership style did the leader of this group appear to exhibit? Give some specific examples of the leadership behaviors they used. Evaluate the leadership style. Was it appropriate for the group? Why or why not? What would you have done differently? Why?
2. Observe a sports team (either college or professional) that has consistently been highly successful and one that has consistently been a disappointment. Do different leadership styles appear to be used in these team situations? Has leadership or financial support been consistent? Give some specific examples of leadership behaviors that led to success and disappointment. To what degree do you think leadership style instead of luck or a single player influenced the team's outcomes?

WORKING TOGETHER Team Exercise

After reading about the different leadership traits and behaviors, list those you think a good leader possesses. Now reflect on your current ability to lead. What combination of skills, traits, or behaviors do you need to develop to become a better transactional leader? Which additional skills would you need to develop to become a better transformational leader? Once you have your list and thoughts on what you need to become a better transactional and transformational

leader, get together with three or four other students to brainstorm strategies to develop into better transactional and transformational leaders. Focus on developing some steps you can take while still in college. Which would help you to become a better transactional leader? A transformational leader? Each student should write a brief personal leadership development plan after your discussion.

MY TURN TO BE A MANAGER

- Think of the different organizations to which you belong. Make a table with the name of the organizations across the top and the style of leadership presented in this chapter in a column below. In rows, make a check for the style of leading (no names, please) observed in each organization. Write a short paper summarizing your results and evaluate if the styles being used match those you hoped would be used.
- Write down three prominent leaders from your hometown, county, state, or province. Make a bulleted list of these individuals' sources of power and the characteristics they exhibit that make you think of them as leaders.

- Think about the times you have had to lead. Describe your leadership style in one paragraph. What could you do to make your leadership skill more obvious to others? Come up with an action plan with three steps you can take in the next 3 months to ensure others can better see your leadership skill. Make sure these steps are true to yourself. Put all this information into a brief paper.
- Managers use influence to get things done. Do some research on the importance of credibility and authenticity in the art of persuasion. Make a bulleted list of how to improve your skills at influencing others.
- Here's a list of leadership skills. Choose two and develop a training exercise that will help develop or improve that skill: building employee communities; building teams; coaching and motivating others; communicating with impact, confidence, and energy; leading by example; leading change; making decisions; providing direction and focus; and valuing diversity.
- Select a followership or leadership issue important in your career in the next 5 years. Research the topic, and put your findings in a bulleted list that you are prepared to share in class. Cite your sources using the APA format.
- Interview three managers about what they think it takes for a recent graduate and new professional to be a good follower in their first job after graduation. Write up your findings in a report and be prepared to present them in class.
- Try out your leadership skills! Volunteer for a leadership position with an organization you are involved in.
- Research imposter syndrome. Briefly summarize how it could hinder a person's advancement into a leadership role in their career.
- Search for the 10 best leadership podcasts. Select and listen to a few podcasts focused on making you a better leader. Briefly present to the class the lessons you learned and the degree to which these lessons connect with this chapter.
- The Collegiate Leadership Competition, LeaderShape Institute, Toastmasters, and other organizations provide students a chance to practice leadership. Research these opportunities or other case competitions, conferences, or workshops designed to help students develop their leadership ability. Find one matching you and your goals. Sign up, attend, and participate.
- Review your digital footprint. Search yourself on the internet and social media platforms to get a sense of your publicly available information and persona. What can you say about your digital footprint? Reflect on the results to determine how others might understand you regarding your potential to be a leader in a professional environment. Now assume some employers will do some online digging before scheduling interviews or extending job offers. Finally, take the additional step to understand how leaders craft their digital footprint differently than followers. Write four ways you could craft your image as a leader online more intentionally (e.g., showing enthusiasm or excitement for getting the job done with a team) and present them to students in small groups during class.
- Universities and businesses believe emerging leaders need to embrace technology. Technologies like artificial intelligence are powerfully reshaping society. With the right leaders, these technologies offer economic growth, innovation, and human well-being.¹⁰⁰ Research the competencies emerging leaders need to have to embrace technology successfully in their careers. For example, must they be intimately familiar with coding, robotics, and advanced analytics? Briefly present your thoughts to the class and converse with a group of students on further developing the group's competencies in the next 6 months.

CASE APPLICATION 1

Transforming the Fashion Industry at Stitch Fix

Katrina Lake planned on being a doctor. It never came to be. Instead, her career started with a job in consulting, followed by work at a venture fund and then business school.¹⁰¹ After business school, Lake launched Stitch Fix—the online subscription-based personal styling fashion service. After several years she was able to turn a profit, find investors, take the company public, and eventually run a billion-dollar business. At the time, she was the youngest female business founder and CEO to ever take a company public.¹⁰² Lake made the *Forbes* list of 40 under 40 in 2016 and has been named one of the United States' richest self-made women.¹⁰³

It has not always been an easy road for Stitch Fix. Venture capitalists were not quick to invest in the company. As one put it, “I don’t see why this is better than the personal shopper my wife goes to at Saks.”¹⁰⁴ Never mind that most people do not use personal shoppers and Stitch Fix was opening up personal shopping to the mass

market for the first time. The company ended up with less investment than it officially needed, but Lake believed it forced the company to focus on profitability early on.

As CEO, Lake was involved in strategic decisions that impacted the company. But she also made time to offer clients five or six style recommendations each week. As Lake put it, “It’s valuable because I can see who our clients are. I can see how our inventory looks today. . . . It gives me more insight into areas in the assortment that, yes, we have data around it, but experiencing it firsthand is sometimes even better. It also gives me a sense of a stylist’s experience.”¹⁰⁵

When Stitch Fix went public in November 2017, Lake held her young son in her arms while ringing the Nasdaq opening bell. The media made a big deal about this, but Lake says the moment was unplanned. “I was doing it because that’s who I am and that was a normal thing for me to do. In retrospect, I wish I had been smart enough to plan for it, because I understand why it meant a lot to people . . . to start to break down those barriers around who you are as an executive, who you are in raising a family and who you are personally, is something I feel really privileged to have been a part of.”¹⁰⁶

Although Lake relinquished her day-to-day responsibilities as CEO in 2021, she stayed with the company as the executive chairperson of the board. As board chair, she has focused on the company’s sustainability efforts and marketing, continuing to demonstrate her commitment to the company. In fact, in 2023 during a downturn in business, she stepped in for 6 months as the interim CEO and handled some challenging company layoffs and the closing of a distribution center.¹⁰⁷

Lake has become involved in helping to develop the next generation of female company founders as a mentor and coach. She says, “There just aren’t enough great examples of different types of people that are at the top. I feel a lot of responsibility in making sure that others can see themselves there.”¹⁰⁸

DISCUSSION QUESTIONS

- 16-11. What examples are provided in this case for how Katrina Lake exhibited authentic leadership?
- 16-12. What has Katrina Lake done that likely allowed her to develop credibility and trust as a leader?
- 16-13. In what ways has Katrina Lake demonstrated behaviors that indicate servant leadership? What could she do to exemplify servant leadership even more?
- 16-14. Lake’s Stitch Fix transformed how people shop by making personal shopping more affordable and less time-consuming. If Lake hopes to continue being viewed as a transformational leader in the eyes of her followers, what kinds of behaviors should she continue to exhibit?

CASE APPLICATION 2

New Endorsements Give Power to College Athletes

Before 2021, around 60 percent of NCAA Division I and II college athletes received some scholarship money, and that was their only compensation for playing.¹⁰⁹ As a result, the power in college sports was disproportionately tilted in favor of university administrators, coaches, and the NCAA in a multibillion-dollar sports industry generating over \$19 billion per year. Power in college sports has since shifted as name, image, and likeness (NIL) deals now allow college athletes to profit off themselves. In June 2021, the Supreme Court ruled that the NCAA could not legally limit any education-related payments to students. Essentially, NIL gives players the right to earn and accept money doing commercial endorsements, appearances, and social media posts; hosting camps; and giving lessons without violating any NCAA rules.

NIL critics worried that only a few star players in high-revenue sports like Division I basketball and football would benefit from these deals. Others felt women’s

sports would be detrimentally impacted, thereby creating a bigger divide between the resources available to men versus women in college sports. However, a wide range of athletes (stars and walk-ons), sports, and both men and women have found ways to thrive in the NIL era of college athletics. Many have earned money to start businesses and pay for graduate school.

Some evidence indicates that NIL brought more attention to college sports' best and most charismatic male and female athletes.¹¹⁰ Many women have thrived in the NIL space by earning big money and gaining a platform to advocate for more gender equity in college sports. These athletes include Haley Jones, a senior guard on Stanford's women's basketball team, who has earned six figures from endorsements from Nike, Beats by Dre, SoFi, and Uncle Funky's Daughter, a hair-care product for women with curly hair. LSU gymnast, top NIL earner, and social media influencer Olivia Dunne earned millions from posts to her large following on Instagram and TikTok. Her content included modeling American Eagle Outfitters jeans and Vuori activewear with videos of her lip-syncing popular songs or performing dances. Dunne's compensation was surprising and will likely be a game-changer for women's sports, particularly for athletes who compete in nonrevenue sports like gymnastics. Using her success, Dunne created a fund to help connect other female athletes at LSU with NIL deals. Dunne has shown that through education on business deals and marketing partnerships, women can earn money while also bringing more publicity to their sport.¹¹¹

DISCUSSION QUESTIONS

- 16-15. How has NIL changed the power dynamic in college sports?
- 16-16. Why did the critics believe only a few basketball and football stars would benefit from NIL deals? What type of power do they have?
- 16-17. Haley Jones and Olivia Dunne have used a combination of expert and referent power to earn big money through NIL deals. What does this case suggest about followership (and about how leaders might relate to followers)?
- 16-18. Olivia Dunne has decided to use her NIL expertise to help other women athletes find success as well. Does Dunne's NIL success help or hurt her ability to lead these women? Explain.

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Chapter 17

Managing Communication

Learning Objectives

- 17.1 Define** the nature and function of communication. **17.4 Describe** how technology affects managerial communication and organizations.
- 17.2 Describe** the communication process. **17.5 Discuss** how to become a better communicator.
- 17.3 Explain** how communication can flow most effectively in organizations.

Early in the COVID-19 pandemic, few businesses understood the dramatic impact the virus would have on them. As the true challenges began to emerge, company leaders struggled to communicate to employees because most workers were remote and social distancing requirements prevented in-person meetings. Without the opportunity for face-to-face communication, leaders struggled to express empathy and concern during this difficult time via other mediums such as email. Marriott International CEO Arne Sorenson tackled this challenge by recording a video message about the challenges the company was facing. Sorenson used the video as an opportunity to communicate his full message, including the emotions that he was struggling with as the company faced such uncertainty. His message was honest and conveyed his hope that the company would survive the crisis they were facing. And his message had the desired effect on the viewers, with many sharing their responses on Twitter with posts such as “this is what leadership sounds like.”¹

Communication is at the core of management, and this chapter looks at both interpersonal and organizational communication. We look at barriers to effective communication and ways to overcome those barriers. We close the chapter by suggesting strategies to become a better communicator.

Management Myth: Management should try to stifle the grapevine.

Management Reality: The grapevine can be useful in organizational communication.

UNDERSTANDING Communication

LO17.1 Define the nature and function of communication.

The ability to communicate effectively is a skill that must be mastered by any person who wants to be an effective manager. The importance of effective communication for managers can't be overemphasized for one specific reason: Everything a manager does involves communicating. Not some things, but everything! A manager can't make a decision without information. That information has to be communicated. Once a decision is made, communication must again take place. Otherwise, no one would know that a decision was made. The best idea, the most creative suggestion, the best plan, or the most effective job redesign can't take shape without communication.

What Is Communication?

Communication is the transfer and understanding of meaning. Note the emphasis on the transfer of meaning: If information or ideas have not been conveyed, communication hasn't taken place. The speaker who isn't heard or the writer whose materials aren't read hasn't communicated. More importantly, however, communication involves the understanding of meaning. For communication to be successful, the meaning must be imparted and understood. A letter written in Spanish addressed to a person who doesn't read Spanish can't be considered communication until it's translated into a language the person does read and understand. Perfect communication, if such a thing existed, would be when a transmitted thought or idea was received and understood by the receiver exactly as it was envisioned by the sender.

Another point to keep in mind is that good communication is often erroneously defined by the communicator as agreement with the message instead of clear understanding of the message.² If someone disagrees with us, we assume that the person just didn't fully understand our position. In other words, many of us define good communication as having someone accept our views. But I can clearly understand what you mean and just not agree with what you say.

The final point we want to make about communication is that it encompasses both **interpersonal communication**—communication between two or more people—and **organizational communication**, which is all the patterns, networks, and systems of communication within an organization. Both types are important to managers.

Functions of Communication

Communication serves five major functions within a group or organization: management, motivation, emotional sharing, persuasion, and information exchange.³

Communication acts to *manage* member behavior in several ways. As we know from **Chapter 10**, organizations have authority hierarchies and formal guidelines that employees are expected to follow. For instance, when employees follow their job descriptions or comply with company policies, communication performs a management function. Informal communication also controls behavior. When a work group teases a member who's ignoring the norms by working too hard, they're informally communicating and managing the member's behavior.

Communication acts to *motivate* by clarifying to employees what is to be done, how well they're doing, and how they can improve their performance. As employees set specific goals, work toward those goals, and receive feedback on progress toward goals, communication is required.

communication

The transfer and understanding of meaning

interpersonal communication

Communication between two or more people

organizational communication

All the patterns, networks, and systems of communication within an organization

Metro General Manager Paul Wiedefeld, right, chats with an employee during a tour of track work being done on Metro's orange line in northern Virginia. Communication with employees serves the functions of information, motivation, and socialization.

Source: Ben Nuckols/AP Images



For many employees, their work group is a primary source of social interaction. The communication that takes place within the group is a fundamental mechanism by which members show frustrations and satisfaction. Communication, therefore, provides for the *emotional sharing* of feelings and fulfillment of social needs.

Persuasion can be good or bad depending on if, say, a leader is trying to persuade a work group to believe in the organization's commitment to corporate social responsibility or, conversely, to persuade the work group to break the law to meet an organizational goal. These may be extreme examples, but it's important to remember that persuasion can benefit or harm an organization.

The final function of communication is *information exchange* to facilitate decision making. Communication provides the information that individuals and groups need to make decisions by transmitting the data needed to identify and evaluate choices.

THE COMMUNICATION PROCESS

LO17.2 Describe the communication process.

Before communication can take place, a purpose expressed as a **message** to be conveyed must exist. It passes between a source (the sender) and a receiver. The message is converted to symbolic form (called **encoding**) and passed by way of some medium (**channel**) to the receiver, who retranslates the sender's message (called **decoding**). The result is the transfer of meaning from one person to another.⁴

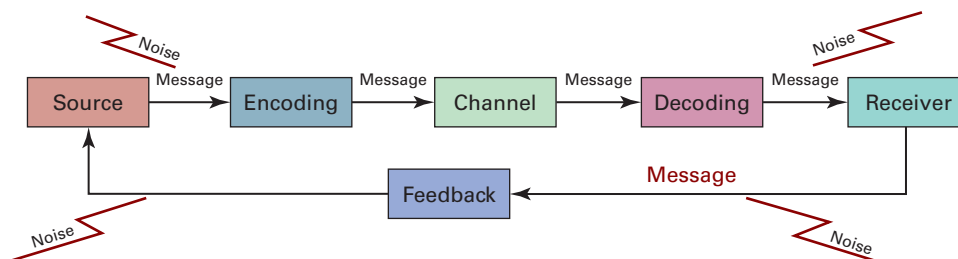
Exhibit 17-1 depicts the **communication process**. This model is made up of seven elements: (1) the communication source, (2) the message, (3) encoding, (4) the channel, (5) decoding, (6) the receiver, and (7) feedback. In addition, the entire process is susceptible to **noise**—that is, disturbances that interfere with the transmission of the message (depicted in Exhibit 17-1 as lightning bolts). Typical examples of noise include illegible print, inattention by the receiver, or the background sounds of machinery on the production floor. Remember that anything that interferes with understanding—whether internal (such as the low speaking voice of the speaker/sender) or external (like the loud voices of coworkers talking at an adjoining desk)—represents noise. Noise can create distortion at any point in the communication process.

Modes of Communicating

How do people in organizations transfer meaning among themselves? They rely on oral, written, and nonverbal communication.

ORAL COMMUNICATION A primary means of conveying messages is oral communication. Speeches, formal one-on-one and group discussions, and the informal rumor mill or grapevine are popular forms of oral communication. As noted in the chapter opening, video is also a mode of oral communication today.

The advantages of oral communication are speed, feedback, and exchange. We can convey a verbal message and receive a response in minimal time. If the receiver is unsure of the message, rapid feedback allows the sender to detect and correct it quickly. The exchange given through oral communication has social, cultural, and



message	A purpose to be conveyed
encoding	Converting a message into symbols
channel	The medium a message travels along
decoding	Retranslating a sender's message
communication process	The seven elements involved in transferring meaning from one person to another
noise	Any disturbances that interfere with the transmission of a message

Exhibit 17-1
The Communication Process



Nonverbal communications can say a lot. Here, Serbian tennis player Novak Djokovic's nonverbal behavior tells you he is not pleased with an umpire's call.
Source: Juergen Hasenkopf/Alamy Stock Photo

emotional components. Cultural social exchange, in which we purposely share social exchanges that transcend cultural boundaries, can build trust, cooperation, and agreement between individuals and teams.

One major disadvantage of oral communication surfaces whenever a message has to pass through a number of people: the more people, the greater the potential distortion. If you've ever played the game Telephone, you know the problem. Each person must whisper the same message to the next person, but each person may interpret the message slightly differently. The message's content, when it reaches its destination, is often very different from the original, even when we think the message is simple and straightforward. Therefore, oral communication "chains" are generally more of a liability than an effective tool in large organizations.

WRITTEN COMMUNICATION Written communication includes text messages, social media posts, chats, letters, email, instant messaging, websites, and any other method that conveys written words or symbols. Written business communication today is usually conducted via PowerPoint, email, text messaging, collaboration platforms, social media, apps, and blogs.

NONVERBAL COMMUNICATION Every time we deliver a verbal message, we also impart an unspoken message. So no discussion of communication would be complete without consideration of *nonverbal communication*—which includes body movements, the intonations or emphasis we give words, and facial expressions. Body language and intonations can specifically contain powerful messages.

We could argue that every body movement has meaning, and no movement is accidental (though some are unconscious). We act out our state of being with nonverbal body language. For example, we smile to project trustworthiness, uncross our arms to appear approachable, and stand to signal authority.⁵

Body language can convey status, level of engagement, and emotional state.⁶ Body language adds to, and often complicates, verbal communication. In fact, studies indicate that people read more about another's attitude and emotions from their nonverbal cues than their words! If nonverbal cues conflict with the speaker's verbal message, the cues are sometimes more likely to be believed by the listener.⁷

If you read the minutes of a meeting, you wouldn't grasp the impact of what was said the same way as if you had been there or could see the meeting on video. Why? Because there is no record of nonverbal communication, and the emphasis given to words or phrases—the intonations—is missing. Both make the meaning clearer.

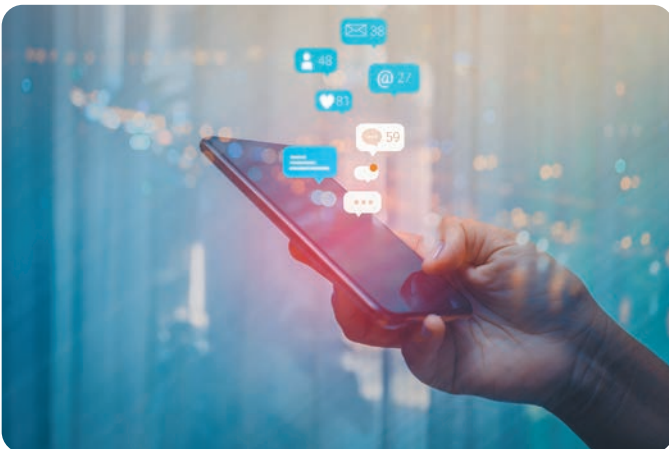
Facial expressions also convey meaning. Facial expressions, along with intonations, can show arrogance, aggressiveness, fear, shyness, and other characteristics.

information overload

When information exceeds our processing capacity

Many workers today carry a mobile device that provides ongoing messages and notifications, often leading to information overload.

Source: RoBird/Shutterstock



Barriers to Effective Communication

In our discussion of the communication process, we noted the consistent potential for distortion. What causes such distortions? In addition to the general distortions identified in the communication process, there are other barriers to effective communication.

INFORMATION OVERLOAD **Information overload** occurs when information exceeds our processing capacity. For instance, a marketing manager goes on a weeklong sales trip to Spain where she doesn't have access to her email and faces 1,000 messages on her return. Would you believe that the average worker spends about a dozen hours a week in virtual meetings?⁸ Not surprisingly, today's employees frequently complain of information overload. The demands of

keeping up with email, text messages, social media, phone calls, meetings, and professional online articles create an onslaught of data. What happens when individuals have more information than they can process? They tend to ignore, pass over, forget, or selectively choose information. Or they may stop communicating.

FILTERING **Filtering** is the deliberate manipulation of information to make it appear more favorable to the receiver. For example, when a person tells their manager what the manager wants to hear, information is being filtered. Or if information being communicated up through organizational levels is condensed by senders, that's filtering.

filtering

The deliberate manipulation of information to make it appear more favorable to the receiver

How much filtering takes place tends to be a function of the number of vertical levels in the organization and the organizational culture. The more vertical levels in an organization, the more opportunities there are for filtering. As organizations use more collaborative, cooperative work arrangements, information filtering may become less of a problem. In addition, email reduces filtering because communication is more direct. Finally, the organizational culture encourages or discourages filtering by the type of behavior it rewards. The more that organizational rewards emphasize style and appearance, the more managers may be motivated to filter communications in their favor.

EMOTIONS How a receiver feels influences how they interpret it. Extreme emotions are most likely to hinder effective communication. In such instances, we often disregard our rational and objective thinking processes and substitute emotional judgments.

When people feel they're being threatened, they tend to react in ways that hinder effective communication and reduce their ability to achieve mutual understanding. They become defensive—verbally attacking others, making sarcastic remarks, being overly judgmental, or questioning others' motives.

LANGUAGE Even when we're communicating in the same language, words mean different things to different people. Age, education, and cultural background are three of the more obvious variables that influence the language a person uses and the definitions they give to words.

In an organization, employees come from diverse backgrounds and have different patterns of speech. Even employees who work for the same organization but in different departments often have different **jargon**—specialized terminology or technical language that members of a group use to communicate among themselves. For instance, human resource managers discuss BFOQs (bona fide occupational qualifications) as a defense against illegal discrimination, and accounting managers use the terms LIFO and FIFO—meaning last-in, first out and first-in, first-out—as a reference to inventory-valuing methods.

jargon

Specialized terminology or technical language that members of a group use to communicate among themselves

SILENCE It's easy to ignore silence or lack of communication because it's defined by the absence of information. However, this can be a serious mistake. Silence can be the message when, for instance, someone wants to communicate noninterest or the unwillingness to deal with a topic. Employees are more likely to be silent if they believe they are being mistreated by managers, are experiencing frequent negative emotions, or feel like they have less power in the organization.⁹ Silence can also be a simple outcome of information overload or a delaying period for considering a response. For whatever reasons, research suggests using silence and withholding communication are common and problematic.¹⁰

NATIONAL CULTURE Every aspect of global communication is influenced by cultural differences.¹¹ The Japanese, for instance, who have access to the latest technologies, still rely more on face-to-face communication than on written methods. In the

United States, managers rely heavily on reports, memos, and other formal forms of communication. A Japanese manager extensively consults with subordinates over an issue first and draws up a formal document later to outline the agreement that was made. Executives in some countries often leave much of their messages unspecified, relying on context and nonverbal cues to be understood. This is in contrast to managers in other countries, who tend to expect messages to be explicit and specific.

The above examples illustrate the importance of understanding and respecting differences when dealing in cross-cultural interactions—and how these differences can act as distortions to effective communication.

Overcoming the Barriers

What can managers and *you* do to be a more effective communicator? Here are five suggestions.

USE FEEDBACK Many communication problems are directly attributed to misunderstanding and inaccuracies. These problems are less likely to occur if the manager gets feedback, both verbal and nonverbal.

A manager can ask questions about a message to determine whether it was received and understood as intended. Or the manager can ask the receiver to restate the message in their own words. If the manager hears what was intended, understanding and accuracy should improve.

Feedback also doesn't have to be verbal. If a sales manager emails information about a new monthly sales report that all sales representatives will need to complete and some of them don't turn it in, the sales manager has received feedback. This feedback suggests that the sales manager needs to clarify the initial communication. Similarly, managers can look for nonverbal cues to tell whether someone's getting the message.

SIMPLIFY LANGUAGE Because language can be a barrier, managers should consider the audience to whom the message is directed and tailor the language to them. Remember, effective communication is achieved when a message is both *received* and *understood*. For example, a hospital administrator should try to communicate in clear, easily understood terms and to use language tailored to different employee groups. Messages to the surgical staff should be purposefully different from those used with office employees. Jargon can facilitate understanding if it's used within a group that knows what it means but can cause problems when used outside that group.

LISTEN ACTIVELY When someone talks, we hear, but too often we don't listen. Listening is an active search for meaning, whereas hearing is passive. In listening, the receiver is also putting effort into the communication.

Many of us are poor listeners. Why? Because it's difficult, and most of us would rather do the talking. Listening, in fact, is often more tiring than talking. Unlike hearing, **active listening**, which is listening for full meaning without making premature judgments or interpretations, demands total concentration. The average person normally speaks at a rate of about 125 to 200 words per minute. However, the average listener can comprehend up to 400 words per minute.¹² The difference leaves lots of idle brain time and opportunities for the mind to wander.

CONSTRAIN EMOTIONS It would be naive to assume that managers always communicate in a rational manner. We know that emotions can cloud and distort communication. A manager who's upset over an issue is more likely to misconstrue incoming messages and fail to communicate their outgoing messages clearly and accurately. What to do? The simplest answer is to calm down and get emotions under control before communicating.

active listening

Listening for full meaning without making premature judgments or interpretations

IT'S YOUR CAREER

I'm Listening!

A key to success in management and in your career is knowing how to be an active listener.

How well do you listen to others? Active listening requires you to concentrate on what is being said. It's more than just hearing the words. It involves a concerted effort to understand and interpret the speaker's message. Here are some insights that you'll want to remember and integrate into your efforts to be a better listener:

- **Make eye contact.** Making eye contact with the speaker focuses your attention, reduces the likelihood that you will become distracted, and encourages the speaker.
- **Exhibit affirmative nods and appropriate facial expressions.** Affirmative nods and appropriate facial expressions, when added to good eye contact, convey to the speaker that you're listening.
- **Pay attention to nonverbal cues.** Sometimes, what the speaker vocalizes and how they feel do not match. For instance, the speaker may begin by stating, "It isn't a big deal ..." when, in fact, their body language shows that what they are saying

is a big deal. It isn't difficult to tell when someone is anxious, angry, happy, or sad based on facial expressions.

- **Ask questions and paraphrase what's been said.** The critical listener analyzes what they hear and asks questions. This behavior provides clarification, ensures understanding, and assures the speaker that you're listening. And the effective listener uses phrases such as "What I hear you saying is ..." or "Do you mean ...?" Paraphrasing is an excellent control device to check on whether you're listening carefully and to verify that what you heard is accurate.
- **Make smooth transitions between the roles of speaker and listener.** The effective listener makes transitions smoothly from speaker to listener and back to speaker. From a listening perspective, this means concentrating on what a speaker has to say and practicing not thinking about what you're going to say as soon as you get your chance.

And remember, listening in a remote work environment where you are interacting with others via video requires a little more effort. You don't have the full range of nonverbal cues, so it is essential to keep focused and attentive to everyone in the virtual room. Get comfortable with some silence; it gives you time to process what you are hearing.¹³

WATCH NONVERBAL CUES If actions speak louder than words, then it's important to make sure your actions align with and reinforce the words that go along with them. An effective communicator watches their nonverbal cues to ensure that they convey the desired message.

EFFECTIVE Organizational Communication

LO17.3 Explain how communication can flow most effectively in organizations.

You've now got the basics of the communication process. In this section, we overlay an organization's structure on this framework to understand *organizational communication*. We'll look at formal versus informal communication, the flow patterns of communication within organizations, organizational networks, and how management can design workplaces to enhance communication.

Formal Versus Informal

Communication within an organization is described as formal or informal. **Formal communication** refers to communication that takes place within prescribed organizational work arrangements. For example, when a manager asks an employee to complete a task, that's formal communication. Another example of formal communication occurs when an employee communicates a problem to their manager.

formal communication

Communication that takes place within prescribed organizational work arrangements



Informal communication takes place in a casual workplace environment and provides value to a company. These interactions are sometimes referred to as “water cooler talk,” as they often occur in a breakroom.

Source: DC Studio/Shutterstock

informal communication

Communication that is not defined by the organization’s structural hierarchy

downward communication

Communication that flows downward from a manager to employees

upward communication

Communication that flows upward from employees to managers

lateral communication

Communication that takes place among any employees on the same organizational level

diagonal communication

Communication that cuts across work areas and organizational levels

Informal communication is organizational communication not defined by the organization’s structural hierarchy. When employees talk with each other in the lunch room, as they pass in hallways, or as they’re working out at the company wellness facility, they engage in informal communication. In a virtual meeting, informal communication often occurs via the chat. Employees form friendships and communicate with each other. The informal communication system fulfills two purposes in organizations: (1) it permits employees to satisfy their need for social interaction, and (2) it can improve an organization’s performance by creating alternative, and frequently faster and more efficient, channels of communication.

Direction of Flow

Let’s look at the ways that organizational communication can flow: downward, upward, laterally, or diagonally.

DOWNWARD COMMUNICATION Your manager calls you into their office and shares with you that the company auditors will be coming in next week and asks you to prepare several reports for them. This is an example of **downward communication**, which is communication that flows from a manager to employees. It’s used to inform, direct, coordinate, and evaluate employees. When managers assign goals to their employees, they’re using downward communication. They’re also using downward communication when providing employees with job descriptions, informing them of organizational policies and procedures, pointing out problems that need attention, or evaluating their performance.

UPWARD COMMUNICATION Managers rely on their employees for information. For instance, reports are given to managers to inform them of progress toward goals or to report any problems. **Upward communication** is communication that flows from employees to managers. It keeps managers aware of how employees feel about their jobs, their coworkers, and the organization in general. Managers also rely on upward communication for ideas on how things can be improved. Some examples of upward communication include performance reports prepared by employees, employee attitude surveys, grievance procedures, manager–employee discussions, and informal group sessions in which employees have the opportunity to discuss problems with their manager or representatives of top-level management.

LATERAL COMMUNICATION Communication that takes place among employees on the same organizational level is called **lateral communication**. In today’s dynamic environment, lateral communications are frequently needed to save time and facilitate coordination. Cross-functional teams, for instance, rely heavily on this form of communication interaction. However, conflicts can arise if employees don’t keep their managers informed about decisions they’ve made or actions they’ve taken.

DIAGONAL COMMUNICATION **Diagonal communication** is communication that crosses both work areas and organizational levels. A credit analyst who communicates directly with a regional marketing manager about a customer’s problem—note the different department and different organizational level—uses diagonal communication. Because of its efficiency and speed, diagonal communication can be beneficial. Increased email use facilitates diagonal communication. In most organizations, any

employee can communicate by email or instant message with any other employee, regardless of organizational work area or level, even with upper-level managers. The downside is that diagonal interactions often leave managers out of the loop and have the potential to create conflicts.

WORKPLACE CONFIDENTIAL An Uncommunicative Manager

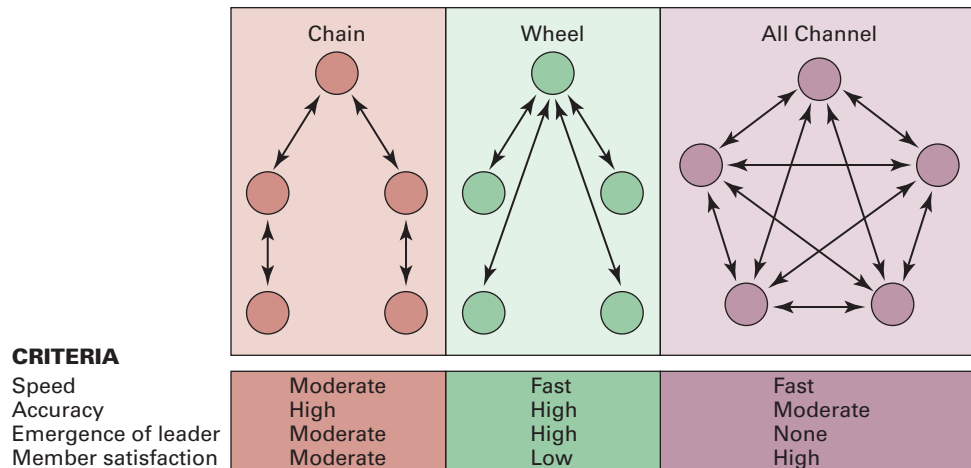
It can be very frustrating to work for someone who is uncommunicative. We use the term “uncommunicative” to encompass a long list of behaviors you might face in the workplace. There’s the absentee manager, who is never around. You have questions or concerns but no one with whom to discuss them. There’s the shy or introverted manager who avoids interacting. There’s the manager who hates conflicts or confrontations and who hides from the tough issues. There’s also the manager who always seems too busy to talk with you. And then there’s the manager who doesn’t respond to messages. You know they’re being received, but it’s as if they vanish into thin air. As you can see, there are lots of ways to be uncommunicative!

The following suggestions can help you deal with, and work around, an uncommunicative manager.

- **Ask yourself: Am I being singled out?** Start by assessing whether your manager is uncommunicative with everyone or whether you’ve been singled out. It’s possible that your manager is purposely distancing themselves from you. Have you done anything to upset them? Are they purposely avoiding you? If you’re annoyed or irritated with your manager, they might be picking this up and distancing themselves from you in order to avoid a conflict. On the other hand, if your manager treats all their employees similarly, assume you’re not being singled out. Bottom line: Start by determining whether or not you may be contributing to the problem.
- **Does your organization’s culture encourage your manager’s behavior?** Take a good look at your organization’s culture. Does your organization encourage managers to be “hands off”? In some cases, organizations promote this behavior by the criteria they use to evaluate managers and by what they reward. For instance, a laissez-faire leadership style might be encouraged as a way to develop future managers. It may well be that, in such a culture, your manager is giving you the freedom to take on tasks and show initiative with a view toward preparing you for increased responsibilities. If most managers in your organization seem to be showing a similar, uncommunicative style, don’t expect significant changes in your boss.
- **Are there good reasons for your manager to be uncommunicative?** Look at your manager objectively. There may be good reasons for their hands-off approach. One common explanation is that they’re spending their time “managing up,” that is, working to get increased resources or support from those above. Other possibilities include your manager having too much to do or too many employees to supervise. These explanations can help you better empathize with your manager’s situation and better understand why they’re not available.
- **Be proactive: Support your manager.** If you’re feeling underappreciated, give your manager the benefit of the doubt. Reach out and, without fawning, take the initiative in acknowledging those things they do well and that you appreciate their efforts. There’s a good chance that your positive outreach will be reciprocated. When you make the manager feel good, it increases their desire to be around you.
- **Share your needs with your manager.** Unless you say something, there’s a good chance your manager won’t realize that there’s a problem. Meet with your manager and frame your conversation about your needs. Be prepared to express exactly the kind of support you’re seeking. Do you want to have weekly meetings with them? Do you seek quicker email responses? Don’t be aggressive or pushy. Show that you’re empathetic to their situation and the demands on their time; then be clear and concise about your needs.
- **Act, but keep your manager informed.** If your efforts to improve communications fall on deaf ears, move forward on your own. Take the initiative but, very importantly, keep your manager in the loop. Even though you might not be getting any feedback, continue to give your manager brief, written status reports. If problems arise in the future, you will have at least created a paper trail to support that you were keeping your manager informed.
- **Look for a substitute.** If your manager isn’t there for you, consider looking around your organization for someone who can fill the void. Find another person who can mentor and support you.
- **Protect yourself: Get to know higher-level leaders.** It rarely hurts to develop a relationship with other leaders in the organization. It can be as simple as just exchanging pleasantries or sharing a coffee in the lunchroom. From a political perspective, it makes sense to protect yourself and build alliances with those in power.
- **Turn this situation to your favor.** Finally, look at the positive side. This is an opportunity for you to step up, show your initiative, and impress others in the organization. Those in nonmanagerial positions often don’t get opportunities to demonstrate leadership. But if the opportunity is opened to you, don’t let it get away. You can fill the void in leadership, grow your reach in the organization, make a positive impression on upper management, and possibly open the door to a promotion.¹⁴

Exhibit 17-2

Organizational Communication Networks



Networks

The vertical and horizontal flows of organizational communication can be combined into a variety of patterns called **communication networks**. Exhibit 17-2 illustrates three common communication networks: chain, wheel, and all-channel.

In the chain network, communication flows according to the formal chain of command, both downward and upward. The wheel network represents communication flowing between a clearly identifiable and strong leader and others in a work group or team. The leader serves as the hub through whom all communication passes. Finally, in the all-channel network, communication flows freely among all members of a work team.

The form of network you should use depends on your goal. Exhibit 17-2 also summarizes each network's effectiveness according to four criteria: speed, accuracy, the probability that a leader will emerge, and the importance of member satisfaction. One observation is immediately apparent: No single network is best for all situations.

THE GRAPEVINE We can't leave our discussion of communication networks without discussing the **grapevine**—the informal organizational communication network. The grapevine is active in almost every organization. Is it an important source of information? You bet! One survey found that 47 percent of respondents look to the grapevine over company leaders for important information.¹⁵

An interesting fact about grapevines is that few people are active on them. As a rule, only about 10 percent of the people in an organization act as liaisons who pass on information to more than one other person. Which individuals are active on the grapevine often depends on the message. A message that sparks the interest of an employee may stimulate them to tell someone else. However, another message that is perceived to be of lesser interest may never be transmitted further.

Can the grapevine be used to management's benefit? The answer is yes.¹⁶ Given that only a small number of employees typically pass information to more than one other person, managers can analyze grapevine information and predict its flow. Certain messages are likely to follow predictable patterns. Managers might even consider using the grapevine to transmit information informally to specific individuals by "planting" messages with key people who are active on the grapevine and are likely to find a given message worth passing on.

Managers should not lose sight of the grapevine's value for identifying issues that employees consider important and that create anxiety among them. It acts as both a filter and a feedback mechanism, picking up issues that employees consider relevant and planting messages that employees want passed on to upper management. For instance, the grapevine can tap employee concerns. If a rumor of a mass layoff is spreading along the grapevine and management knows the rumor to be totally false, the message still has meaning. It reflects the fears and concerns of employees and hence should not be ignored by management.

communication networks
The variety of patterns of vertical and horizontal flows of organizational communication

grapevine
The informal organizational communication network

COMMUNICATION and Technology

LO17.4 Describe how technology affects managerial communication and organizations.

Technology continues to enable managers to coordinate employees' work efforts in more efficient and effective ways. Information technology (IT) now touches every aspect of almost every organization's operations. The implications for how, where, and when people communicate are profound.

The 24/7 Work Environment

Advancing technology has made it possible to stay connected around the clock, 7 days per week. For example, technology has significantly improved a manager's ability to monitor individual and team performance, has allowed employees to have more complete information to make faster decisions, and has provided employees more opportunities to collaborate and share information. In addition, technology has made it possible for people in organizations to be fully accessible, at any time, regardless of where they are, which has some downsides. For example, one study confirmed that expectations for employees to check email outside of typical working hours can have a negative impact and create work-home conflicts.¹⁷

As we shared in **Chapter 6**, many countries are passing "right to disconnect" laws to protect workers from around-the-clock texting and communication, but many employers are considering ways to reduce unnecessary off-hour communication. Experts suggest that managers act as role models, scheduling messages to be sent during regular work hours and also noting expectations for responses. An email message that ends with "please respond by the end of the week" takes the pressure off the receiver to respond during off hours.¹⁸

Social Media

McDonald's uses Workplace, a social media application developed by Meta for businesses, to support employee engagement. The company believes the platform, which you will learn more about in **Chapter 18**, is a valuable tool, helping more than 500,000 employees globally connect and learn, which helps support the employee experience.¹⁹ Walmart uses the same platform, and although the company reports that the more than 1 million users learn from one another and get important updates as well as recognition for good work, Walmart employees report the app is sometimes flooded with memes making fun of management.²⁰

So although social media can be a useful tool to disseminate information and help employees build relationships, companies should proceed with caution. In addition to potential misuse of internal channels, it also can be draining on employees by distracting them from their work.²¹ If employees are on their phones looking at an internal application, they are likely checking their other social media accounts as well. In fact, a recent survey found that nearly 90 percent of employees say they check social media at work, and nearly one in five said they checked social media 10 times or more during the workday.²² Unfortunately, most of those "checks" are undoubtedly for external sites and have nothing to do with employee work responsibilities.

But with effective management, social media can be a valuable communications tool. For example, one study that examined the use of social media internally found that it improved employee perceptions of managerial transparency. Further, if an organization encourages two-way communication via an internal social media channel, it conveys a message of openness and inclusion. To achieve this, organizations must encourage employees to participate with differences of opinion, and managers should actively respond to employee posts. Doing so encourages employees to use the social media to share their thoughts and ideas, creating an open and participatory communication climate.²³



Developed by Meta, Workplace is a social media application and collaborative tool developed for businesses.

Source: Ascannio/Alamy Stock Photo

Companies can take two different approaches to using social media to improve organizational communication. First, they can develop an internal enterprise-wide platform using tools such as Meta's Workplace, as is used by McDonald's and Walmart. Alternatively, they can engage popular social media networks such as Twitter or LinkedIn. This approach is less costly because the company does not have to invest in developing its own platform, but it has associated risks due to lack of control.²⁴

Artificial Intelligence

We were curious about the role that generative AI could play in management communication. So we asked! We prompted OpenAI's ChatGPT tool with the question: *How can managers use ChatGPT to improve organizational communication?* See **Exhibit 17-3** for the response.

Experts suggest that tools such as ChatGPT can be useful in management communication. As our response from ChatGPT suggests, the tool can act as an assistant, organizing information and automating basic tasks. The tool can also improve communication by helping a writer change the tone or effect of a message. For example, a manager that needed to send a sensitive message could engineer a prompt to request a message be written with empathy.²⁵

Virtual Meetings

With an increase in remote work comes an increase in remote or virtual meetings. In fact, one study found a 60 percent growth in the number of virtual meetings held from 2020 to 2022, with employees reporting an average of eight virtual meetings per week.²⁶ Although virtual meetings allow employees to enhance remote worker communication by allowing nonverbal cues, the medium provides some unique challenges. With videoconferencing on the rise, many workers report "Zoom fatigue" from excessive time spent interacting online with colleagues. Zoom fatigue can cause feelings of emotional exhaustion and anxiety that can lead to ongoing mental health concerns and also impact work productivity and overall quality of life.²⁷ Experts suggest to

Exhibit 17-3

ChatGPT's Usefulness in Management Communication

ChatGPT is an AI-powered language model that can help managers to better understand and communicate with their employees, customers, and stakeholders. Managers can use ChatGPT to improve organizational communication in a number of ways.

- **Leverage its natural language processing capabilities** to analyze and summarize large volumes of text data, such as customer feedback, employee surveys, or social media posts. By analyzing this data, managers can gain insights into the concerns, preferences, and opinions of their stakeholders, and use this information to improve their products, services, and communication strategies.
- **Automate certain types of communication tasks**, such as responding to frequently asked questions, providing basic information about products or services, or sending reminders to employees. This can help to save time and reduce the workload of managers, allowing them to focus on more strategic tasks.
- **Improve their own communication skills** by using it to practice and refine their writing and speaking skills. By interacting with ChatGPT and receiving feedback on their communication style and effectiveness, managers can become more confident and effective communicators, which can help to build stronger relationships with their employees, customers, and stakeholders.

avoid the mental drain of virtual meetings, you should put your phone away to limit distractions and make sure you take a break at least every 50 minutes.²⁸

BECOMING a Better Communicator

LO17.5 Discuss how to become a better communicator.

Most managers will tell you that becoming an effective communicator is one ingredient of a successful career. They're right. You should always take the opportunity to improve your communication skills. In addition to listening skills, which we discussed earlier in the "It's Your Career" box, other important communication skills include persuasion, speaking, writing, and reading. Let's briefly look at each of these.

Sharpening Your Persuasion Skills

Successful managers demonstrate good persuasion skills. **Persuasion skills** enable a person to influence others to change their minds or behavior. Consider the following: Richard Branson, founder of conglomerate Virgin (including Virgin Mobile and Virgin Atlantic Airways), learned the value of persuasion at an early age. While attending boarding school, Branson launched his first business venture, creating *Student* magazine. But he recognized that he could not do so without the backing of investors. Branson successfully learned how to make 5-minute pitches over the telephone and was quite successful at it: The magazine has been in business since 1968. What made his pitches successful? Branson said: "Any fool can make something complicated. It's hard to make something simple."²⁹

Branson's comment is consistent with the research on persuasion.³⁰ Four of the most basic elements in successful persuasion are: (1) Be clear about the "who," "what," and "why"; (2) keep it simple; (3) think about the other person's needs, motivation, and interests when you shape your argument; and (4) appeal to the "head" and "heart" by combining both rational and emotional arguments.

Sharpening Your Speaking Skills

By now, you have probably made many class presentations. An advantage of giving class presentations is the chance to develop speaking skills. **Speaking skills** refer to the ability to communicate information and ideas by talking so others will understand. One survey revealed that 70 percent of employees who make presentations say that good presentation skills are important to career success.³¹ Yet discomfort with public speaking holds some employees back. About 20 percent of survey respondents revealed that they would avoid making presentations even if it meant "losing respect."³² Fortunately, there are resources to help you overcome discomfort with public speaking, such as local Toastmasters clubs, which provide opportunities to make formal and impromptu speeches in a supportive environment.

Once you develop greater confidence to speak in front of others, it is necessary to understand the characteristics of effective speaking. Attending successful business professionals' presentations or watching them online is a good starting point. You will likely notice the following characteristics in effective speakers: authenticity, humility, brevity, and a clear understanding of the audience.³³ And to elaborate on brevity: No one ever complained about a speech being too short!

Sharpening Your Writing Skills

Writing skills entail communicating effectively in text that is most appropriate for its audience. Our focus is on business or professional writing, in contrast to the informal writing

persuasion skills

Skills that enable a person to influence others to change their minds or behavior

speaking skills

The ability to communicate information and ideas by talking so others will understand

writing skills

Communicating effectively in text that is most appropriate for its audience

The people of Toastmasters work to become more competent communicators, improve their listening skills, and learn the importance of speech "icebreakers" and visual aids. Here, Alberto Olvera-Ocampo presents his icebreaker speech two weeks after joining the club.

Source: Alex T. Paschal/AP Images



that you might do in a journal, a letter to a friend, or a text message. But keep in mind, if you are texting coworkers, although informality is acceptable, you still need to re-read your text for clarity and check for spelling errors.

There are some fairly straightforward rules that can help you to write simply, clearly, and precisely.³⁴

- **Think before you write.** Focus on what you want to say *before* you start writing. This avoids meandering, wordiness, and repetition.
- **Be direct.** Get to the point quickly.
- **Cut the fat.** Eliminate unnecessary words.
- **Avoid jargon and grandiose language.** Strive for clarity rather than to impress.
- **Be professional.** Formal communications and reports are different from emails, text messages, and social media comments. This is not the place for abbreviations, acronyms, or textspeak.

Sharpening Your Reading Skills

Employees receive an average of 120 work emails daily.³⁵ They also receive many written memos, reports, and policy statements. The sheer volume alone requires good reading skills. **Reading skills** entail an understanding of written sentences and paragraphs in work-related documents. If your reading skills aren't up to par—in either comprehension or speed—don't be afraid to sign up for a reading-improvement class.

reading skills

The ability to understand written sentences and paragraphs in work-related documents

Chapter 17

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objectives

LO17.1 DEFINE the nature and function of communication.

Communication is the transfer and understanding of meaning. Interpersonal communication is communication between two or more people. Organizational communication includes all the patterns, networks, and systems of communication within an organization.

The functions of communication include managing employee behavior, motivating employees, providing a release for the emotional sharing of feelings and fulfillment of social needs, persuading, and providing information.

LO17.2 DESCRIBE the communication process.

The communication process contains seven elements. First, the communication source has a message. A message is a purpose to be conveyed. Encoding converts a message into symbols. A channel is the medium a message travels along. Decoding happens when the receiver retranslates a sender's message. Finally, feedback occurs.

People in organizations transfer meaning among themselves using oral, written, and nonverbal communication. Nonverbal communication is transmitted without words and includes body language and verbal intonation.

Barriers to effective communication include information overload and filtering. Emotions, language, silence, and national culture also create barriers. Feedback, simplified language, active listening, constraining emotions, and watching nonverbal cues can help overcome barriers.

LO17.3 EXPLAIN how communication can flow most effectively in organizations.

Formal communication is communication that takes place within prescribed organizational work arrangements. Informal communication is not defined by the organization's structural hierarchy. Communication in an organization can flow downward, upward, laterally, and diagonally.

The three communication networks are the chain, in which communication flows according to the formal chain of command; the wheel, in which communication flows between a clearly identifiable and strong leader and others in a work team; and the all-channel, in which communication flows freely among all members of a work team. The grapevine is the informal organizational communication network.

LO17.4 DESCRIBE how technology affects managerial communication and organizations.

Technology has changed the way we live and work. It has created a 24/7 work environment, because it is possible to stay connected around the clock and work from anywhere. Social media allows managers to communicate through one channel and encourages sharing experiences. Artificial intelligence provides useful support for organizational communication. Virtual meetings can support effective communication by allowing nonverbal engagement in remote work, but employees should be cautious to limit their screen time.

LO17.5 DISCUSS how to become a better communicator.

You can become a better communicator by sharpening your persuasion, speaking, writing, and reading skills.

REVIEW AND DISCUSSION QUESTIONS

- | | |
|--|--|
| <p>17-1. Define communication, interpersonal communication, and organizational communication.</p> <p>17-2. How is being an active listener related to a manager's ability to communicate effectively?</p> <p>17-3. Explain the elements of the communication process.</p> <p>17-4. What are the various communication methods managers can use? What are the advantages and disadvantages of each method?</p> <p>17-5. Contrast formal and informal communication.</p> | <p>17-6. Explain communication flow, the three common communication networks, and how managers should handle the grapevine.</p> <p>17-7. What is organizational communication with employees like in the 24/7 work environment? How has technology changed the ways managers communicate with employees and vice versa?</p> <p>17-8. What are some specific steps a manager must take to become a better communicator?</p> |
|--|--|

PREPARING FOR: My Career

ETHICS DILEMMA

As more Gen Z workers join the workforce, companies will see a growth in digital natives, which are workers who were brought up in the age of technology. Many managers are concerned Gen Z's online skills have come at the expense of interpersonal skills, with workers showing less interest in face-to-face communication. Further, some

more experienced managers may be apprehensive about communicating digitally with their employees. These differences in experiences and comfort with communication methods can be problematic, and management demands for a certain approach could negatively impact the work environment.³⁶

17-9. Do different communication preferences impact the work environment? Can managers demand employees use a certain approach to communicating?

17-10. What ethical responsibility do employers have to train workers of different generations to communicate effectively in the workplace?

SKILLS EXERCISE Developing Your Presentation Skills

About the Skill

Managers make presentations for a variety of reasons. Whether they share information about a new product or process, propose a solution to a problem, train new employees, or sell a product to a customer, their ability to effectively deliver a presentation is an essential management skill. Their effectiveness as a speaker will often impact whether their presentation achieves the desired outcome. The good news is that you can become an engaging presenter with some planning and practice.³⁷

Steps in Practicing the Skill

- **Know your audience.** Consider your audience for the presentation. What do they already know about your presentation topic? What do they need to learn from the presentation? Are they interested in your topic? Understanding your audience and their needs can help you tailor your message and content.
- **Organize your content.** Start with an opening that allows you to connect with the audience. Include a story or scenario that engages the audience or use some data or other information to help them understand the problem at hand. For the body of the presentation, organize your information around three or four main points and stick to them. Have a clear closing to your presentation that leaves the audience with something to consider or remember.
- **Prepare compelling visuals.** Only use presentation slides to complement your presentation—don't make your visuals a distraction. Keep it simple; don't include too many

words on your slides, or your audience will be reading instead of listening to you. Consider using graphics or photos that help illustrate your points.

- **Practice, practice, practice!** Although it is fine to have note cards, you should not read the presentation. Rehearse until you are comfortable with the content, but do not sound overly scripted. Consider video recording yourself when you are rehearsing so you can identify where you need improvement.
- **Calm your nerves.** Everyone gets nervous before a presentation. Make sure you take some deep breaths and stand tall and confident. Preparation is the best antidote to nervousness. Convert the nervous energy into positive enthusiasm and make it a signal to the audience that you want to do well.
- **Focus on your delivery.** Use a confident tone and watch out for the use of “nonwords” (ah, um, or like). Move your eyes to make eye contact with as many of the audience members as possible and ask questions to engage the audience.

Practicing the Skill

Look for opportunities to deliver presentations. Volunteer to take the lead in class presentations, give presentations to the members of the organizations you are involved with, or ask your boss for an opportunity to present during a team meeting. Use the above guidelines to prepare and deliver your presentation.

WORKING TOGETHER Team Exercise

Preparing for possible communication issues that arise can make you more effective at work. In groups of three or four, discuss (a) possible challenges that could arise during two of the steps involved in the communication process, (b) barriers that might occur, and (c) ways of overcoming those barriers for each of the following situations:

1. You are about to hold your first meeting as the leader of a cross-functional team (a team composed of one person from IT, one from marketing, one from accounting, and one from the legal department).
2. You are working virtually with two other people on a project, the project has a quick turnaround time, and the project deadline is approaching fast.
3. Your company has announced layoffs due to a decline in the demand for your company's products. The sales of a project line your team supports have dropped dramatically, and you need to lay off a team member to reduce costs. You are responsible for telling the employee with the least seniority, in person, that they are being laid off for at least six weeks.

MY TURN TO BE A MANAGER

- For one day, keep track of the types of communication you use (e.g., face-to-face, text, phone, email, Microsoft Teams, Zoom, etc.). Which do you use most? Least? Were your choices of communication methods effective? Why or why not? Could they have been improved? How?
- For one day, track nonverbal communication that you notice in others. Did you observe more nonverbal communication in happy than unhappy people? What types of nonverbal communication did you observe most often? Was the nonverbal communication always consistent with the verbal communication taking place? Did you notice any other trends? Describe them.
- Interview two entrepreneurs and managers. Get their advice on what it takes to be a good communicator. Put this information in a bulleted list format and be prepared to present it in class.
- Improve your oral speaking skills by joining a Toastmasters Club (www.toastmasters.org). Toastmasters is a nonprofit organization that teaches public speaking through a network of clubs where you can practice giving speeches to an audience that provides feedback to help you improve your skills.
- Identify at least one company that effectively uses social media to communicate with customers and/or employees. What social media applications does the company use? Subscribe to the company's social media feeds and take notes regarding its social media communications for at least one week. What patterns do you see? What social media messages are effective based on analytics like the number of comments, likes, shares, etc.?
- Given that email is one of the methods of communication managers use, it is important to practice using it effectively. Research email etiquette and create a list of “dos and don'ts” for using email at work.
- Does posting videos to social media platforms like TikTok build communication skills? Find out by posting an engaging video to TikTok about important management issues learned in this class. In the video, model the effective communication practices presented in this chapter. Share the video with a small group of students in class. Meet with the group to discuss the challenges you faced while making the video and get their feedback on how to make the video more engaging. Reflect on what you learned about communicating in a way that is accurate, accessible, and engaging to an audience.³⁸
- Communicating effectively during a meeting can be difficult. Research how to communicate effectively during meetings. Write a one-page paper summarizing the results of your research.
- Sit back-to-back with another student in the class. Make sure you both have a piece of paper and a pencil. Now draw a picture of a simple object like a flower, bike, house, car or truck, or the like. Using clear instructions, describe to the other student how they should draw an exact replica of your picture. Based on your instructions and without looking at your picture, the listener (i.e., your partner) must try to draw the same object. It should be the same size, on the same part of the paper, and so forth. Clearly, this takes good communication. After the first round, brainstorm ways to improve communication for this task. Switch roles and repeat the process to see if you were able to improve your communication and listening skills.³⁹

CASE APPLICATION 1

Communicating as the Company Grows at Hootsuite

Hootsuite, a Vancouver-based social media management platform company, realized it could do more to improve communication between employees in the company once it grew to over 1,000 employees. When the company was small and just a start-up, all the employees worked in the same room, and communicating with colleagues was easy. Once Hootsuite grew to a dozen offices worldwide, the CEO knew allowing employees to collaborate would need to be planned and more intentional.

How did Hootsuite make changes to improve communication? The company set up a website for interested employees to be randomly matched with another employee from a different department. Pairs would set up a time to meet for a quick cup of coffee. The program, #RandomCoffee, led to new lines of communication among colleagues back at the office, and participants reported gaining new insights into the workings of other departments. Ideas for future collaborations and projects grew as many pairs realized that by working together, they could solve issues in the company.⁴⁰

During the program's first year, the CEO demonstrated support for the program by implementing an idea that he heard from a #RandomCoffee match each week.

Although Hootsuite's program is novel, it is not unique. #RandomCoffee was inspired by other programs designed to increase collaboration and innovation. For example, The University of Michigan's Innovate Brew program fosters innovation between faculty members by randomly matching them to meet once a month for agenda-free 30-minute conversations over coffee. Meetups like these are representative of Michigan's reputation for employing faculty who engage in cross-disciplinary collaboration. Similarly, at the University of Toronto, Ten Thousand Coffees is used as an online networking tool for the entire university community. More than 12,000 alumni professionals and students use the online hub for participants to give and get career advice. A student or recent graduate seeking career advice can network with alumni working in professions they are curious about. The student and alum connect over coffee, by phone, or online, and the alum gives students advice. Like #RandomCoffee and Innovate Brew, Ten Thousand Coffees looks for ways to bring people together for a conversation to learn from one another. Organizers of these programs hope the meetings change communication patterns to benefit all parties involved.⁴¹

DISCUSSION QUESTIONS

- 17-11. In what ways does Hootsuite's concern about improving communication illustrate the topics of communication discussed in this chapter? Are there other aspects of communication not addressed by these types of programs?
- 17-12. What barriers to effective communication between colleagues are caused by the increased size of the company and its growth worldwide?
- 17-13. Which direction of communication and networks is Hootsuite addressing with the #RandomCoffee program? Which should be addressed further?
- 17-14. Describe your interest in participating as a student and separately as an employee in programs like #RandomCoffee, Innovate Brew, and Ten Thousand Coffees.

CASE APPLICATION 2

No Meetings?

Meetings are a standard part of life in business. Managers and employees spend significant time organizing, attending, and planning them, but organizations often fail to consider the cost of this activity. Studies suggest unnecessary meetings cost most firms about \$25,000 per employee annually; in large organizations, this can cost up to \$100 million annually.⁴² At Shopify, a Canadian company that creates e-commerce sites, executives suspected meetings had become a hidden and growing expense plaguing its business. After a debate among executives, they determined it was time to find ways to make meetings less frequent, more cost-effective, and shorter. Essentially, they wanted to free up time in their employees' schedules so they had more time to work on what mattered to the customers.

Employees became aware of the seriousness of their commitment to creating a new way of doing business when Shopify's chief operating officer deleted 322,000 hours of meetings with a program called Chaos Monkey. The program automatically canceled all recurring meetings with three or more people on all of the employees' electronic calendars. Although the cancelations caused some chaos, the executives aimed to send the message to employees and managers that now was the time to shift to a low-meeting culture. Although employees were allowed to reschedule some meetings, they were asked to recognize innovation happens when employees have more time away from meetings. The company established a policy of no meetings on Wednesdays, and very large meetings could only be held during set hours on Thursdays. Meeting

organizers were prompted only to hold meetings that mattered. Each organizer was presented with metrics reporting that a 30-minute meeting with three employees cost the organization \$700–\$1,600.⁴³ The logic behind these rules was to simply encourage employees to think twice before scheduling and attending a meeting.

Shopify had around 10,000 employees who worked remotely when these meetings were canceled. After launching Chaos Monkey, employees reported time spent in meetings to be down by one-third. The change in approach to meetings increased Shopify's productivity and put the company on track to deliver about 25 percent more projects.⁴⁴

DISCUSSION QUESTIONS

- 17-15. Which communication networks (chain, wheel, or all-channel) should Shopify rely on now that meetings are less of an option? Why?
- 17-16. If some managers become uncommunicative, what steps should Shopify's employees take to improve communication?
- 17-17. How would the grapevine play a role in the ways communication happens after Shopify adopted its less frequent meeting culture?
- 17-18. Should other organizations adopt a no- or low-meeting culture? Why or why not?

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PART 5

Management Practice

Continuing Case: Starbucks—Leading

Once people are hired or brought into organizations, managers must oversee and coordinate their work to pursue and achieve organizational goals. Followers are critical to the leading function of management. Managing people well means understanding their attitudes, behaviors, personalities, individual efforts, motivation, conflicts, and more. Starbucks has worked hard to create a workplace environment where employees (partners) are *encouraged to* and *want to* put forth their best efforts. The CEO of Starbucks communicates their vision for the company so that partners everywhere have the same purpose; Starbucks's partners are then rewarded more when they accomplish work aligned with this purpose.

Communication at Starbucks

Keeping organizational communication flowing at Starbucks starts at the top. CEOs at Starbucks have a history of making regular visits to stores. This not only give the CEO an up-close view of what is happening out in the field but also gives partners a chance to talk with the top person in the company. Kevin Johnson, a past CEO, initiated “Partner Connection Tours,” which start with partners sharing their life journeys and then move on to discussions about other matters on their minds. According to Johnson, the Partner Connection Tours taught him to “listen with his heart” and better understand what was happening in the company.¹ Johnson also used the live broadcast feature of Starbucks's internal social media tool (Workplace), a tool 80 percent of store managers use to communicate with partners and other Starbucks managers, to personally connect with store managers. Following this tradition, Starbucks's current CEO, Laxman Narasimhan, engages in similar practices including working in a different store as a barista for four hours each month.

Starbucks—Focus on Individuals

Clearly, with more than 400,000 full- and part-time partners worldwide, it is difficult for the CEO to develop relationships with partners. The CEO and other executives feel that taking care of the company's partners, who likely have never met an executive, is a crucial way to ensure these partners provide a positive customer experience. Human resource management professionals aid the executives by finding ways to reduce employee turnover at the store level because high turnover negatively affects employees' connections with customers. Starbucks estimates it costs the company over \$2,000 every time an hourly employee leaves.² So, keeping turnover low also is very good for the company's bottom line.

Starbucks has demonstrated its concern for its employees by administering an attitude survey called Partner Perspectives. It measures overall satisfaction and engagement—the degree to which partners are connected to the company. It has been an effective way for Starbucks to show that it cares about what its employees think. For example, a partner survey indicated that it was important for employees to have more flexibility in what they could wear to work. Starbucks changed the dress code to allow visible tattoos (except those on the face and throat), small nose studs, and larger piercings of the earlobe based on partner survey feedback. Other dress code changes allowed Starbucks partners to dye their hair any color, wear muted-color shirts rather than just white or black, wear dark-wash jeans, and wear fedoras and beanies.³ Starbucks's responses to employee feedback are its attempt to strike a balance between the company's brand and reputation on the one hand and being responsive to what employees want in the workplace on the other hand.

Starbucks does well in taking care of its employees. Employees frequently comment about liking the benefits and opportunities for advancement. Yet the fast-paced environment of most Starbucks stores is something that can be challenging and is a stressor to many of Starbucks's partners. Asking employees to create “genuine moments of connection” with customers is a tall order even for those willing to learn how to do it. In the fast-paced retail store setting, partners must work cohesively with their team to provide the experience that customers expect. Partners with an openness to getting the job done while helping fellow team members are essential.

Starbucks—Motivating Employees

A story from Howard Schultz's childhood provides clues into what has shaped Starbucks's philosophy about how to treat people. Schultz's father worked hard at various blue-collar jobs. However, when he did not work, he did not get paid. When his father broke his ankle when Howard was seven years old, the family “had no income, no health insurance, no worker's compensation, nothing to fall back on.” The image of his father with his leg in a cast, unable to work, left a lasting impression on the young Schultz. The sad realities of the types of work environments his father endured had a powerful effect on him, and those personal experiences have shaped the way that Starbucks cares for its partners to this day—the relationships and commitments the company has with each and every employee.⁴

One of the best reflections of how Starbucks treats its eligible part- and full-time partners is its Total Pay package, which includes a competitive base pay, bonuses, a comprehensive health plan, paid-time-off plans, a stock equity

reward program, a generous retirement savings program, reimbursement for an online bachelor's degree from Arizona State University, and partner perks (which include a pound of coffee each week).⁵ Although specific benefits differ between regions and countries, all of Starbucks's international partners share the Total Pay philosophy. For instance, in Malaysia and Thailand, partners are provided extensive training opportunities to further their careers in addition to health insurance, paid vacation, sick leave, and other benefits. In Turkey, the Total Pay package for Starbucks's partners includes transportation subsidies and access to a company doctor, who provides free treatment. And in China, full-time partners receive a monthly housing allowance and are eligible for a sabbatical (called a "Career Coffee Break").⁶

Partner (employee) recognition is used to motivate employees at Starbucks. The company has several formal recognition programs in place that encourage, reward, and inspire partners. There are a whole host of performance-based awards for individuals and teams, anniversary awards, and company-wide awards (like Partner of the Quarter). These programs range from formal company awards to informal special acknowledgments given by coworkers (e.g., Green Apron Cards, which are simple cards to show appreciation).

To assist partners facing challenging circumstances (such as natural disasters, fire, or illness), the company has a Caring Unites Partners (CUP) fund that provides financial support. Since 1998, it has helped partners in the aftermath of events such as Hurricane Katrina, Japan's earthquake and tsunami, and the COVID-19 pandemic. Partners with personal challenges, like unexpected family deaths or victims of domestic violence, have also received aid.⁷ Starbucks set aside CUP funds in China for a Parent Care program, which provides critical illness insurance for parents of full-time employees working in mainland China. Understanding that children offering support to parents is culturally important in China, Starbucks wanted to reduce the financial burden many of its partners would otherwise bear if their parents became seriously ill. This kind of focus on partners' needs extends back to founder Howard Schultz's promise not to allow employees to experience financial hardship due to illness or injury the way his father's injury created difficulties in his family growing up.⁸

Like many companies, Starbucks has made difficult strategic decisions during tough economic periods, such as closing underperforming stores. Despite the challenges, Starbucks's executives strategically prioritize the rewards and benefits it offers to its partners. The equitable treatment of partners is a continual focus of the organization. Decisions to increase wages, relax the dress code, and increase benefits for sick leave are intended to show partners they are critical to the company's success.

Starbucks—Fostering Leadership

Starbucks recognizes the importance of having individuals with excellent leadership skills at all levels of the company.

In addition to providing leadership development training for upper-level managers, Starbucks encourages leadership development skills and trains partners who have been identified as outstanding ambassadors of customer service.

To Howard Schultz, being a great leader meant identifying the path Starbucks needed to follow and creating enough confidence in his people to follow that path. In his opinion, leaders of growing companies need to be authentic by staying true to their values and principles while guiding how their business is done on a larger and larger scale. As people take the top leadership role at Starbucks, they, too, embody values similar to Schultz's. When talking about Starbucks, each new CEO has made it a point to publicly mention how important it is to stay true to the mission and values of Starbucks. When figuring out what needs to be done to steer the company, successful leadership is a question of how well the leader accomplishes Starbucks's mission of inspiring and nurturing the human spirit.

Starbucks used its founding principles to put people first and profits last to build a different kind of company. These principles helped open thousands of stores in neighborhoods around the world. Leaders know to adapt their company's mission and principles to meet the changing needs of partners, the business, and the world outside. Each new CEO of Starbucks has recast a slightly modified mission to meet the challenges of their time and match themselves and their vision for what was suitable for the company. In 2008, Starbucks unveiled an adapted mission known as Our Starbucks Mission: "To nurture and inspire the human spirit—one person, one cup, one neighborhood at a time." In 2014, an update to the mission's guiding principles included "performance-driven through the lens of humanity." Modifications to match the leader's identity include those made by Kevin Johnson, a former CEO who had a turning point in life that defined his direction as a leader. Under his leadership, this incident informed his decision to provide paid benefits to partners who needed to take time off to care for sick family members. He also took steps to understand the business of Starbucks from an emotional standpoint. This level of understanding of Starbucks was important to his leadership because he perceived it as how the company works to fulfill its mission.⁹

Following this pattern, Laxman Narasimhan, Starbucks's current CEO, unveiled his new mission and promises for Starbucks. According to his perspective, customers live in a highly disconnected world where loneliness, division, and polarization have become too common. Narasimhan wants customers to use the everyday ritual of coffee as a way to connect with others. The new version of Starbucks's mission recognizes human connection as a fundamental human need and makes it an express part of the company's mission for partners, customers, and investors to see. The updated mission has also changed neighborhoods to communities as an invitation to people in stores and digital spaces to connect through coffee and conversation.¹⁰

Discussion Questions

- P5-1.** What barriers to communication do CEOs need to overcome when they try to communicate with their partners? What information about communication direction and networks should the CEOs take to heart?
- P5-2.** Do you think Kevin Johnson and Laxman Narasimhan's store visits are an effective communication tool? Discuss.
- P5-3.** Should a store manager communicate with partners using the Internet and social media? What steps should leaders take to become better communicators on digital platforms?
- P5-4.** Besides asking employees for their opinions through attitude surveys, what else could managers at Starbucks do to learn about the concerns partners have?
- P5-5.** Look at the descriptions of locus of control, self-esteem, self-monitoring, narcissism, proactive personality, and emotional intelligence. Which two traits from this list are best suited for people working at Starbucks? (Think in terms of attitudes, personality, behavior, etc.) Justify your answer. What work team issues might arise if the wrong type of person is selected? (Think in terms of what makes teams successful. Hint: Can a person be self-motivated and passionate *and* be a good team player?)
- P5-6.** Discuss the "ideal" contemporary theory of motivation a Starbucks store manager should use to motivate partners.
- P5-7.** Describe the workplace environment Starbucks has tried to create. What impact might such an environment have on motivating employees?
- P5-8.** Using the Job Characteristics Model, redesign a part-time partner's job to be more motivating. Do the same with a store manager's job.
- P5-9.** Describe how personal histories influence a CEO's leadership style. Is it appropriate for CEOs to adapt their company's mission when they take over the top job? Why or why not?
- P5-10.** What is Starbucks doing "right" with respect to the leading function? Is it doing anything "wrong"? Explain.
- P5-11.** Which of the company's missions and values (see the Starbucks website) influence the leading

function of management? Explain how the one(s) you chose would affect how Starbucks's managers deal with (a) communication issues between a store manager and their partners, (b) individual behavior issues, (c) selecting the right theory to motivate partners, and (d) a store manager's choice to lead using transactional leadership theory.

Practice Your Data Analysis Skills

A coffee business started by three friends caught on and grew to over 50 locations. Last year, their stores launched an app customers can use to order their favorite drinks ahead of time and pick them up ready to drink when they get to the store. Analytics from the app have revealed that customers ordering drinks with complicated variations (e.g., a half-caf, triple-shot, caramel, mocha, soy, no foam, extra whip, extra hot, upside-down) also tend to give the lowest ratings of customer service on the app. The app's designer added artificial intelligence (AI) functionality in the background of the app's database six weeks ago. The AI completed a deeper analysis of customer data and found complicated orders made by customers 16 to 19 years old were five times more likely to give a bad review than customers with similar orders aged 29 and older. On the other hand, the older customers who left poor reviews only ordered using the app again 77 percent of the time, whereas younger customers ordered using the app again 85 percent of the time.

Based on in-store experiments designed by one of the regional managers, it was determined that when complicated orders were handed to customers by an employee who communicated they enjoyed the same drink, they received a 5-star customer rating. In contrast, those who simply handed the customer their drink received a 4-star customer service rating, and those who left the drink on the counter received customer service ratings of 3 stars or lower. During the experiment, the average complicated order sold for \$6, and 65 out of 100 customers making complicated orders using the app were in the older group.

- P5-12.** Per 100 complicated orders, what are the revenue differences associated with the different order delivery practices if the 5-star ratings technique equaled a subsequent order by app 95 percent of the time with an average order total of \$12, and 4-star and 3-star techniques equaled subsequent orders by app 85 percent and 45 percent of the time, with average order totals of \$10 and \$3 respectively?
- P5-13.** Suppose leaders want employees to hand complicated drinks ordered through the app to customers when they arrive in the store. How

could leaders influence employees to engage in this new behavior consistently? How should they communicate this new requirement to employees?

- P5-14.** Are there any concerns about the type of data gathered by leaders from the app and how it is used? Why or why not?
- P5-15.** Should leaders run experiments like this? Why or why not?

Notes for the Part 5 Continuing Case

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Chapter 18 Management Control

Learning Objectives

- 18.1 Explain** the nature and importance of control.
- 18.2 Describe** the three steps in the control process.
- 18.3 Explain** how organizational and employee performance are measured.
- 18.4 Describe** tools used to measure organizational performance.
- 18.5 Discuss** contemporary issues in control.

Dhirendra Prasad worked at Apple from December 2008 to December 2018 as a buyer in the company's global service supply chain. During that period, Prasad stole more than \$17 million from the company. His job was to facilitate buying parts to perform warranty repairs on older devices, and he was given substantial discretion to make decisions to benefit the company. Instead, he used his ability to make autonomous decisions to conspire with two different vendors to defraud Apple by taking kickbacks, stealing parts, inflating invoices, and charging Apple for parts that were never received. In 2023 Prasad was convicted of these crimes, sentenced to 3 years in prison, and ordered to pay \$19 million to Apple.¹

How was Prasad able to steal \$17 million over a period of 10 years? How could Apple have prevented this fraud? This chapter will examine the management control process to understand how managers can not only prevent such theft but also assure that the company achieves its goals.

Management Myth: Managers monitor employees because they don't trust them.

Management Reality: Monitoring employees can help find more effective and efficient operational practices.

WHAT Is Controlling, and Why Is It Important?

LO18.1 Explain the nature and importance of control.

Controlling is the final step in the management process. But what do we specifically mean by the term?

controlling

Management function that involves monitoring, comparing, and correcting work performance

What Is Controlling?

Controlling is the process of monitoring, comparing, and correcting work performance. Managers cannot really know whether their units are performing properly until they have evaluated what activities have been done and have compared the actual performance with the desired standard. Effective controls, therefore, ensure that activities are completed in ways that lead to the attainment of goals. And the effectiveness of controls is determined by how well they help employees and managers achieve their goals.²

Applying controls in organizations is nothing new. Accounting and auditing practices, for instance, have been found to be present in ancient China and Egypt. As we shared in **Chapter 2**, the writings of Frederick Taylor, Henri Fayol, and Max Weber in the early 20th century were directly concerned with the need to enact controls with the advent of an industrial economy. Concepts such as scientifically training workers, creating lines of authority, and imposing formal rules and regulations were introduced to ensure that work was completed consistent with goals established by management.

Why Is Controlling Important?

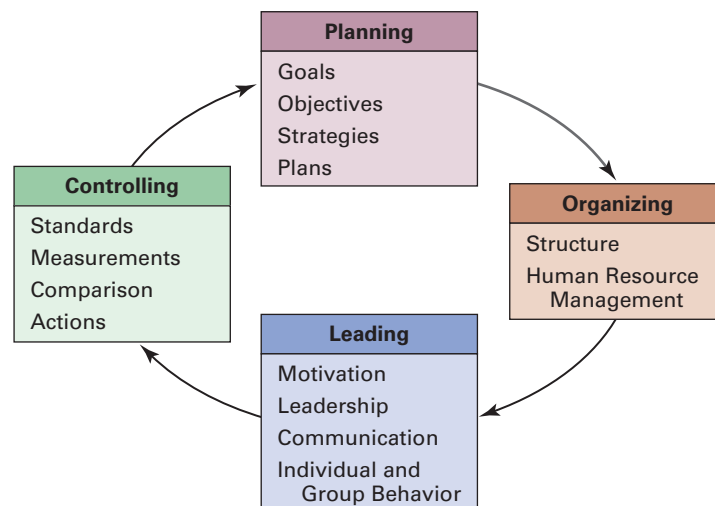
Planning can be done, an organizational structure can be created to facilitate efficient achievement of goals, and employees can be motivated through effective leadership. Still, there's no assurance that activities are going as planned and that the goals employees and managers are working toward are, in fact, being attained. Control is important, therefore, because it's the final link in the functional chain of management. The value of the control function can be seen in three specific areas: planning, empowering employees, and protecting the workplace.

In **Chapter 8**, we described goals, which provide specific direction to employees and managers as the foundation of planning. However, just stating goals or having employees accept goals doesn't guarantee that the necessary actions to accomplish those goals have been taken. The effective manager follows up to ensure that what employees are supposed to do is, in fact, being done and goals are being achieved. Controlling provides a critical link back to planning. (See **Exhibit 18-1**.)

The second reason controlling is important is because of employee empowerment. Many managers are reluctant to empower their employees because they fear something will go wrong for which they would be held responsible. Thus, many managers might be tempted to do things themselves and avoid delegating. This reluctance to delegate, however, can be reduced if managers develop an effective control system. Such a control system can provide information and feedback on the performance of employees to whom they have delegated authority. An effective control system is therefore important because managers need to delegate authority; however, because

Exhibit 18-1

Planning-Controlling Link



they are ultimately responsible for the decisions that their employees make, managers also need a feedback mechanism.

The final reason controls are important is to protect the organization and its assets. Today’s environment brings heightened threats from natural disasters, financial scandals, workplace violence, global supply chain disruptions, security breaches, and even possible terrorist attacks. It’s management’s responsibility to protect the organization’s assets against such risks and threats. Comprehensive controls and backup plans will help assure minimal work disruptions.

THE Control Process

LO18.2 Describe the three steps in the control process.

The **control process** consists of three separate and distinct steps: (1) *measuring* actual performance, (2) *comparing* actual performance against a standard, and (3) *taking managerial action* to correct deviations or inadequate standards (see **Exhibit 18-2**). Before we consider each step in detail, you should be aware that the control process assumes that standards of performance *already exist*. These standards are the specific objectives against which progress can be measured. They are created in the planning function and must *precede* control. Once a company has established its strategic goals through the planning process, it can then identify **key performance indicators (KPIs)** to measure progress toward those goals. A KPI is a measurable target that indicates how the company is performing. **Exhibit 18-3** provides examples of KPIs an organization might track.³

control process

A three-step process of measuring actual performance, comparing actual performance against a standard, and taking managerial action to correct deviations or inadequate standards

key performance indicator (KPI)

A measurable target aligned with strategic goals that indicates how the company is performing

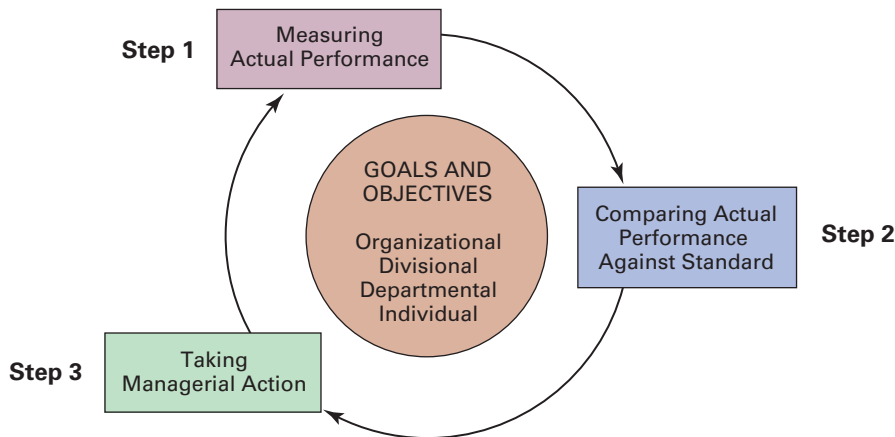


Exhibit 18-2
The Control Process

<p>Sales Department</p> <ul style="list-style-type: none"> • Monthly sales growth • Monthly customers per sales rep • Quarterly sales bookings • Number of engaged leads in sales funnel • Average conversion time 	<p>Marketing Department</p> <ul style="list-style-type: none"> • Monthly website traffic • Page likes and comments • Social media engagement rates • Number of new monthly leads • Click-through rate percentage
<p>Human Resources Department</p> <ul style="list-style-type: none"> • Monthly overtime hours • Quarterly training costs • Cost per new hire • Employee productivity • Monthly absenteeism rate 	<p>Customer Service Department</p> <ul style="list-style-type: none"> • Customer satisfaction score • Customer retention rate • Monthly support ticket submissions • Average resolution time • Cost per resolution

Exhibit 18-3
Examples of Key Performance Indicators

Adapted from: L. Hennigan and K. Main, “What Is a KPI? Definition and Examples,” *Forbes*, August 24, 2023, <https://www.forbes.com/advisor/business/what-is-a-kpi-definition-examples/>.



Walgreens improved the work environment and performance of pharmacists by changing the metrics used to measure their performance.

Source: Steve Skjold/Shutterstock

Step 1: Measuring Actual Performance

To determine what actual performance is, a manager must first get information about it. Thus, the first step in control is measuring. Let's consider *what* we measure and *how* we measure.

WHAT WE MEASURE KPIs provide guidance in establishing *what* we measure. The selection of the wrong metrics can result in serious dysfunctional consequences. For example, Walgreens changed its approach to evaluating the performance of pharmacists in 2022 after determining the metrics they were using had negative, even disastrous, consequences. Before the change, pharmacists were evaluated based on meeting weekly targets such as number of prescriptions filled, calls to patients, and number of vaccinations given.

These metrics focused on tasks and profitability, not the customer experience. The pressure to meet the numbers led to stress and burnout and, even more concerning, mistakes. Walgreens shifted from these task-based metrics to different measures focusing on patient care that better align with organizational goals.⁴

Some control criteria can be used for any management situation. For instance, all managers deal with people, so criteria such as employee satisfaction or turnover and absenteeism rates can be measured. Keeping costs within budget is also a fairly common control measure. Other control metrics should recognize the different activities that managers supervise. For instance, a manager at a pizza delivery location might use metrics such as number of pizzas delivered per day, average delivery time for in-person orders versus online orders, or number of coupons redeemed. A manager in a governmental agency might use applications processed per day or client requests completed per hour.

Most jobs and activities can be expressed in tangible and measurable terms. When a performance indicator can't be stated in quantifiable terms, managers should look for and use subjective or qualitative measures. Although such measures may have limitations, they're better than no standards at all and ignoring the control function.

HOW WE MEASURE Managers can use qualitative and quantitative sources of information to measure performance. Qualitative sources include observations and oral reports. Quantitative sources include statistical reports and self-reporting devices.

Personal observation is a qualitative measure that provides firsthand, intimate knowledge of the actual activity—information that is not filtered through others. It permits intensive coverage because minor as well as major performance activities can be observed as well as opportunities for the manager to “read between the lines.” Management-by-walking-around can pick up omissions, facial expressions, and tones of voice that may be missed by other sources. Unfortunately, in a time when quantitative information suggests objectivity, personal observation is often considered an inferior information source. It is subject to perceptual biases—what one manager sees, another might not. Personal observation also consumes a good deal of time, and employees might interpret a manager's overt observation as a sign of a lack of confidence in them or of mistrust. Further, when managing remote workers, personal observation is not possible.

Managers may also obtain qualitative information through *oral or written reports* from employees. Oral reports include information acquired through conferences, meetings, one-on-one conversations, or telephone calls. Although information is filtered, oral reports are fast, allow for feedback, and permit language expression and tone of voice, as well as words themselves, to convey meaning. Written reports include information shared via email messages or other written means such as reporting software.

Managers increasingly rely on quantitative measures such as *statistical reports* for measuring actual performance. This includes computer outputs, graphs, bar charts,

and numerical displays of any form that managers may use for assessing performance. The type of statistical information available depends on the type of data a company collects. For example, a helpful statistic for a sales representative could be a yield statistic that tells the average number of client meetings that occur before a sale is made. However, if the company does not track meetings, it cannot obtain this statistic.

Self-monitoring devices—sometimes referred to as the Internet of Things—also provide quantitative information. Sensors in smartphones, machinery, robotics, tracking devices, and the like collect data and initiate corrective action or alert management to a problem. Human intervention becomes an option rather than a necessity as computers sense, think, and act.

Step 2: Comparing Actual Performance Against the Standard

The comparing step determines the variation between actual performance and the standard. Although some variation in performance can be expected in all activities, it's critical to determine an acceptable **range of variation** (see **Exhibit 18-4**). Deviations outside this range need attention. Let's work through an example.

Chris Tanner is a sales manager for Green Earth Gardening Supply, a distributor of specialty plants and seeds in the Pacific Northwest. Chris prepares a report during the first week of each month that describes sales for the previous month, classified by product line. **Exhibit 18-5** displays both the sales goals (standard) and actual

range of variation
The acceptable parameters of variance between actual performance and the standard

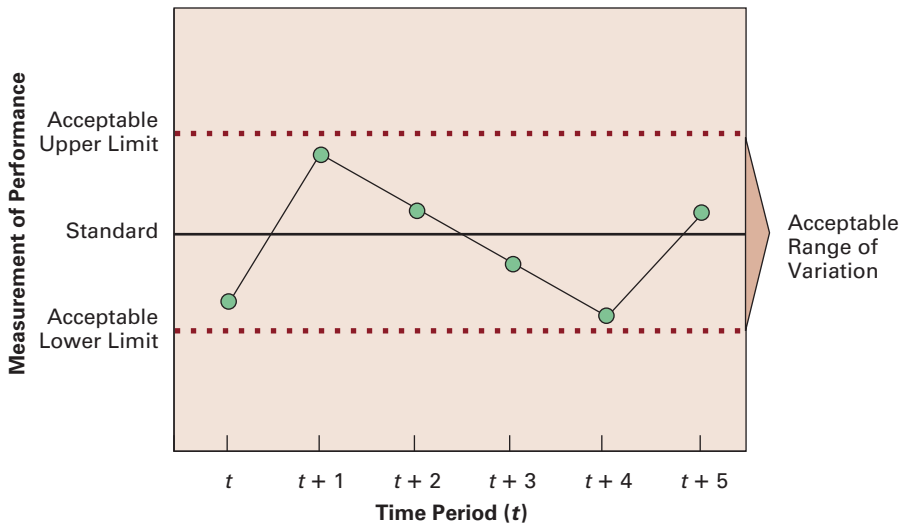


Exhibit 18-4
Acceptable Range of Variation

Product	Standard	Actual	Over (Under)
Vegetable plants	1,075	913	(162)
Perennial flowers	630	634	4
Annual flowers	800	912	112
Herbs	160	140	(20)
Flowering bulbs	170	286	116
Flowering bushes	225	220	(5)
Heirloom seeds	540	672	132
Total	3,600	3,777	177

Exhibit 18-5
Green Earth Gardening Supply—
June Sales

sales figures for the month of June. After looking at the numbers, should Chris be concerned? Sales were a bit higher than originally targeted, but does that mean there were no significant deviations? That depends on what Chris thinks is *significant*, that is, outside the acceptable range of variation. Even though overall performance was generally quite favorable, some product lines need closer scrutiny. For instance, if sales of heirloom seeds, flowering bulbs, and annual flowers continue to be over what was expected, Chris might need to order more product from nurseries to meet customer demand. Because sales of vegetable plants were 15 percent below goal, Chris may need to run a special on them. As this example shows, both overvariance and undervariance may require managerial attention, which is the third step in the control process.

Step 3: Taking Managerial Action

Managers can choose among three possible courses of action: do nothing, correct the actual performance, or revise the standards. Because “do nothing” is self-explanatory, let’s look at the other two.

CORRECT ACTUAL PERFORMANCE Sports coaches understand the importance of correcting actual performance. During a game, they’ll often correct a player’s actions. But if the problem is recurring or encompasses more than one player, they’ll devote time during practice before the next game to correcting the actions. That’s what managers need to do as well.

If the source of the variation has been deficient performance, the managers will want to take corrective action. Examples of such corrective action might include changes in strategy, structure, compensation practices, or training programs; the redesign of jobs; or the replacement of personnel.

A manager who decides to correct actual performance has to make another decision: Should they take immediate or basic corrective action? **Immediate corrective action** corrects problems at once and gets performance back on track. **Basic corrective action** asks how and why performance has deviated and then proceeds to correct the source of the deviation. It’s not unusual for managers to rationalize that they don’t have the time to take basic corrective action and, therefore, must be content to perpetually “put out fires” with immediate actions. Effective managers, however, analyze deviations and, when the benefits justify it, take the time to permanently correct significant variances between standard and actual performance.

REVISE THE STANDARD It’s possible that the variance was a result of an unrealistic standard—too low or too high a goal. In such cases, the standard needs the corrective action, not the performance. If performance consistently exceeds the goal, then a manager should look at whether the goal is too easy and needs to be raised. On the other hand, managers must be cautious about revising a standard downward. It’s natural to blame the goal when an employee or a team falls short. For instance, students who get a low score on a test often attack the grade cutoff standards as too high. Rather than accept the fact that their performance was inadequate, they will argue that the standards are unreasonable. Likewise, salespeople who don’t meet their monthly quota often want to blame what they think is an unrealistic quota. It may be true that standards are too high, resulting in significant variance and acting to demotivate those employees being assessed against it. But keep in mind that if employees or managers don’t meet the standard, the first thing they are likely to attack is the standard itself. If you believe the standard is realistic, hold your ground. Explain your position, reaffirm to the employee or manager that you expect future performance to improve, and then take the necessary corrective action to turn that expectation into reality.

Summary

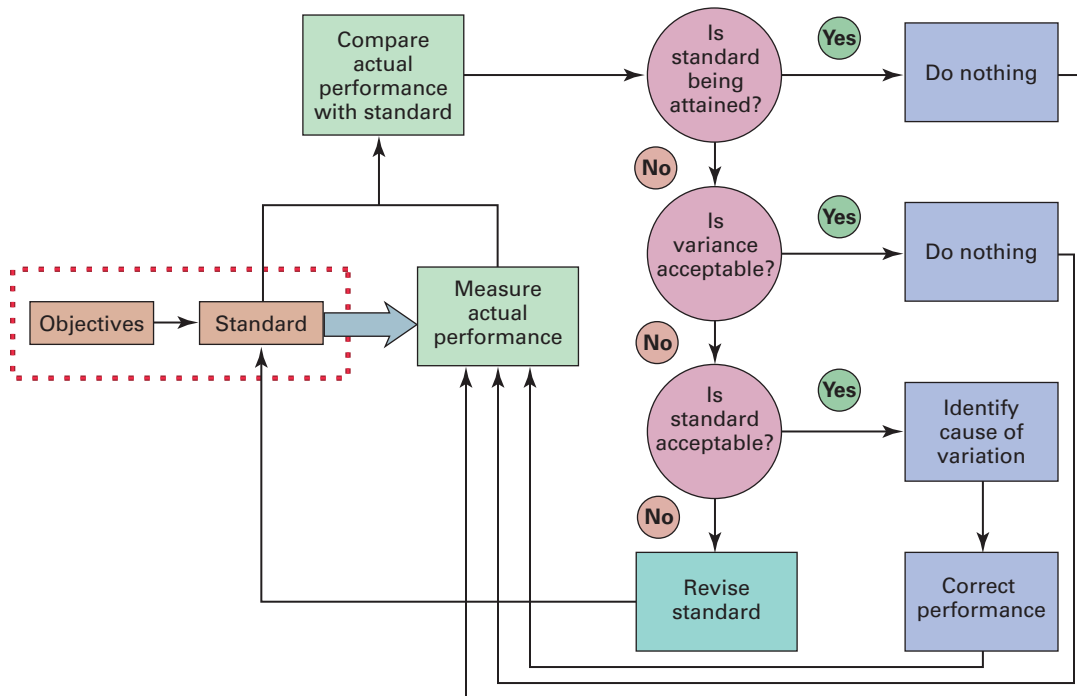
Exhibit 18-6 summarizes the decisions a manager makes in controlling. The standards evolve out of objectives, but because objectives are developed during planning, they are tangential to the control process. The process is essentially a continuous flow

immediate corrective action
Corrective action that corrects problems at once to get performance back on track

basic corrective action
Corrective action that looks at how and why performance deviated before correcting the source of deviation

Exhibit 18-6

Managerial Decisions in the Control Process



between measuring, comparing, and managerial action. Depending on the results of the comparing stage, management's courses of action are to do nothing, correct the performance, or revise the standard.

CONTROLLING for Organizational and Employee Performance

LO18.3 Explain how organizational and employee performance are measured.

Cost efficiency. The length of time it takes for a customer to have an issue resolved. Customer satisfaction with service provided. These are just a few of the important performance indicators that executives in the intensely competitive call-center service industry measure. To make good decisions, managers in this industry want and need this type of information so they can manage organizational and employee performance.

What Is Organizational Performance?

When you hear the word *performance*, what do you think of? A summer evening concert by a local community orchestra? An Olympic athlete striving for the finish line in a close race? A Southwest Airlines ramp agent in Fort Myers, Florida, loading passengers as efficiently as possible in order to meet the company's 20-minute gate turnaround goal? **Performance** is all of these things. It's the end result of an activity. And whether that activity is hours of intense practice before a concert or race or carrying out job responsibilities as efficiently and effectively as possible, performance is what results from that activity.

Managers are concerned with **organizational performance**—the accumulated results of all the organization's work activities. It's a multifaceted concept, but managers need to understand the factors that contribute to organizational performance.

performance
The end result of an activity

organizational performance
The accumulated results of all the organization's work activities

Measures of Organizational Performance

Why do shows get canceled on Netflix? It may not be the reason you think. Fans of the *Warrior Nun* series on Netflix were furious when the show was canceled after two seasons. With only favorable reviews from critics, fans couldn't understand why the show would not move on to a third season.⁵ What many viewers don't know is that Netflix puts an emphasis on one metric in cancellation decisions: completion rate, which is the percentage of the show's audience that actually finishes watching the show.⁶ So although there were many fans of the show *Warrior Nun*, a majority of the viewers that started watching the show did not finish it, indicating that it most likely would not sustain long-term viewership.

In this section, we look at three commonly used measures of organizational performance: organizational productivity, organizational effectiveness, and industry rankings.

productivity

The amount of goods or services produced divided by the inputs needed to generate that output

ORGANIZATIONAL PRODUCTIVITY **Productivity** is the amount of goods or services produced divided by the inputs needed to generate that output. Organizations and individual work units want to be productive. They want to produce the most goods and services using the least amount of inputs. Output is measured by the sales revenue an organization receives when goods are sold (selling price \times number sold). Input is measured by the costs of acquiring and transforming resources into outputs.

It's management's job to increase this ratio. Of course, the easiest way to do this is to raise prices of the outputs. But in today's competitive environment, that may not be an option. For instance, it is difficult for Walmart to meet its objective of "Everyday Low Prices" because it has increased pay for 1.2 million workers and is facing intense competition from retailers such as Costco.⁷ The only other option, then, is to decrease the inputs side. How? By being more efficient in performing work and thus decreasing the organization's expenses. Walmart has been pressuring product suppliers to lower their prices in an effort to reduce expenses and maintain competitive store pricing.⁸

organizational effectiveness

A measure of how appropriate organizational goals are and how well those goals are being met

ORGANIZATIONAL EFFECTIVENESS **Organizational effectiveness** is a measure of how appropriate organizational goals are and how well those goals are met. That's the bottom line for managers, and it's what guides managerial decisions in designing strategies and work activities and in coordinating the work of employees.

INDUSTRY AND COMPANY RANKINGS Industry and company rankings are a popular way for managers to measure their organization's performance. And there's no shortage of these rankings, as **Exhibit 18-7** shows. Rankings are determined by specific performance measures, which are different for each list. For instance, *Fortune's* Best Companies to Work For are chosen by answers given by thousands of randomly

Exhibit 18-7

Popular Industry and Company Rankings

Fortune (www.fortune.com)	IndustryWeek (www.industryweek.com)
Fortune 500	IndustryWeek 1000
Global 500	IndustryWeek US 500
World's Most Admired Companies	50 Best Manufacturers
100 Best Companies to Work For	IndustryWeek Best Plants
100 Fastest-Growing Companies	
Forbes (www.forbes.com)	Customer Satisfaction Indexes
World's Largest Public Companies	American Customer Satisfaction Index—
Customer Experience All-Stars	University of Michigan Business School
INC. (www.inc.com)	Customer Satisfaction Measurement
Fastest-growing private companies	Association

selected employees on a questionnaire called “The Great Place to Work® Trust Index®” and on materials filled out by thousands of company managers, including a corporate culture audit created by the Great Place to Work Institute. These rankings give managers (and others) an indicator of how well their company performs in comparison to others. Wegmans Food Markets is an example of a great place to work. It has been on the *Fortune* list every year since 1998.⁹ It is not surprising that 96 percent of Wegmans’ employees said you are made to feel welcome when you join the company.¹⁰

Controlling for Employee Performance

Managers need to make sure employees’ work efforts are of the quantity and quality needed to accomplish organizational goals—thus the need to impose controls. It’s particularly important for managers to deliver effective performance feedback and to

IT’S YOUR CAREER

How to Be a Pro at Giving Feedback

A key to success in management and in your career is knowing how to be effective at giving feedback.

Everyone needs feedback! If you want people to do their best, they need to know what they’re doing well and what they can do better. That’s why providing feedback is such an important skill to have. But being effective at giving feedback is tricky. That’s why we often see managers either (a) not wanting to give feedback or (b) giving feedback in such a way that it doesn’t result in anything positive.

You can feel more comfortable with and be more effective at providing feedback if you use the following specific suggestions:¹¹

- **Be straightforward by focusing on specific behaviors.** Feedback should be specific rather than general. Avoid such statements as “You have a bad attitude” or “I’m really impressed with the good job you did.” They’re vague and although they provide information, they don’t tell the recipient enough to correct the “bad attitude” or on what basis you concluded that a “good job” had been done so the person knows what behaviors to repeat or to avoid.
- **Be realistic.** Focus your feedback on what can be changed. When people get comments on things over which they have no control, it can be frustrating.
- **Keep feedback impersonal.** Feedback, particularly the negative kind, should be descriptive rather than judgmental or evaluative. No matter how upset

you are, keep the feedback focused on job-related behaviors and never criticize someone personally because of an inappropriate action.

- **Keep feedback goal oriented.** Feedback should not be given primarily to “blow off steam” or “unload” on another person. If you have to say something negative, make sure it’s directed toward the recipient’s goals. Ask yourself whom the feedback is supposed to help. If the answer is you, bite your tongue and hold the comment. Such feedback undermines your credibility and lessens the meaning and influence of future feedback.
- **Know when to give feedback—make it well timed.** Feedback is most meaningful to a recipient when there’s a very short interval between their behavior and the receipt of feedback about that behavior. Moreover, if you’re particularly concerned with changing behavior, delays in providing feedback on the undesirable actions lessen the likelihood that the feedback will be effective in bringing about the desired change. Of course, making feedback prompt merely for the sake of promptness can backfire if you have insufficient information, if you’re angry, or if you’re otherwise emotionally upset. In such instances, “well timed” could mean “somewhat delayed.”
- **Ensure understanding.** Make sure your feedback is concise and complete so that the recipient clearly and fully understands the communication. It may help to have the recipient rephrase the content of your feedback to find out whether it fully captured the meaning you intended.
- **Watch your body language, tone of voice, and facial expressions.** Your body language and tone of voice can speak louder than words. Think about what you want to communicate, and make sure your body language supports that message.

Exhibit 18-8

Types of Discipline Problems and Examples of Each

PROBLEM TYPE	EXAMPLES OF EACH
Attendance	Absenteeism, tardiness, abuse of sick leave
On-the-Job Behaviors	Insubordination, failure to use safety devices, alcohol or drug abuse
Dishonesty	Theft, lying to supervisors, falsifying information on employment application or on other organizational forms
Outside Activities	Criminal activities, unauthorized strike activities, working for a competing organization (if no-compete clause is part of employment)

disciplinary actions

Actions taken by a manager to enforce the organization's work standards and regulations

be prepared, if needed, to use **disciplinary actions**—actions taken by a manager to enforce the organization's work standards and regulations.¹² Let's look first at effective performance feedback.

DELIVERING EFFECTIVE PERFORMANCE FEEDBACK Throughout the semester, do you keep track of all your scores on homework, exams, and papers? If you do, why do you want to know that information? For most of us, it's because we like to know where we stand in terms of where we'd like to be and what we'd like to accomplish in our work. We like to know how we're doing. This similarly applies in the workplace. Managers need to provide their employees with feedback so that the employees know where they stand in terms of their job performance. The "It's Your Career" box in this section offers specific suggestions for how to give effective feedback.

Sometimes performance feedback doesn't work. An employee's performance may continue to be an issue. Under those circumstances, disciplinary actions may be necessary to address the problems.

USING DISCIPLINARY ACTIONS Most employees do their jobs well and never need formal correction. Yet, sometimes it's needed. **Exhibit 18-8** lists some common types of work discipline problems and examples of each. In those circumstances, it's important for a manager to know what the organization's policies are on discipline. Most organizations require managers to follow a progressive disciplinary action policy. **Progressive disciplinary action** is intended to ensure that the minimum penalty appropriate to the offense is imposed. It typically progresses through five steps: oral warning; initial written warning; final written warning; termination review or suspension; and, in the most serious cases, a dismissal letter that states the reason for dismissal.¹³ From a legal standpoint, challenges by employees to organizational disciplinary actions have typically gone in favor of management when the disciplinary actions have been carefully documented and followed the progressive steps.¹⁴

progressive disciplinary action

Discipline that moves sequentially through steps to ensure that the minimum penalty to an offense is imposed

TOOLS for Measuring Organizational Performance

LO18.4 Describe tools used to measure organizational performance.

All managers need appropriate tools for monitoring and measuring organizational performance. Before describing some specific types of control tools, let's look at three different types of control: feedforward, concurrent, and feedback.

WORKPLACE CONFIDENTIAL Responding to an Unfair Performance Review

It might surprise you to learn that many managers actually dislike performance reviews. Why? First, managers are often uncomfortable discussing performance weaknesses directly with employees because they fear a confrontation when presenting negative feedback. Second, many employees become defensive when their weaknesses are pointed out. It's not uncommon for employees to challenge the evaluation by criticizing the manager or redirecting blame to someone else. Finally, employees tend to have an inflated assessment of their own performance. Statistically speaking, half of all employees must be below-average performers. But the evidence indicates that the average employee's estimate of their performance level generally falls around the 75th percentile. So even when managers are providing good news, employees are likely to perceive it as not good enough!

Here are some suggestions on how best to handle a performance evaluation that you feel isn't fair:

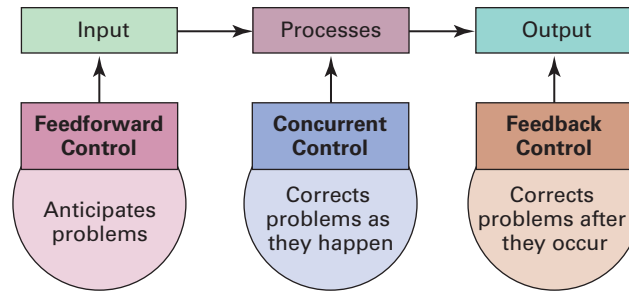
- **Listen closely to what is said.** The place to begin is to listen carefully to the specifics in your review. What exactly is your manager saying? Don't interrupt; you specifically want to have clarity on the negative comments. Listen to the full review to make sure you understand any concerns before you initiate a response.
- **Be prepared to accept that there might be truth in some or all of the negative comments.** As we noted above, we have a tendency to overestimate our own performance level. Your manager's assessment may be more accurate than your self-evaluation.
- **Stay calm and cool, and avoid being defensive.** Control your emotions and your tongue. Don't get angry and say something you'll regret. Don't react by diverting blame, giving excuses, or getting into a debate. As you seek clarity, pay attention to your tone so it doesn't appear that you're challenging the truthfulness of the feedback. At this point, just treat the negative comments as constructive criticism.
- **Ask what you can do to improve.** Asking for suggestions on what you might do to improve can work for you in two ways. First, it shows your acceptance of the criticism. Second, it indicates your willingness to change.
- **Request more feedback between reviews.** Once you understand the content of your performance review and what you need to improve, ask for more feedback between formal reviews. The goal should be to eliminate surprises in your annual review. You want to know if you're underperforming as soon as there is a concern so you can correct the problem quickly. The idea is to discourage your manager from accumulating performance problems, then unloading them in the annual review.
- **Do you want to push back?** What if you take issue with the assessment? If you're convinced the evaluation is unfair, you have a serious decision to make. Do you let the evaluation go, or do you challenge it? Both have risks. Ignoring a negative review may begin a process to terminate your employment. On the other hand, challenging the assessment could escalate a conflict that has long-term career implications. If you truly feel your review is unfair, there is always a possibility to change the decision in your favor. However, before you protest the decision, consider your organization's culture and talk to your colleagues to assess how those who have challenged a bad performance review in the past were treated.
- **Challenging your performance appraisal.** If you decide to challenge your performance appraisal, here are a few suggestions: (1) Request a copy of your appraisal so you can better process the information. (2) Determine what exact aspects of the appraisal you disagree with. (3) Schedule a meeting with your manager to provide your evidence in support of your position. (4) If the meeting fails to achieve the ends you desire, present your case to your Human Resources department—but let your manager know ahead of time of your intention.
- **Writing a rebuttal.** If you decide to challenge your review, you will want to write up a formal rebuttal. It should be short and to the point. Don't attack your manager or the organization. Stay positive and respectful, and control your anger or other negative emotions. Finally, address only the specific issues within the review that you feel were unfair.
- **The worst-case scenario.** If you see that your performance review is really just a precursor to being let go, don't despair. This may be an opportunity in disguise. It might just be the impetus you need to find your true calling. As we have described throughout this text, there is no shortage of people who turned being "fired" into a success story. Thomas Edison was dismissed from his night-shift telegraph operator job at Western Union. Robert Redford was sacked from a manual labor job at Standard Oil. Madonna was let go after only one day as a counter clerk at Dunkin' Donuts. And early in his career, billionaire Mark Cuban was fired from his job as a computer-store salesman.¹⁵

Feedforward/Concurrent/Feedback Controls

You've probably heard the term *feedback*; in fact, you likely have received feedback on your performance on a job. Feedback is given *after* an activity has been completed. But managers can also implement controls *before* an activity begins or *during* the time the activity is going on.¹⁶ Controls implemented before an activity are called feedforward controls; during an activity they are called concurrent controls; and after they're called feedback controls (see Exhibit 18-9).

Exhibit 18-9

Types of Controls



feedforward control

Control that takes place before a work activity is done

FEEDFORWARD CONTROL The most desirable type of control—**feedforward control**—prevents problems because it takes place before the actual activity.¹⁷ This approach to control is desirable because managers can focus efforts on what is in the future instead of wasting energy on past activities. For example, a coach working with a high-performance athlete focuses on the future, giving direction on how to properly execute a move or anticipate a competitor before a game or competition.¹⁸ Another example of feedforward control is the scheduled preventive maintenance programs on nuclear power plants done by energy companies. These programs are designed to detect and prevent malfunctions that might lead to an accident.

The key to feedforward controls is taking managerial action *before* a problem occurs. That way, problems can be prevented rather than having to correct them after any damage (poor-quality products, lost customers, lost revenue, etc.) has already been done. However, these controls require timely and accurate information that isn't always easy to get. Thus, managers frequently end up using the other two types of controls.

concurrent control

Control that takes place while a work activity is in progress



A manager exercises concurrent control by providing direction and supervision while a work activity is in progress.

Source: Brigitte Lortie/Shutterstock

feedback control

Control that takes place after a work activity is done

CONCURRENT CONTROL **Concurrent control**, as its name implies, takes place while a work activity is in progress. For example, upholsterers for Rolls-Royce vehicles remove blemishes on leather hides before fitting them to the seat frames. The ongoing monitoring of material quality and proper assembly at every stage virtually eliminates producing a substandard product.

The best-known form of concurrent control is direct supervision. For example, Taco Bell requires corporate employees to work shifts at restaurants so they can understand the implications of decisions around store operation policies, new menu items, or new features such as ordering kiosks. CEO Mark King recommended menu changes after he spent time working at a store as he noted the complexity of making some of the menu items.¹⁹ By removing some items, the company could eliminate potential mistakes or speed up preparation times. All managers can benefit from using concurrent control, but especially first-line managers, because they can correct problems before they become too costly.

FEEDBACK CONTROL The most popular type of control relies on feedback. In **feedback control**, the control takes place *after* the activity is done. Most of the major automobile manufacturers, for instance, have extensive quality control departments that inspect cars as they come off the assembly line. Cars that don't meet quality standards are identified and sent back for correction. Note that with feedback quality control, problems are found after the fact. And that's the major problem with this type of control. By the time a manager has the information, the problems have already occurred, leading to waste, damage, and/or additional costs. However, in many work areas, feedback is the only viable type of control.

Feedback controls have two advantages. First, feedback gives managers meaningful information on how effective their planning efforts were. Feedback that shows

little variance between standard and actual performance indicates that the planning was generally on target. If the deviation is significant, a manager can use that information to formulate new plans. Second, feedback can enhance motivation. People want to know how well they're doing, and feedback provides that information.

Let's now turn to look at some specific control tools that managers can use.

Financial Controls

Every business wants to earn a profit. To achieve this goal, managers need financial controls. For instance, they might analyze quarterly income statements for excessive expenses. They might also calculate financial ratios to ensure that sufficient cash is available to pay ongoing expenses, that debt levels haven't become too high, or that assets are used productively.

Exhibit 18-10 summarizes some of the most popular ratios used for financial control. Liquidity ratios measure an organization's ability to meet its current debt obligations. Leverage ratios examine the organization's use of debt to finance its assets and whether it's able to meet the interest payments on its debt. Activity ratios assess how efficiently a company uses its assets. Finally, profitability ratios measure how efficiently and effectively the company uses its assets to generate profits. These ratios are calculated using selected information from the organization's two primary financial statements (the balance sheet and the income statement), which are then expressed as a percentage or ratio. Because you've probably studied these ratios in accounting or finance courses, or will in the near future, we aren't going to elaborate on how they're calculated. We mention them here to remind you that managers use such ratios as internal control tools.

Budgets are both planning and control tools. (See the Planning and Control Techniques module for more information on budgeting.) When a budget is formulated, it's a planning tool because it indicates which work activities are important and what and how much resources should be allocated to those activities. But budgets are also used for controlling, because they provide managers with quantitative standards against which to measure and compare resource consumption. If deviations are significant enough to require action, the manager examines what has happened and tries to uncover why. With this information, necessary action can be taken.

Exhibit 18-10

Popular Financial Ratios

Objective	Ratio	Calculation	Meaning
Liquidity	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Tests the organization's ability to meet short-term obligations
	Acid test	$\frac{\text{Current assets less inventories}}{\text{Current liabilities}}$	Tests liquidity more accurately when inventories turn over slowly or are difficult to sell
Leverage	Debt to assets	$\frac{\text{Total debt}}{\text{Total assets}}$	The higher the ratio, the more leveraged the organization
	Times interest earned	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	Measures how many times the organization is able to meet its interest expenses
Activity	Inventory turnover	$\frac{\text{Sales}}{\text{Inventory}}$	The higher the ratio, the more efficiently inventory assets are used
	Total asset turnover	$\frac{\text{Sales}}{\text{Total assets}}$	The fewer assets used to achieve a given level of sales, the more efficiently management uses the organization's total assets
Profitability	Profit margin on sales	$\frac{\text{Net profit after taxes}}{\text{Total sales}}$	Identifies the profits that are generated
	Return on investment	$\frac{\text{Net profit after taxes}}{\text{Total assets}}$	Measures the efficiency of assets to generate profits

Information Controls

In November 2022, an unidentified intruder hacked into T-Mobile's network and stole data from 37 million customers. This was not the first time T-Mobile experienced a system breach. In fact, in 2021 T-Mobile paid \$350 million to settle a class action lawsuit by customers after the company disclosed that the personal data of nearly 80 million customers was compromised, including Social Security numbers.²⁰ And T-Mobile's experience is not unique. A report on data breaches by IBM found that an alarming 83 percent of organizations experienced more than one data breach in 2022. The impact of these cyberincidents can be devastating. Publicly traded companies average a 7.5 percent decline in their stock value following a cybersecurity incident, and it costs companies on average \$4.35 million when hit with a data breach. These costs include loss of revenue and productivity, the cost of ransom payments, remediation, legal fees, and audit fees.²¹

Clearly managers need to address controls to prevent such security breaches. Before exploring cybersecurity controls, let's look at information controls as a tool to help them control other organizational activities.

HOW IS INFORMATION USED IN CONTROLLING? Managers need the right information at the right time and in the right amount to monitor and measure organizational activities and performance.



Chief engineer Ryan Egan demonstrates a new smart thermostat system installed at Chicago's riverside Sheraton hotel that will cut energy bills by \$136,000 a year. This management information system will help the company operate at the highest levels of safety, efficiency, and reliability.

Source: Mira Oberman/AFP/Getty Images

management information system (MIS)

A system used to provide management with needed information on a regular basis

In measuring actual performance, managers need information about what is happening within their area of responsibility and about the standards in order to be able to compare actual performance with the standards. They also rely on information to help them determine if deviations are acceptable. Finally, they rely on information to help them develop appropriate courses of action. Most of the information tools managers use come from the organization's management information system.

A **management information system (MIS)** is used to provide managers with needed information on a regular basis. In theory, this system can be manual or computer based, although almost all organizations today have computer-supported applications. The term *system* in MIS implies order, arrangement, and purpose. Further, an MIS focuses specifically on providing managers with *information* (processed and analyzed data), not merely *data* (raw, unanalyzed facts). A library provides a good analogy. Although it can contain millions of volumes, a library doesn't do you any good if you can't find what you want quickly. That's why librarians spend a great deal of time cataloging a library's collections and ensuring that materials are returned to their proper locations. Organizations today are like well-stocked libraries. The issue is not a lack of data; instead, the issue is whether an organization has the ability to process that data so that the right information is available to the right person when they need it. An MIS collects data and turns them into relevant information for managers to use.

CONTROLLING INFORMATION: CYBERSECURITY Today, almost everything an organization does is transacted digitally. And much of this is sensitive information—employee information, customer data, financial records, and intellectual property. Between smartphones, the cloud, and the Internet of Things, organizations are vulnerable to hackers. This puts a premium on cybersecurity. Although it's impossible to completely eliminate this risk, certain actions are a must.²² These include using secure passwords, being suspicious of external downloads and emails, backing up data, securing Wi-Fi, and installing and renewing a complete antivirus, antispymware, and firewall package on every computer. Many companies are investing in threat intelligence platforms that collect, analyze, and disseminate information about potential information security threats.²³

Balanced Scorecard

The **balanced scorecard** approach is a way to evaluate organizational performance from more than just the financial perspective.²⁴ A balanced scorecard typically looks at four areas that contribute to a company's performance: financial, customer, internal processes, and people/innovation/growth assets. According to this approach, managers should develop goals in each of the four areas and then measure whether the goals are being met.

Although a balanced scorecard makes sense, managers will tend to focus on areas that drive their organization's success and use scorecards that reflect those strategies.²⁵ For example, if strategies are customer centered, then the customer area is likely to get more attention than the other three areas. Yet, you can't focus on measuring only one performance area because others are affected as well. For instance, the United Kingdom Treasury recommends that financial firms link executive teams to gender balance.²⁶ This recommendation is based on several studies that showed more diverse leadership leads to better financial returns. Philips Electronics focuses on its people, using the scorecard to make sure all employees know what is expected of them to meet the company's strategic goals as they relate to all four areas of the scorecard.²⁷

Benchmarking of Best Practices

Food manufacturer Kellogg's has cut costs in its production process by benchmarking its processes against industry standards. The company benchmarks against measures of business processes provided by the nonprofit American Productivity & Quality Center, which collects and standardizes thousands of measures. Kellogg's compares data from its own processes against the benchmarks to determine where it could be more efficient.²⁸

Managers in such diverse industries as healthcare, education, and financial services are discovering what manufacturers have long recognized—the benefits of **benchmarking**, which is identifying, analyzing, and adopting the best practices from other organizations that lead to their superior performance.²⁹ Benchmarking seeks to identify various **benchmarks**, the standards of excellence against which to measure and compare. For instance, Meta's social media platform Threads benchmarked against Twitter when developing the platform, including standard features such as a scrolling feed of posts and the ability to repost other uses, but it also offers features to differentiate it, such as a higher character limit.³⁰ And many firms use peer companies to benchmark their executive compensation.³¹

At its most basic, benchmarking means learning from others. As a tool for monitoring and measuring organizational performance, benchmarking can be used to identify specific performance gaps and potential areas of improvement. And one of its primary benefits is that it allows management to gain an *independent* perspective on how well its organization is performing compared to others. However, companies should be selective in choosing firms to benchmark against. Overemphasizing leading firms in a specific market just because the firms are in the same business could lead to just copying bad practices.³²

Also, best practices aren't just found externally. Sometimes those best practices can be found inside the organization and just need to be shared. Best practices frequently already exist within an organization but often go unidentified and unnoticed. In today's environment, organizations seeking high performance levels can't afford to ignore such potentially valuable information. Some examples of internal benchmarks might include comparing the energy efficiency of your data centers against your most efficient center, comparing the revenue per employee for different business units, and comparing IT costs as a percentage of revenue for different business units.³³ **Exhibit 18-11** provides some suggestions for internal benchmarking.

balanced scorecard

A performance measurement tool that looks at performance from more than just the financial perspective

benchmarking

Identifying, analyzing, and adopting the best practices from other organizations that lead to their superior performance

benchmark

The standard of excellence against which to measure and compare



The Cleveland Clinic is world renowned for delivering high-quality healthcare, with a top-ranked heart program that attracts patients from around the world. It's also a model of cost-effective healthcare and can serve as a benchmark for other healthcare organizations looking to be more effective and efficient.

Source: Mark Kanning/Alamy Stock Photo

Exhibit 18-11

Suggestions for Internal Benchmarking

-
- **Connect best practices to strategies and goals.** The organization's strategies and goals should dictate what types of best practices might be most valuable to others in the organization.
 - **Identify best practices throughout the organization.** Organizations must have a way to find out what practices have been successful in different work areas and units.
 - **Develop best practices reward and recognition systems.** Individuals must be given an incentive to share their knowledge. The reward system should be built into the organization's culture.
 - **Communicate best practices throughout the organization.** Once best practices have been identified, that information needs to be shared with others in the organization.
 - **Create a best practices knowledge-sharing system.** There needs to be a formal mechanism for organizational members to continue sharing their ideas and best practices.
 - **Nurture best practices on an ongoing basis.** Create an organizational culture that reinforces a "we can learn from everyone" attitude and emphasizes sharing information.³⁴
-

CONTEMPORARY Issues in Control

LO18.5 Discuss contemporary issues in control.

In this section, we look at five contemporary control issues: global differences in control, workplace privacy, employee theft, corporate governance, and artificial intelligence.

Global Differences in Control

The concepts of control that we've been discussing are appropriate for an organization whose work units are not geographically separated or culturally distinct. But control techniques can be quite different for different countries. The differences are primarily in the measurement and corrective action steps of the control process. In a global corporation, managers of foreign operations tend to be less controlled by the home office, if for no other reason than the distance keeping managers from being able to observe work directly. Because distance creates a tendency to formalize controls, such organizations often rely on extensive formal reports for control, most of which are communicated electronically.

Technology's impact on control is also seen when comparing technologically advanced nations with less technologically advanced countries. Managers in countries where technology is more advanced often use indirect control devices such as computer-generated reports and analyses in addition to standardized rules and direct supervision to ensure that work activities are going as planned. In less technologically advanced countries, however, managers tend to use more direct supervision and highly centralized decision making for control.

Managers in foreign settings also need to be aware of constraints on investigating complaints and corrective actions they can take. Some countries' laws prohibit closing facilities, laying off employees, taking money out of the country, or bringing in a new management team from outside the country.

Another control challenge for global managers is comparability. For instance, a company that manufactures apparel in Cambodia might produce the same products at a facility in Scotland. However, the Cambodian facility might be more labor intensive than its Scottish counterpart to take advantage of lower labor costs in Cambodia. This difference makes it hard to compare, for instance, labor costs per unit.

Finally, global organizations need to have controls in place for protecting their workers and other assets during times of global turmoil and disasters. For instance,

the COVID-19 pandemic tested businesses worldwide in their ability to adapt to quarantine orders and, later, navigate disrupted supply chains. In the volatile Middle East, many companies have had to evacuate workers during times of crisis. The best time to be prepared is before an emergency occurs with feedforward controls.

Workplace Privacy

Do workers have a right to privacy at their job? You might be surprised at the answer. Employers can (and many do), among other things, read your email (even those marked “personal” or “confidential”), monitor your work by computer, and track your whereabouts in a company vehicle.

The increase in remote work has led to an increase in employee monitoring. In fact, one survey reported that 80 percent of employers are now using employee monitoring software. And although the focus might be on ensuring workers are productive, many companies monitor remote workers due to concerns with online security to reduce the risk of data breaches (as discussed earlier).³⁵ Employee monitoring software can keep track of what workers type, record internet activity, take screenshots, use the device’s webcam, note what files are accessed, and even monitor an employee’s location with GPS. Further, software can provide productivity reports based on when a computer is idle. As a general rule, it is legal for an employer to monitor if they have provided the employee with the computer. And if they’ve provided notice, they can even monitor employees who are using their own devices.³⁶

Although it may be legal to monitor workers, managers should be aware of the potential negative consequences from employee reactions to monitoring. One survey that looked at monitoring remote workers found that 70 percent of the companies surveyed had employees quit because they refused to be monitored.³⁷ And one study of remote workers found that employees who are monitored tend to be less loyal and extend less effort.³⁸

Because of the potentially serious costs and given the fact that most jobs use technology, organizations have workplace monitoring policies. Such policies should control employee behavior in a nondemeaning way, and employees should be informed about those policies. Further, as data privacy laws emerge in response to technical capabilities, managers may need to alter their practices. For example, in 2018 the European Union passed the General Data Protection Regulation providing protection for individuals’ data. Although the legislation has been slowly implemented, it has implications worldwide, especially as other countries extend the same protections.³⁹

Employee Theft

Apple’s \$17 million loss described in the chapter opener may be an outlier, but employee theft is a significant issue challenging management control strategies. Worldwide, companies lose an estimated \$4.7 trillion a year due to employee theft and fraud.⁴⁰

Employee theft is defined as any unauthorized taking of company property by employees for their personal use.⁴¹ It can range from embezzlement to fraudulent filing of expense reports to removing equipment, parts, software, or office supplies from company premises. Although retail businesses have long faced serious potential losses from employee theft, loose financial controls at start-ups and small companies and the ready availability of information technology have made employee stealing an



Rideshare companies such as Uber and Lyft can use GPS to track driver location.

Source: Jeffrey Isaac Greenberg 2+/Alamy Stock Photo

employee theft

Any unauthorized taking of company property by employees for their personal use

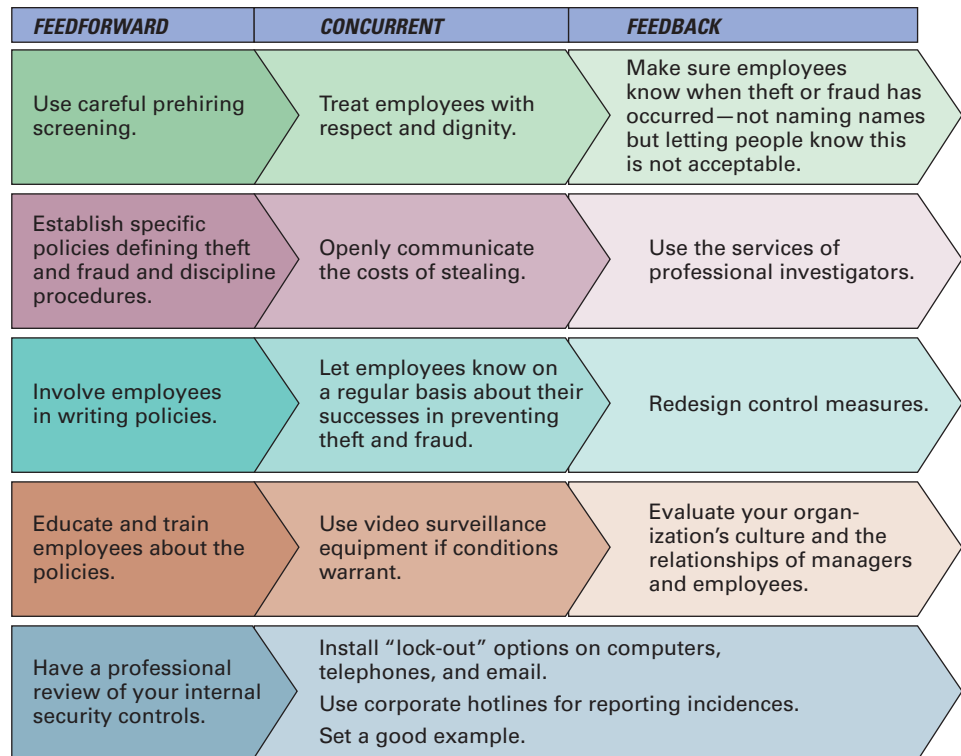


Even reputable companies such as Apple can be vulnerable to employee theft, as we learned in the chapter opener. In Apple’s case, the theft went undetected for 10 years. Companies need strong internal controls to both prevent and detect cases of theft.

Source: Marco Rubino/Shutterstock

Exhibit 18-12**Controlling Employee Theft**

Sources: Based on A. H. Bell and D. M. Smith, "Protecting the Company Against Theft and Fraud," *Workforce Management Online*, December 3, 2000; J. D. Hansen, "To Catch a Thief," *Journal of Accountancy* (March 2000): 43–46; and J. Greenberg, "The Cognitive Geometry of Employee Theft," in *Dysfunctional Behavior in Organizations: Nonviolent and Deviant Behavior*, ed. S. B. Bacharach, A. O'Leary-Kelly, J. M. Collins, and R. W. Griffin (Stamford, CT: JAI Press, 1998), 147–193.



escalating problem in all kinds and sizes of organizations. Managers need to educate themselves about this control issue and be prepared to deal with it.⁴²

Why do employees steal? The answer depends on whom you ask.⁴³ Experts in various fields—industrial security, criminology, clinical psychology—have different perspectives. The industrial security people propose that people steal because the opportunity presents itself through lax controls and favorable circumstances. Criminologists say it's because people have financial-based pressures (such as personal financial problems) or vice-based pressures (such as gambling debts). And the clinical psychologists suggest that people steal because they can rationalize whatever they're doing as being correct and appropriate behavior ("everyone does it," "they had it coming," "this company makes enough money and they'll never miss anything this small," "I deserve this for all that I put up with," and so forth).⁴⁴ Regardless of the motive, what can managers do?

The concept of feedforward, concurrent, and feedback control is useful for identifying measures to deter or reduce employee theft. **Exhibit 18-12** summarizes several possible managerial actions.

Corporate Governance

Shareholders at Alphabet Inc., the parent company of Google, sued the board of directors in 2019 for playing a role in covering up sexual harassment claims against two executives. The lawsuit claimed the board covered up the harassment claims by providing the executives lavish severance packages as they resigned from the company, hiding the reasons for the resignations. Alphabet settled the lawsuit, agreeing to invest significantly in changes to the workplace to address harassment and altered the board's oversight practices, adding policies such as limiting the use of nondisclosure agreements.⁴⁵

Corporate governance, the system used to govern a corporation so that the interests of corporate owners are protected, has faced challenges at many companies caught in various scandals. In an effort to improve corporate behavior and better protect their firms, senior management at an increasing number of companies have pushed for reforms.⁴⁶ Three areas where reform has taken place are changing the role of boards of directors, improving financial reporting, and expanding compliance offices.

corporate governance

The system used to govern a corporation so that the interests of corporate owners are protected

THE ROLE OF BOARDS OF DIRECTORS The original purpose of a board of directors was to have a group, independent from management, looking out for the interests of shareholders who were not involved in the day-to-day management of the organization. However, it hasn't always worked out that way, as reflected by the lawsuit against Alphabet's board. Board members are often selected by management and are expected to be loyal to and supportive of management's interests.

This type of "quid pro quo" arrangement has changed. The Sarbanes-Oxley Act of 2002 puts greater demands on board members of publicly traded companies in the United States to do what they were empowered and expected to do.⁴⁷ To help boards do this better, the Business Roundtable—representing business leaders from every sector of the US economy—has developed a document outlining principles of corporate governance.⁴⁸ Its focus is on a commitment to governance practices that increase integrity, accountability, and effective engagement between public companies, boards of directors, and investors.

FINANCIAL REPORTING AND THE AUDIT COMMITTEE In addition to expanding the role of boards of directors, the Sarbanes-Oxley Act also called for more disclosure and transparency of corporate financial information. In fact, the CEO and CFO of public companies in the United States are now required to certify their companies' financial results. Such changes have led to better information—that is, information that is more accurate and reflective of a company's financial condition.

COMPLIANCE OFFICES AND POSITIONS In response to increased regulations, most large organizations have created a compliance office, appointed a senior executive as a compliance officer, and established corporate compliance policies.

Corporate compliance is the process of making sure your company and employees follow the laws, regulations, standards, and ethical practices that apply to your organization.⁴⁹ It covers both internal policies and rules and federal and state laws. Compliance policies are overseen by a **compliance officer**. This person's role is to ensure that your company conducts its business in full compliance with all national and internal laws and regulations that pertain to your specific industry, as well as professional standards, accepted business practices, and internal standards.

corporate compliance

The process of making sure an organization and its employees follow the laws, regulations, standards, and ethical practices

compliance officer

The person responsible for ensuring an organization conducts its business in full compliance with all national and internal laws and regulations

Pharmaceutical giant Bayer offers an example of a compliance policy.⁵⁰ It outlines Bayer's principles of business conduct. Among those principles are: to compete fairly in every market, to act with integrity in all business dealings, to balance economic growth with ecological and social responsibility, to keep accurate books and records, to treat all employees with fairness and respect, and to safeguard and respect company intellectual property.

Artificial Intelligence

As the oil and gas giant Shell works to become a net-zero emissions energy company, the company is embracing an AI-enabled re-engineering of processes to become more efficient. For example, monitoring and inspection of chemical plants, pipelines, and offshore facilities is now completed remotely by drones and robots. This has not only freed the time of technicians to engage in higher-level tasks, but also significantly shortens the cycle time to inspect large facilities.⁵¹

Managers should be aware of both the opportunities and the challenges in using AI in the control process, particularly when it involves employees. The use of AI to analyze data about employee behavior may help alleviate concerns about workplace privacy because managers can look at data at the group or organizational level without compromising employee identities.⁵² However, employee perceptions of the use of AI could be problematic for companies. A recent Pew Research survey found that more workers oppose than support the use of AI in monitoring employees. There is support to use AI when there are clear public benefits, such as monitoring driving for safety purposes, but opposition to uses such as monitoring when employees are at their computers.⁵³

Chapter 18

PREPARING FOR: Exams/Quizzes

CHAPTER SUMMARY by Learning Objective

LO18.1 EXPLAIN the nature and importance of control.

Controlling is the process of monitoring, comparing, and correcting work performance. As the final step in the management process, controlling provides the link back to planning.

Control is important because (1) it's the only way to know if goals are being met, and if not, why; (2) it provides information and feedback so managers feel comfortable empowering employees; and (3) it helps protect an organization and its assets against threats and work disruptions.

LO18.2 DESCRIBE the three steps in the control process.

The three steps in the control process are measuring, comparing, and taking action. Measuring involves deciding what to measure and how to measure actual performance. Managers identify key performance indicators (KPIs) based on organizational goals. Actual performance can be measured by qualitative and quantitative tools. Comparing involves looking at the variation between actual performance and the standard (goal). Deviations outside an acceptable range of variation need attention.

Taking managerial action can involve doing nothing, correcting the actual performance, or revising the standards. Doing nothing is self-explanatory. Correcting the actual performance can involve different corrective actions, which can be either immediate or basic. Standards can be revised by either raising or lowering them.

LO18.3 EXPLAIN how organizational and employee performance are measured.

Organizational performance is the accumulated results of all the organization's work activities. Three frequently used organizational performance measures are (1) productivity, the amount of goods or services produced divided by the inputs needed to generate that output; (2) effectiveness, a measure of how appropriate organizational goals are and how well those goals are being met; and (3) industry and company rankings compiled by various business publications.

Employee performance is controlled through effective performance feedback and through disciplinary actions when needed. Most organizations prefer that managers enact progressive disciplinary action, which is intended to ensure that the minimum penalty appropriate to the offense is imposed.

LO18.4 DESCRIBE tools used to measure organizational performance.

Feedforward controls take place before a work activity is done and are intended to prevent problems. Concurrent controls take place while a work activity is being done. Feedback controls take place after a work activity is done.

Financial controls that managers can use include financial ratios (liquidity, leverage, activity, and profitability) and budgets.

Managers approach information controls in two ways. Information control can be used as a tool to help them control other organizational activities and as an organizational area they need to control.

One information control managers can use is a management information system (MIS), which provides managers with needed information on a regular basis. Cybersecurity controls include comprehensive and secure controls such as data encryption, system firewalls, and data backups that protect the organization's information.

Balanced scorecards provide a way to evaluate an organization's performance in four different areas rather than just from the financial perspective. Benchmarking provides control by finding the best practices among competitors or noncompetitors and from inside the organization itself.

LO18.5 DISCUSS contemporary issues in control.

Five management control issues are global differences in control, workplace privacy, employee theft, corporate governance, and artificial intelligence. For each of these issues, managers need to have policies in place to control inappropriate actions and ensure that work is getting done efficiently and effectively.

Global differences in control are primarily in the areas of measuring and taking corrective actions. Organizations should clearly communicate to managers and employees how to approach and respond to routine and nonroutine situations within and outside the home country.

Employees who use the internet and social media for personal use are not entitled to privacy. Managers monitor employee email and computer usage due to lost productivity costs, risk of being sued for offensive messages, and fear of company secrets being leaked. Employees should be informed about companies' workplace monitoring policies.

Employee theft is costly to organizations. Procedures for monitoring theft and the consequences for committing a theft should be clearly explained to employees.

Corporate governance is the system used to govern a corporation so that the interests of corporate owners are protected. A board of directors looks out for the interests of shareholders. The Sarbanes-Oxley Act called for more disclosure and transparency of corporate financial information. Most large companies have created a corporate compliance office in order to ensure that the business complies with laws and regulations.

Artificial intelligence can automate the control process, but managers should be aware of employee concerns in using AI.

REVIEW AND DISCUSSION QUESTIONS

- | | |
|--|--|
| <p>18-1. What are the three steps in the control process? Describe in detail.</p> <p>18-2. Describe key performance indicators' (KPIs') role in measuring organizational operations. What is the role of KPIs in assessing organizational performance?</p> <p>18-3. Contrast feedforward, concurrent, and feedback controls.</p> | <p>18-4. Discuss the various types of tools used to monitor and measure organizational performance.</p> <p>18-5. Explain the balanced scorecard approach to evaluating organizational performance. How could the success of an organization's cybersecurity program be monitored with the balanced scorecard approach?</p> |
|--|--|

- 18-6. Why is control important to customer interactions with an organization's website, social media platforms, employees, and the like?
- 18-7. Do workers have a right to privacy at their jobs? Do you think it is possible to establish and maintain effective standards for employee privacy while instituting a controlled environment to prevent employee theft? Discuss.
- 18-8. Why do organizations have a compliance office? Compare and contrast corporate governance, compliance officers, and the board of directors.

PREPARING FOR: My Career

ETHICS DILEMMA

Nearly all data breaches in organizations are the result of human error. With more than 300 million people working remotely, an insider unintentionally helping the organization get hacked is the most likely threat to an organization's cybersecurity. And the danger is higher than ever. For example, cybercriminals exploit information gathered from workers' social media accounts to hack into the employee's work accounts to steal company data or launch ransomware attacks. Younger tech-savvy workers are the most active social media users, but also the most reckless employees when it comes to cybersecurity. As a result, organizations do more than just tell and show employees how to avoid phishing,

smishing, and vishing, or requiring them to create stronger passwords. Machine learning tools and AI monitor employees and organizational processes. These tools measure, detect, and stop employees' undesirable behavior.⁵⁴

- 18-9. Should organizations spend more resources monitoring their least experienced and youngest workers if they are the biggest cybersecurity risk?
- 18-10. How would you prioritize employee trust and privacy with the need for security? How could organizations make sure they are ethically controlling employees' behavior?

SKILLS EXERCISE Managing Challenging Employees

About the Skill

Workers who behave irresponsibly or unprofessionally can be the most challenging to manage. Almost all managers, at one time or another, must manage a difficult employee. Commonly identified characteristics of a difficult worker include being short-tempered, demanding, abusive, angry, defensive, complaining, intimidating, aggressive, narcissistic, selfish, arrogant, and rigid. Success as a manager means learning how to manage difficult people and minimize their negative impact on fellow employees.

Steps in Practicing the Skill

There are several ways to lessen the angst caused by a difficult employee, and many have some influence in reducing their problematic behavior.

- **Do not let your emotions rule.** Our first response to a difficult person is often emotional. We get angry. We show frustration. We want to lash out at them or "get even" when we think they have insulted or demeaned us. This response is not likely to reduce your angst and may escalate the other person's negative behavior. So fight your natural tendencies and keep your cool. Stay rational and thoughtful. At worst, although this approach may

not improve the situation, it is also unlikely to encourage and escalate the undesirable behavior.

- **Do not hover.** When possible, interact with the difficult employee as you would any other employee. Do not constantly check on them. By labeling an employee as difficult, a manager may feel the need to micromanage them, which limits the employee's autonomy, makes them more frustrated, and, as a result, makes them more difficult to work with. Provide appropriate guidance, then work to limit your day-to-day interactions with the difficult employee to see if they can behave more collaboratively.
- **Try polite confrontation.** As a manager, it is your responsibility to address the behavior. Let them know that you are aware of their behavior, find it unacceptable, and will not tolerate it. For people unaware of how their actions affect others, a polite confrontation might make them more self-aware and lead them to alter their behavior. For those being difficult purposefully, taking a clear stand might make them think more deeply about the consequences of their actions if continued, which will require the involvement of a representative from the Human Resources department.

- **Practice positive reinforcement.** We know that positive reinforcement is a powerful tool for changing behavior. Rather than criticizing undesirable behavior, try reinforcing desirable behaviors with compliments or other positive comments. This focus will help them learn the behaviors you want them to use at work.⁵⁵

Practicing the Skill

Consider a difficult person you have dealt with in the past: Someone you have worked with? Another student? Write down the person's behaviors that you

found challenging or difficult. Did you try a polite confrontation to deal with this person? Did it work? What did not work? Using the suggestions above, what could you do differently to minimize this person's problematic behavior? Now, think about what you would do if you were a manager and this person was your direct report. Write down the amount of time (minutes, hours, days, weeks, etc.) you would spend on each step to effectively manage this person before you would expect to see a change in this person's behavior and impact on other employees.

WORKING TOGETHER Team Exercise

Providing effective feedback is a vital control technique for any manager. In groups of three or four, building on the scenarios listed below, have each group member take turns being the manager that provides feedback to the employee. Ask one group member to play the employee's role while one is the manager; the others should watch and listen. After the role-playing ends for one of the selected scenarios, ask each person to offer feedback on the approach used by the manager. Discuss, as a group, how effective the manager's feedback was as well as how it could be improved.

A student in the manager role starts the exercise by providing feedback to the student in the employee role. The student in the employee role can play the character of an accommodating, collaborative, difficult, or passive-aggressive employee as they respond to the feedback provided. Students in the roles of employee and manager should add details (that they make up) when playing their roles in the scenarios below:

- The employee has not been managing time well, affecting the department's ability to complete client projects effectively.
- The employee has underperformed in the last month. You have discussed this with the employee once before. The problem has persisted despite this earlier conversation.
- Your department has a new gadget that is being shared among all department members to determine if it should be purchased for all the employees in the department. After using the device, the employee is supposed to return it to a central location for others to use. The employee has been using and not returning the device, which has annoyed all the other department members.
- The employee always does the work assigned to them, but takes zero initiative to do work beyond those tasks specifically assigned to them.

MY TURN TO BE A MANAGER

- The capstone course in your major has a large group project due in a month. Identify some performance measures you could use to help determine whether the project is going as planned and will be completed efficiently (on time) and effectively (with high quality).
- What key performance indicators (KPIs) could you use to guide your personal goals? Be specific. What would be examples of feedforward, concurrent, and feedback controls? Identify KPIs and controls for the different aspects of your life—school, work, family relationships, friends, hobbies, etc.
- Pretend you are the manager of a customer call center for student housing. What types of control measures would you use to see how efficient and effective an employee is? Are different measures needed to evaluate the entire call center? Explain.
- Disciplining employees is one of the least favorite tasks of managers, but it is something that all managers have to do. Survey three managers about their experiences with

employee discipline. What types of employee actions have caused the need for disciplinary action? What corrective actions have they used? What do they think is the most difficult thing to do when disciplining employees? What suggestions do they have for disciplining employees?

- Exhibit 18-7 lists several industry and company ranking lists. Go to the website for three of the lists and identify the performance measures that are used to determine the rankings on each. Are there any similar measures? Are there any unique measures? Summarize your findings in a brief report.
- Do you agree with this statement: "Every employee in an organization plays a role in controlling work activities." Explain.
- Research the concepts of retail and warehouse shrinkage. Make a list of common examples and causes for both. Also, determine steps an organization can take to control retail and warehouse shrinkage. Write a short paper summarizing your findings.

**CASE
APPLICATION 1****Feeding Chocolate to Cows**

The Hershey Company has made quality chocolate snacks for over 125 years. It has over 90 brands and products found in grocery stores and shops worldwide. The company's product offerings, including Hershey's chocolate bars, Reese's, and Kisses, are loved by both children and adults. The employees at Hershey are critical components of the company's success, and the company is known for its world-class workforce that rates Hershey as a great place to work. Hershey also has a supplier code of conduct challenging its suppliers to promote worker rights, higher wages, and sustainability in their organizations as well.⁵⁶ As with any manufacturing process, however, occasional mistakes are still made, and the factories can be left with rejected products that fail to meet their quality standards. These mistakes can result in food waste sent to the local landfill.

Hershey's managers wondered if other uses for the food waste could be found to minimize the amount sent to landfills. Management decided to investigate if the waste could feed the 17,000 dairy cows Hershey relies on to produce fresh milk for its products. They approached one of their animal feed suppliers, Cargill, to see if it would be interested and able to convert the food waste to healthy feed for dairy cows and other animals.

Cargill determined it had the processes and technology to combine Hershey's waste with dry animal feed ingredients in a nutritious way for animals. Nutritionists often added sugar to Cargill's animal feed, but this arrangement with Hershey required Cargill to shred and grind the edible portions of the food waste into smaller particles and mix them with other dry feed ingredients, like a smoothie. Both Cargill and Hershey agreed to work as strategic partners to implement the Candy Meal Project because it turned out to be a virtuous cycle. Tens of thousands of pounds of chocolate and candy waste were diverted from landfills to make the feed given to cows, pigs, and other animals. The nutritious feed saved farmers money because the sugar calories from Hershey's waste were cheaper than adding sugar Cargill purchased from other suppliers.⁵⁷

DISCUSSION QUESTIONS

- 18-11. Identify the benefits and potential challenges of the Candy Meal Project for Hershey and Cargill.
- 18-12. What new key performance indicators will managers need to measure to run the Candy Meal Project effectively? What are the reasons for your answer?
- 18-13. What are the dangers to Hershey if management promotes the success of the food waste conversion too much? Is the Candy Meal Project likely to improve organizational performance at Hershey? At Cargill?

**CASE
APPLICATION 2****Posting for Just Other Employees to See**

When Walmart wanted to find a way to connect employees throughout the company—including those who do not sit at desks and might not use email—they turned to a known social media platform, Facebook. Only Walmart did not use the same Facebook that employees already used. It launched the Workplace app by Facebook, now Meta, an optional and separate application made available to Walmart's employees. Meta created this app, and companies pay to use it as Walmart has. Workplace is different from the employees' Facebook because those outside the company cannot see it. Because it has the look of Facebook, the hope is that the familiar interface increases employees' willingness to use the Workplace app as well.

What can Walmart employees do with Walmart's version of the Workplace app? It is intended to be a platform for exchanging ideas and giving employees a voice. It also allows managers to have another view into what is going on in their stores. Employees across the country can communicate with each other by posting pictures of in-store product displays and sharing what has worked well in their store.⁵⁸ If a new product is rolled out on a trial basis in a few select stores, stories about how to make that product's promotion successful can be shared.

There is also the possibility of employees' ideas being implemented rapidly as a result of Workplace posts. Take what happened at Starbucks when employees there used the Starbucks version of the Workplace app. Because of an employee's post on Starbucks's Workplace site, the company made a decision in just one day to add a new beverage to its menu. A store manager shared via Workplace that their store was selling a lot of a beverage featured on Instagram, but the manager and workers did not have an exact recipe to follow. Other store managers chimed in on Workplace that they, too, were seeing a lot of demand for the same beverage. Marketing managers who kept up with the discussion on Workplace made a decision that very day to provide an official recipe for the drink and get it on the Starbucks menu right away. Usually, a decision like that would take months, but they were able to make the change quickly, thanks to the combination of Instagram and Workplace.⁵⁹

Employees' accomplishments and success stories also can be shared with others in a company. That sharing promotes employee engagement and reduces employee turnover.⁶⁰ Workplace "usually replaces mailing lists, newsletters, and intranets that no one uses. And the behavior we want to replace is the CEO sending an email that no one replies to. That new generation of CEOs want feedback," explains Julien Codorniou, Workplace director.⁶¹

A store manager from a Walmart said he is "no big fan of social media, especially Meta," but he did admit to posting positive comments about his team's work on the platform. Yet there are worries that someone will disclose confidential information accidentally to the Workplace site.⁶² Also, social media posts by Walmart's employees are not all business. Employees have been known to post memes or jokes on the site. Employees on Workplace report seeing posts made by workers at other stores making fun of Walmart's management and management's decisions. But a Walmart employee from Michigan said, "I honestly think the humor connects us to workers we have never met. I have felt more connected, and I don't feel alone with the struggles of my job."⁶³

DISCUSSION QUESTIONS

- 18-14. How did Starbucks use social media as a control tool?
- 18-15. In what ways does employees' use of Workplace allow Walmart to monitor employees' activities at work in both positive and potentially negative ways?
- 18-16. How could Workplace have an impact on organizational performance?
- 18-17. Some employees might feel drawn to using Workplace for the wrong reasons. What do you think managers might need to do to encourage employees to use Workplace appropriately?

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Planning and Control Techniques *Module*

Many companies struggled during the COVID-19 pandemic due to supply chain disruptions and declining sales resulting from drastic changes in consumer behavior. For example, one study of consumers' online behavior found that with fewer in-person interactions during the pandemic, consumers' makeup purchasing decreased.¹ Beauty product conglomerate Coty, which owns popular makeup brands including Max Factor and CoverGirl, responded to the decrease in sales by looking for opportunities to cut costs. The company used a zero-based budgeting approach, which forced it to look at the budget line by line to find opportunities for cost savings. The process allowed them to ultimately cut costs by making changes such as standardizing the caps for their fragrances across brands and simplifying cardboard packaging. The entire process helped the company find \$600 million in cost savings across multiple years.²

As this example shows, managers use planning tools and techniques to help their organizations be more efficient and effective, often in response to the external market environment. In this module, we discuss three categories of basic planning tools and techniques: techniques for assessing the environment, techniques for allocating resources, and project management practices.

TECHNIQUES for Assessing the Environment

In our description of the planning and strategic management processes in **Chapters 8** and **9**, we discussed the importance of assessing the organization's environment. Two techniques help managers do that: environmental scanning and forecasting.

Environmental Scanning

How can managers become aware of significant environmental changes, such as a new tax on exports; the increased trend of counterfeit consumer products; the precipitous decline in the working-age populations in Japan, Germany, and Italy; or the decrease in family size in Mexico? Managers in both small and large organizations use environmental scanning to understand the external marketplace. As we discussed in **Chapter 8**, environmental scanning is an important element of the strategic planning process. The goal is to detect emerging trends by screening large amounts of information to anticipate and interpret changes in the environment. Research has shown that companies that use environmental scanning have higher performance.³

There are two fast-growing areas of environmental scanning: competitor intelligence and global scanning. As we discussed in **Chapter 8**, competitor intelligence is a process by which organizations gather information about their competitors and get answers to questions such as: Who are they? What are they doing? How will what they're doing affect us? The answers to these questions impact planning. For instance, Microsoft's release of ChatGPT in 2022 impacted Google's planning for its own conversational artificial intelligence (AI) chatbot, Bard. Google was still developing Bard but changed plans and moved up the release date to early 2023 in response to Microsoft. Because the technology was not quite ready for the market, Google released Bard as an experimental product and included features such as providing three responses to questions instead of just one, to remind users that Bard was not generating perfect answers.⁴

Competitive intelligence is anchored in data, so companies typically invest in technology platforms to collect and analyze data to learn from competitors. Tools such as AI, social media analytics, and other emerging technologies can collect, organize, and

disseminate intelligence.⁵ There are other strategies, however, to collect intelligence. For example, many firms regularly buy competitors' products and have their own engineers study them (i.e., *reverse engineering*) to learn about new technical innovations. In addition, many corporate web pages include new product information and other press releases.

Managers need to be careful about the way competitor information is gathered to prevent any concerns about whether it's legal or ethical. Competitor intelligence becomes illegal corporate spying when it involves the theft of proprietary materials or trade secrets by any means. The Economic Espionage Act makes it a crime in the United States to engage in economic espionage or to steal a trade secret. But espionage is a global problem. For example, the US Department of Commerce charged a Chinese citizen with stealing trade secrets regarding driverless car technology when he was working as an engineer for the company.⁶ The difficult decisions about competitive intelligence arise because often there's a fine line between *legal and ethical* and *legal but unethical*. Some people or companies will go to any lengths—some unethical—to get information about competitors.

Global scanning is another type of environmental scanning that's particularly important. Because world markets are complex and dynamic, managers have expanded the scope of their scanning efforts to gain vital information on global forces that might affect their organizations. The value of global scanning to managers, of course, largely depends on the extent of the organization's global activities. For a company with significant global interests, global scanning can be quite valuable. For instance, as franchise fast-food restaurant Chick-fil-A plans global expansion, the company is identifying countries with stable economies, dense populations, and a pattern of chicken consumption to prioritize targeted locations.⁷

Forecasting

The second technique managers can use to assess the environment is forecasting. Forecasting is an important part of planning, and managers need forecasts that will allow them to predict future events effectively and in a timely manner. Environmental scanning establishes the basis for **forecasts**, which are predictions of outcomes. Virtually any component in an organization's environment can be forecasted. Let's look at how managers forecast and the effectiveness of those forecasts.

forecasts
Predictions of outcomes

quantitative forecasting
Forecasting that applies a set of mathematical rules to a series of past data to predict outcomes

qualitative forecasting
Forecasting that uses the judgment and opinions of knowledgeable individuals to predict outcomes

FORECASTING TECHNIQUES Forecasting techniques fall into two categories: quantitative and qualitative. **Quantitative forecasting** applies a set of mathematical rules to a series of past data to predict outcomes. These techniques are preferred when managers have sufficient hard data that can be used. **Qualitative forecasting**, in contrast, uses the judgment and opinions of knowledgeable individuals to predict outcomes. Qualitative techniques typically are used when precise data are limited or hard to obtain. **Exhibit PC-1** describes some popular forecasting techniques.

Today, many organizations collaborate on forecasts using an approach known as CPFR, which stands for collaborative planning, forecasting, and replenishment.⁸ CPFR provides a framework for the flow of information, goods, and services between retailers and manufacturers. Each organization relies on its own data to calculate a demand forecast for a particular product. If their respective forecasts differ by a certain amount (say, 10 percent), the retailer and manufacturer exchange data and written comments until they arrive at a more accurate forecast. Such collaborative forecasting helps both organizations do a better job of planning.

FORECASTING EFFECTIVENESS The goal of forecasting is to provide managers with information that will facilitate decision making. Here are some suggestions for making forecasting more effective.⁹

- It's important to understand that forecasting techniques are most accurate when the environment is not rapidly changing. The more dynamic the environment, the more likely managers are to forecast ineffectively.

Exhibit PC-1
 Forecasting Techniques

Technique	Description	Application
Quantitative		
Time series analysis	Fits a trend line to a mathematical equation and projects into the future by means of this equation	Predicting next quarter's sales on the basis of four years of previous sales data
Regression models	Predicts one variable on the basis of known or assumed other variables	Seeking factors that will predict a certain level of sales (e.g., price, advertising expenditures)
Econometric models	Uses a set of regression equations to simulate segments of the economy	Predicting change in car sales as a result of changes in tax laws
Economic indicators	Uses one or more economic indicators to predict a future state of the economy	Using change in gross national product (GNP) to predict discretionary income
Substitution effect	Uses a mathematical formula to predict how, when, and under what circumstances a new product or technology will replace an existing one	Predicting the effect of streaming TV subscription services on cable TV subscriptions
Qualitative		
Jury of opinion	Combines and averages the opinions of experts	Polling the company's human resource managers to predict next year's college recruitment needs
Sales force composition	Combines estimates from field sales personnel of customers' expected purchases	Predicting next year's sales of industrial lasers
Customer evaluation	Combines estimates from established customers' purchases	Surveying major car dealers by a car manufacturer to determine types and quantities of products desired

- Forecasting is relatively ineffective in predicting nonseasonal events such as recessions, unusual occurrences, discontinued operations, and the actions or reactions of competitors.
- Use simple forecasting methods. They tend to do as well as, and often better than, complex methods that may mistakenly confuse random data for meaningful information.
- It's important to not rely on a single forecasting method. Make forecasts with several models and average them, especially when making longer-range forecasts.
- Look at involving more people in the process. At *Fortune* 100 companies, it's not unusual to have 1,000 to 5,000 managers providing forecasting input. These businesses are finding that the more people who are involved in the process, the more the reliability of the outcomes improves.¹⁰
- Compare every forecast with "no change." A no-change forecast is accurate approximately half the time.
- Use *rolling* forecasts that look 12 to 18 months ahead instead of using a single, static forecast. These types of forecasts can help managers spot trends better and help their organizations be more adaptive in changing environments.¹¹

- Don't assume you can accurately identify turning points in a trend. What is typically perceived as a significant turning point often turns out to be simply a random event.
- Finally, remember that forecasting *is* a managerial skill and, as such, can be practiced and improved. Forecasting software has made the task somewhat less mathematically challenging, although the “number crunching” is only a small part of the activity. Interpreting the forecast and incorporating that information into planning decisions is the challenge facing managers.

TECHNIQUES for Allocating Resources

Once an organization's goals have been established, there's a need for resources—the assets of the organization (financial, physical, human, and intangible). How can managers allocate these resources effectively and efficiently so that organizational goals are met? Although managers can choose from a number of techniques for allocating resources (many of which are covered in accounting, finance, and operations management courses), we'll briefly discuss four techniques here: budgeting, scheduling, breakeven analysis, and linear programming.

Budgeting

Most of us have had some experience, as limited as it might be, with budgets. We probably learned at an early age that unless we allocated our “revenues” carefully, our weekly allowance was spent on “expenses” before the week was half over.

A **budget** is a numerical plan for allocating resources to specific activities. Managers typically prepare budgets for revenues, expenses, and large capital expenditures such as equipment. It's not unusual, though, for budgets to be used for improving time, space, and use of material resources. These types of budgets substitute nondollar numbers for dollar amounts. Such items as person-hours, capacity utilization, or units of production can be budgeted for daily, weekly, or monthly activities. **Exhibit PC-2** describes the different types of budgets that managers might use.

Why are budgets so popular? Probably because they're applicable to a wide variety of organizations and work activities within organizations. We live in a world in which almost everything is expressed in monetary units. Dollars, rupees, pesos, euros, yuan, yen, and the like are used as a common measuring unit within a country. That's why monetary budgets are a useful tool for allocating resources and guiding work in such diverse departments as manufacturing and information systems or at various levels in an organization. Budgets are one planning technique that most managers use—regardless of organizational level. It's an important managerial activity because it forces financial discipline and structure throughout the organization.

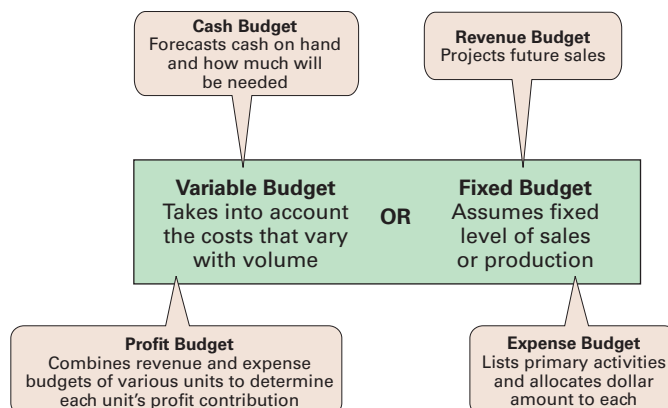
budget

A numerical plan for allocating resources to specific activities

Exhibit PC-2

Types of Budgets

Source: Based on R. S. Russell and B. W. Taylor III, *Production and Operations Management* (Upper Saddle River, NJ: Prentice-Hall, Inc., 1966).



-
- Collaborate and communicate.
 - Be flexible.
 - Goals should drive budgets—budgets should not determine goals.
 - Coordinate budgeting throughout the organization.
 - Use budgeting/planning software.
 - Remember that budgets are tools.
 - Remember that profits result from smart management, not because you budgeted for them.
-

However, many managers don't like preparing budgets because they feel the process is time-consuming, inflexible, inefficient, and/or ineffective.¹² How can the budgeting process be improved? **Exhibit PC-3** provides some suggestions.

Now that we understand the importance and types of budgets, how do organizations set them?

Budgeting is the process of allocating resources to pay for designated future costs. There are two common approaches to setting budgets: incremental budgeting and zero-based budgeting.

Incremental budgeting starts with the current budget, from which managers decide whether additional resources are needed and the justification for requesting them. This approach is appropriate for adjusting budgets that contain all of the necessary expenditures. For example, manufacturing managers may have underestimated the cost of ongoing equipment maintenance. Based on previous experience and expected higher future costs, managers justify requests for additional money. A possible drawback of incremental budgeting is wasteful spending. Most managers learn that if they don't spend their allotted money, they will probably receive less in the future.

An alternative approach is **zero-based budgeting (ZBB)**, which helps minimize wasteful spending. ZBB starts with an established point of zero rather than using the current budget as the basis for adding, modifying, or subtracting resources. Managers start with a clean sheet of paper each year and have to justify, from scratch, every budget item. ZBB's popularity has increased in recent years as companies have sought to cut costs and increase competitiveness. For instance, candy maker The Hershey Company uses ZBB to control costs by challenging every line in its budget.¹³ According to one financial expert, the "zero" in ZBB sends a powerful message to all stakeholders that spending will be closely monitored.¹⁴ When set in a culture of cost management, ZBB helps managers more carefully scrutinize the value of different practices.¹⁵ For instance, do office renovations increase productivity? Do expenditures for online advertising increase sales? ZBB creates a platform for considering the value of alternative expenditures and helps managers redirect resources to areas that will raise productivity and profits.

Scheduling

Jackie is a manager at a Chico's store in San Francisco. Every week, she determines employees' work hours and the store area where each employee will be working. If you observed any group of supervisors or department managers for a few days, you would see them doing much the same—allocating resources by detailing what activities have to be done, the order in which they are to be completed, who is to do each, and when they are to be completed. These managers are **scheduling**. In this section, we'll review some useful scheduling devices, including Gantt charts, load charts, and PERT network analysis.

GANTT CHARTS The **Gantt chart** was developed during the early 1900s by Henry Gantt, an associate of Frederick Taylor, the scientific management expert.¹⁶ The idea behind a Gantt chart is simple. It's essentially a bar graph with time on the horizontal

Exhibit PC-3

How to Improve Budgeting

budgeting

The process of allocating resources to pay for designated future costs

incremental budgeting

Process starting with the current budget from which managers decide whether they need additional resources and the justification for requesting them

zero-based budgeting (ZBB)

Process starting with an established point of zero rather than using the current budget as the basis for adding, modifying, or subtracting resources

scheduling

Detailing what activities have to be done, the order in which they are to be completed, who is to do each, and when they are to be completed

Gantt chart

A scheduling chart developed by Henry Gantt that shows actual and planned output over a period of time

six months. The other editors have some unassigned time and might be able to accept new projects or be available to help other editors who get behind.

PERT NETWORK ANALYSIS Gantt and load charts are useful as long as the activities scheduled are few in number and independent of each other. But what if a manager had to plan a large project such as a departmental reorganization, the implementation of a cost-reduction program, or the development of a new product that required coordinating inputs from marketing, manufacturing, and product design? Such projects require coordinating hundreds and even thousands of activities, some of which must be done simultaneously and some of which can't begin until preceding activities have been completed. If you're constructing a building, you obviously can't start putting up the walls until the foundation is laid. How can managers schedule such a complex project? The program evaluation and review technique (PERT) is highly appropriate for such projects.

A **PERT network** is a flowchart diagram that depicts the sequence of activities needed to complete a project and the time or costs associated with each activity.¹⁷ With a PERT network, a manager must think through what has to be done, determine which events depend on one another, and identify potential trouble spots. PERT also makes it easy to compare the effects alternative actions might have on scheduling and costs. Thus, PERT allows managers to monitor a project's progress, identify possible bottlenecks, and shift resources as necessary to keep the project on schedule.

To understand how to construct a PERT network, you need to know four terms. **Events** are end points that represent the completion of major activities. **Activities** represent the time or resources required to progress from one event to another. **Slack time** is the amount of time an individual activity can be delayed without delaying the whole project. The **critical path** is the longest or most time-consuming sequence of events and activities in a PERT network. Any delay in completing events on this path would delay completion of the entire project. In other words, activities on the critical path have zero slack time.

Developing a PERT network requires that a manager identify all key activities needed to complete a project, rank them in order of occurrence, and estimate each activity's completion time. **Exhibit PC-6** explains the steps in this process.

Most PERT projects are complicated and include numerous activities. Such complicated computations can be done with specialized PERT software. However, let's work through a simple example. Assume you're the superintendent at a construction

PERT network

A flowchart diagram showing the sequence of activities needed to complete a project and the time or cost associated with each

events

End points that represent the completion of major activities in a PERT network

activities

The time or resources needed to progress from one event to another in a PERT network

slack time

The amount of time an individual activity can be delayed without delaying the whole project

critical path

The longest sequence of activities in a PERT network

1. **Identify every significant activity that must be achieved for a project to be completed.** The accomplishment of each activity results in a set of events or outcomes.
2. **Determine the order in which these events must be completed.**
3. **Diagram the flow of activities from start to finish, identifying each activity and its relationship to all other activities.** Use circles to indicate events and arrows to represent activities. This results in a flowchart diagram called a PERT network.
4. **Compute a time estimate for completing each activity.** This is done with a weighted average that uses an *optimistic* time estimate (t_o) of how long the activity would take under ideal conditions, a *most likely* estimate (t_m) of the time the activity normally should take, and a *pessimistic* estimate (t_p) that represents the time that an activity should take under the worst possible conditions. The formula for calculating the expected time (t_e) is then

$$t_e = \frac{t_o + 4t_m + t_p}{6}$$

5. **Using the network diagram that contains time estimates for each activity, determine a schedule for the start and finish dates of each activity and for the entire project.** Any delays that occur along the critical path require the most attention because they can delay the whole project.

Exhibit PC-6

Steps in Developing a PERT Network

company and have been assigned to oversee the construction of an office building. Because time really is money in your business, you must determine how long it will take to get the building completed. You've determined the specific activities and events. **Exhibit PC-7** outlines the major events in the construction project and your estimate of the expected time to complete each. **Exhibit PC-8** shows the actual PERT network based on the data in Exhibit PC-7. You've also calculated the length of time that each path of activities will take:

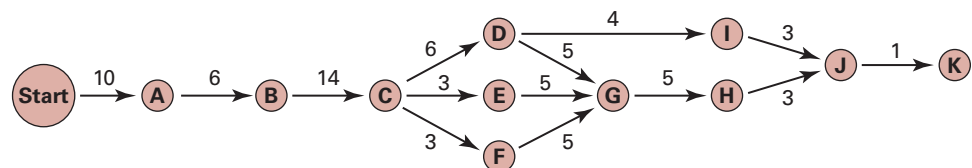
- A-B-C-D-I-J-K (44 weeks)
- A-B-C-D-G-H-J-K (50 weeks)
- A-B-C-E-G-H-J-K (47 weeks)
- A-B-C-F-G-H-J-K (47 weeks)

Your PERT network shows that if everything goes as planned, the total project completion time will be 50 weeks. This is calculated by tracing the project's critical path (the longest sequence of activities), A-B-C-D-G-H-J-K, and adding up the times. You know that any delay in completing the events on this path would delay the completion of the entire project. Taking six weeks instead of four to put in the floor covering and paneling (event I) would have no effect on the final completion date. Why? Because that event isn't on the critical path. However, taking seven weeks instead of six to dig the subterranean garage (event B) would likely delay the total project. A manager who needed to get back on schedule or to cut the 50-week completion time would want to concentrate on those activities along the critical path that could be completed faster. How might the manager do this? They could look to see if any of the other activities *not* on the critical path had slack time in which resources could be transferred to activities that *were* on the critical path.

Exhibit PC-7
Events and Activities in
Constructing an Office Building

Event	Description	Expected Time (in weeks)	Preceding Event
A	Approve design and get permits	10	None
B	Dig subterranean garage	6	A
C	Erect frame and siding	14	B
D	Construct floor	6	C
E	Install windows	3	C
F	Put on roof	3	C
G	Install internal wiring	5	D, E, F
H	Install elevator	5	G
I	Put in floor covering and paneling	4	D
J	Put in doors and interior decorative trim	3	I, H
K	Turn over to building management group	1	J

Exhibit PC-8
PERT Network for Constructing an
Office Building



Breakeven Analysis

Managers at Glory Foods want to know how many units of their new BBQ Beef Jerky must be sold in order to break even—that is, the point at which total revenue is just sufficient to cover total costs. **Breakeven analysis** is a widely used resource allocation technique to help managers determine breakeven point.

Breakeven analysis is a simple calculation, yet it’s valuable to managers because it points out the relationship between revenues, costs, and profits. To compute breakeven point (*BE*), a manager needs to know the unit price of the product being sold (*P*), the variable cost per unit (*VC*), and total fixed costs (*TFC*). An organization breaks even when its total revenue is just enough to equal its total costs. But total costs has two parts: fixed and variable. *Fixed costs* are expenses that do not change regardless of volume; examples include insurance premiums, rent, and property taxes. *Variable costs* change in proportion to output and include raw materials, labor costs, and energy costs.

Breakeven point can be computed graphically or by using the following formula:

$$BE = \frac{TFC}{P - VC}$$

This formula tells us that (1) total revenue will equal total cost when we sell enough units at a price that covers all variable unit costs, and (2) the difference between price and variable costs, when multiplied by the number of units sold, equals the fixed costs. Let’s work through an example.

Assume that Randy’s Photocopying Service charges \$0.10 per photocopy. If fixed costs are \$27,000 a year and variable costs are \$0.04 per copy, Randy can compute his breakeven point as follows: $\$27,000 \div (\$0.10 - \$0.04) = 450,000$ copies, or when annual revenues are \$45,000 ($450,000 \text{ copies} \times \0.10). This same relationship is shown graphically in **Exhibit PC-9**.

As a planning tool, breakeven analysis could help Randy set his sales goal. For example, he could determine his profit goal and then calculate what sales level is needed to reach that goal. Breakeven analysis could also tell Randy how much volume has to increase to break even if he’s currently operating at a loss or how much volume he can afford to lose and still break even.

Linear Programming

Maria Sanchez manages a manufacturing plant that produces two kinds of cinnamon-scented home fragrance products: wax candles and a wood-chip potpourri sold in bags. Business is good, and she can sell all of the products she can produce. Her dilemma: Given that the bags of potpourri and the wax candles are manufactured in the same facility, how many of each product should she produce to maximize profits? Maria can use **linear programming** to solve her resource allocation problem.

breakeven analysis

A technique for identifying the point at which total revenue is just sufficient to cover total costs

linear programming

A mathematical technique that solves resource allocation problems

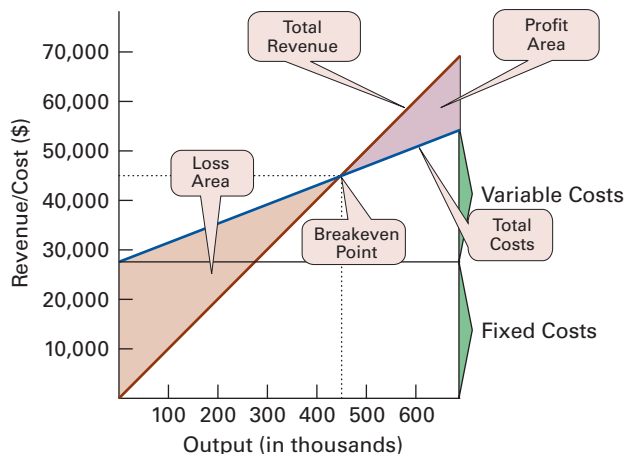


Exhibit PC-9
Breakeven Analysis

Although linear programming can be used here, it can't be applied to all resource allocation problems because it requires that resources be limited, that the goal be outcome optimization, that resources can be combined in alternative ways to produce a number of output mixes, and that a linear relationship exists between variables (a change in one variable must be accompanied by an exactly proportional change in the other).¹⁸ For Maria's business, that last condition would be met if it took exactly twice the amount of raw materials and hours of labor to produce two of a given home fragrance product as it took to produce one.

What kinds of problems can be solved with linear programming? Some applications include selecting transportation routes that minimize shipping costs, allocating a limited advertising budget among various product brands, making the optimal assignment of people among projects, and determining how much of each product to make with a limited number of resources. Let's return to Maria's problem and see how linear programming could help her solve it. Fortunately, her problem is relatively simple, so we can solve it rather quickly. For complex linear programming problems, managers will use computer software programs designed specifically to help develop optimizing solutions.

First, we need to establish some facts about Maria's business. She has computed the profit margins on her home fragrance products at \$10 for a bag of potpourri and \$18 for a scented candle. These numbers establish the basis for Maria to be able to express her *objective function* as maximum profit = $10P + \$18S$, where P is the number of bags of potpourri produced and S is the number of scented candles produced. The objective function is simply a mathematical equation that can predict the outcome of all proposed alternatives. In addition, Maria knows how much time each fragrance product must spend in production and the monthly production capacity (1,200 hours in manufacturing and 900 hours in assembly) for manufacturing and assembly. (See **Exhibit PC-10**.) The production capacity numbers act as *constraints* on her overall capacity. Now Maria can establish her constraint equations:

$$2P + 4S \leq 1,200$$

$$2P + 2S \leq 900$$

Of course, Maria can also state that $P \geq 0$ and $S \geq 0$ because neither fragrance product can be produced in a volume less than zero.

Maria has graphed her solution in **Exhibit PC-11**. The shaded area represents the options that don't exceed the capacity of either department. What does

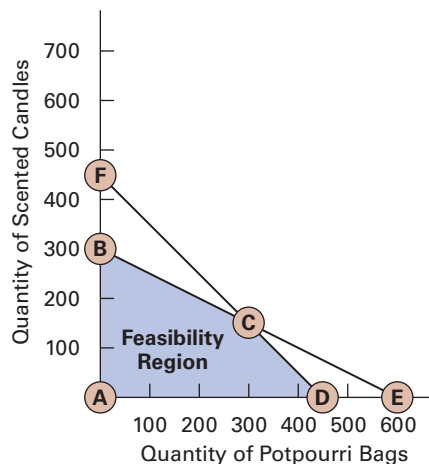
Exhibit PC-10

Production Data for Cinnamon-Scented Products

Department	Number of Hours Required (per unit)		Monthly Production Capacity (in hours)
	Potpourri Bags	Scented Candles	
Manufacturing	2	4	1,200
Assembly	2	2	900
Profit per unit	\$10	\$18	

Exhibit PC-11

Graphical Solution to Linear Programming Problem



this mean? Well, let’s look first at the manufacturing constraint line BE. We know that total manufacturing capacity is 1,200 hours, so if Maria decides to produce all potpourri bags, the maximum she can produce is 600 (1,200 hours ÷ 2 hours required to produce a bag of potpourri). If she decides to produce all scented candles, the maximum she can produce is 300 (1,200 hours ÷ 4 hours required to produce a scented candle). The other constraint Maria faces is that of assembly, shown by line DF. If Maria decides to produce all potpourri bags, the maximum she can assemble is 450 (900 hours production capacity ÷ 2 hours required to assemble). Likewise, if Maria decides to produce all scented candles, the maximum she can assemble is also 450 because the scented candles also take 2 hours to assemble. The constraints imposed by these capacity limits establish Maria’s *feasibility region*. Her optimal resource allocation will be defined at one of the corners within this feasibility region. Point C provides the maximum profits within the constraints stated. How do we know? At point A, profits would be 0 (no production of either potpourri bags or scented candles). At point B, profits would be \$5,400 (300 scented candles × \$18 profit and 0 potpourri bags produced = \$5,400). At point D, profits would be \$4,500 (450 potpourri bags produced × \$10 profit and 0 scented candles produced = \$4,500). At point C, however, profits would be \$5,700 (150 scented candles produced × \$18 profit and 300 potpourri bags produced × \$10 profit = \$5,700).

PROJECT Management

Different types of organizations, from manufacturers such as Coleman and Boeing to software design firms such as SAS and Microsoft, use projects. A **project** is a one-time-only set of activities that has a definite beginning and ending point in time. Projects vary in size and scope—from the two-mile-long traffic tunnel under downtown Seattle to a sorority’s holiday formal. **Project management** is the task of getting a project’s activities done on time, within budget, and according to specifications.¹⁹

When organizations undertake projects that are unique, have specific deadlines, contain complex interrelated tasks requiring specialized skills, and are temporary in nature, these projects often do not fit into the standardized planning procedures that guide an organization’s other routine work activities. Instead, managers use project management techniques to effectively and efficiently accomplish the project’s goals.

project

A one-time-only set of activities that has a definite beginning and ending point in time

project management

The task of getting a project’s activities done on time, within budget, and according to specifications

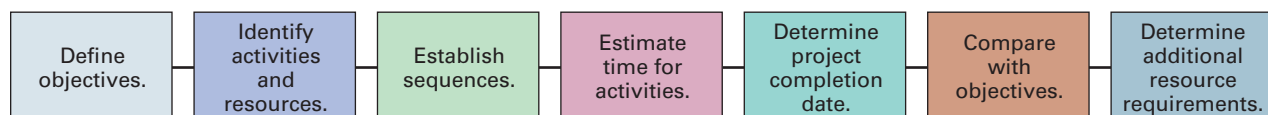
Project Management Process

In the typical project, work is done by a project team whose members are assigned from their respective work areas to the project and who report to a project manager. The project manager coordinates the project’s activities with other departments. When the project team accomplishes its goals, it disbands, and members move on to other projects or back to their permanent work area.

The essential features of the project planning process are shown in **Exhibit PC-12**. The process begins by clearly defining the project’s goals. This step is necessary because the manager and the team members need to know what’s expected. All activities in the project and the resources needed to do them must then be identified. What materials and labor are needed to complete the project? This step may be time-consuming and complex, particularly if the project is unique and the managers have no history or

Exhibit PC-12

Project Planning Process



Source: Based on R. S. Russell and B. W. Taylor III, eds., *Production and Operations Management*, 7th ed. (Hoboken, NJ: Wiley, 2011).

experience with similar projects. Once the activities have been identified, the sequence of completion needs to be determined. What activities must be completed before others can begin? Which can be done simultaneously? This step often uses flowchart diagrams such as a Gantt chart, a load chart, or a PERT network. Next, the project activities need to be scheduled. Time estimates for each activity are done, and these estimates are used to develop an overall project schedule and completion date. Then the project schedule is compared to the goals, and any necessary adjustments are made. If the project completion time is too long, the manager might assign more resources to critical activities so they can be completed faster.

Today, the project management process can take place online because a number of web-based software packages are available. These packages cover aspects from project accounting and estimating to project scheduling and bug and defect tracking. However, as AI technology continues to advance, technology supporting project management will have a significant impact on the practice of project management. From faster and more effective project planning to virtual assistants to manage administrative tasks and provide guidance, some experts suggest that by 2030, 80 percent of project management work will be run by AI.²⁰

Role of Project Manager

The temporary nature of projects makes managing them different from, say, overseeing a production line or preparing a weekly tally of costs on an ongoing basis. There's a job to be done. It has to be defined—in detail. And the project manager is responsible for how it's done. The complexity of some projects warrants hiring project management firms. For instance, in Texas, the city of Dallas hired a project management firm to oversee the construction of a \$3 billion new convention center. The complex project involved the coordination of several construction firms and the revitalization of a local park, requiring professional project management to assure timely completion.²¹

Even with the availability of sophisticated technology, the role of project manager remains difficult because they are managing people who typically are still assigned to their permanent work areas. The only real influence project managers have is their communication skills and their power of persuasion. Additionally, team members seldom work on just one project. They're usually assigned to two or three at any given time. So project managers end up competing with each other to focus a worker's attention on their particular project.

REVIEW AND DISCUSSION QUESTIONS

- | | |
|--|--|
| <p>PC-1. Describe the different approaches to assessing the environment.</p> <p>PC-2. Describe the four techniques for allocating resources.</p> <p>PC-3. How does PERT network analysis work?</p> <p>PC-4. Why is flexibility so important to today's planning techniques?</p> <p>PC-5. What is project management, and what are the steps managers use in planning projects?</p> <p>PC-6. Do intuition and creativity have any relevance in quantitative planning tools and techniques? Explain.</p> | <p>PC-7. The <i>Wall Street Journal</i> and other business periodicals often carry reports of companies that have not met their sales or profit forecasts. What are some reasons a company might not meet its forecast? What suggestions could you make for improving the effectiveness of forecasting?</p> <p>PC-8. In what ways is managing a project different from managing a department or other structured work area? In what ways are they the same?</p> <p>PC-9. What might be some early warning signs of (a) a new competitor coming into your market, (b) an employee work stoppage, or (c) a new technology that could change demand for your product?</p> |
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Managing Operations Module

Are you a fan of the guacamole at Chipotle? Made fresh by cutting, coring, and peeling the avocados, the customer favorite used to take almost an hour of an employee's time to make. Facing staffing shortages, in 2023 Chipotle tested the "Autocado," a robot designed specifically for Chipotle. This automation is expected to cut the time to make guacamole in half. An employee still mashes the avocados and adds the lime juice, salt, and jalapenos, maintaining the standards and flavoring customers expect. In addition to saving time and labor costs, ultimately the robot is expected to cut food waste, eventually saving the company millions of dollars once implemented in the company's 3,200 locations.¹

Rapid change in how work is accomplished is happening around the world. In this module, we review the topic of operations management and describe how technology is changing the ways goods and services are produced.

THE Role of Operations Management

What is **operations management**? The term refers to the transformation process that converts resources into finished goods and services. **Exhibit MO-1** portrays this process in a simplified fashion. The system takes in inputs—people, technology, capital, equipment, materials, and information—and transforms them through various processes, procedures, work activities, and so forth into finished goods and services. Because every unit in an organization produces something, managers need to be familiar with operations management concepts in order to achieve goals efficiently and effectively.

Operations management is important to organizations and managers for three reasons: (1) it encompasses both services and manufacturing; (2) it's important in effectively and efficiently managing productivity; and (3) it plays a strategic role in an organization's competitive success.

Services and Manufacturing

With a menu that offers more than 200 items, The Cheesecake Factory restaurants rely on a finely tuned production system.² One food-service consultant says, "They've evolved with this highly complex menu combined with a highly efficient kitchen."³

Every organization produces something. Unfortunately, this fact is often overlooked except in obvious cases such as in the manufacturing of cars, cell phones, or lawn mowers. After all, **manufacturing organizations** produce physical goods. It's easy to see the transformation process at work in these types of organizations because raw materials are turned into recognizable physical products. But the transformation process isn't as readily evident in **service organizations** that produce nonphysical outputs in the form of services. For instance, hospitals provide medical and healthcare

operations management

The transformation process that converts resources into finished goods and services

manufacturing organizations

Organizations that produce physical goods

service organizations

Organizations that produce nonphysical products in the form of services

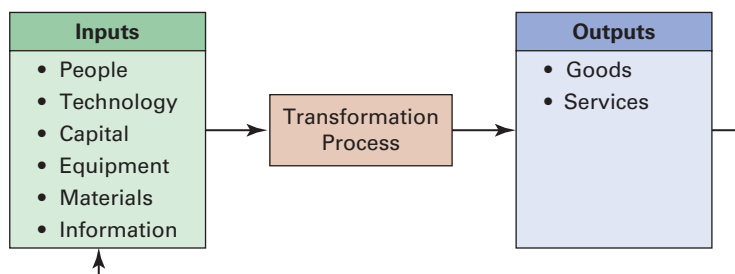


Exhibit MO-1
The Operations System

services that help people manage their personal health, airlines provide transportation services that move people from one location to another, military forces provide defense capabilities, and the list goes on. These service organizations also transform inputs into outputs, although the transformation process isn't as easily recognizable as that in manufacturing organizations. Take a university, for example. University administrators bring together inputs—professors, books, academic journals, technology, classrooms, and similar resources—to transform “unenlightened” students into educated and skilled individuals who are capable of making contributions to society.

The reason we're making this point is that the US economy, and to a large extent the global economy, is increasingly dominated by the creation and sale of services. Most of the world's developed countries are predominantly service economies. In the United States, for instance, 77.6 percent of all economic activity is services; in the European Union, it's over 73 percent.⁴

Managing Productivity

Over 200,000 robots at Amazon help the company fulfill orders, increasing productivity by an estimated 300 percent.⁵ In the automotive industry, manufacturers are using robots to improve productivity by taking over tasks such as painting, welding, and assembly.⁶ Improving productivity has become a major goal in virtually every organization. For countries, high productivity can lead to economic growth and development. Employees can receive higher wages and company profits can increase without causing inflation. For individual organizations, increased productivity gives them a more competitive cost structure and the ability to offer more competitive prices.

Productivity is a composite of people and operations variables. To improve productivity, managers must focus on both. The late W. Edwards Deming, a renowned quality expert, believed that managers, not workers, were the primary source of increased productivity. Some of his suggestions for managers included planning for the long-term future, never being complacent about product quality, understanding whether problems were confined to particular parts of the production process or stemmed from the overall process itself, training workers for the job they're being asked to perform, raising the quality of line supervisors, and requiring workers to do quality work.⁷ Deming understood the interplay between people and operations. High productivity can't come solely from good “people management.” The truly effective organization will maximize productivity by successfully integrating people into the overall operations system.

Strategic Role of Operations Management

Modern manufacturing originated over 100 years ago in the United States, primarily in Detroit's automobile factories. The success that US manufacturers experienced during World War II led manufacturing executives to believe that troublesome production problems had been conquered. So these executives changed their focus to improving other functional areas, such as finance and marketing, and paid little attention to manufacturing.

However, as US executives neglected production, managers in Japan, Germany, and other countries took the opportunity to develop modern, technologically advanced facilities that fully integrated manufacturing operations into strategic planning decisions. The competition's success realigned world manufacturing leadership. US manufacturers soon discovered that foreign goods were made not only less expensively but also with better quality. Finally, by the late 1970s, US executives recognized they were facing a true crisis and responded. They invested heavily in improving manufacturing technology, increased the corporate authority and visibility of manufacturing executives, and began incorporating existing and future production requirements into the organization's overall strategic plan. Today, successful organizations recognize the crucial role that operations management plays as part of the overall organizational strategy to establish and maintain global leadership.⁸

The strategic role that operations management plays in successful organizational performance can be seen clearly as more organizations move toward managing their operations from a value chain perspective.

VALUE Chain Management

The concepts of value chain management have transformed operations management strategies and turned organizations around the world into finely tuned models of efficiency and effectiveness, strategically positioned to exploit competitive opportunities. But what do we mean by the term *value chain management*? To understand, we need to break it down into its components.

What Is Value Chain Management?

Every organization needs customers if it's going to survive and prosper. Even a not-for-profit organization must have "customers" who use its services or purchase its products. Customers want some type of value from the goods and services they purchase or use, and these customers decide what has value. Organizations must provide that value to attract and keep customers. **Value** is defined as the performance characteristics, features, attributes, and any other aspects of goods and services for which customers are willing to give up resources (usually money). For example, when you purchase a new pair of Australian sheepskin Ugg boots online at Zappos, a Wendy's bacon cheeseburger at a drive-through, or a haircut from your local hair salon, you're exchanging money in return for the value you need or desire from these products—keeping your feet warm *and* fashionable during winter's cold weather, alleviating your lunchtime hunger pangs, or looking professionally groomed.

How *is* value provided to customers? Through transforming raw materials and other resources into some product or service that end users need or desire when, where, and how they want it. However, that seemingly simple act of turning varied resources into something that customers value and are willing to pay for involves a vast array of interrelated work activities performed by different participants (suppliers, manufacturers, and even customers)—that is, it involves the value chain. The **value chain** is the entire series of organizational work activities that add value at each step from raw materials to finished product. In its entirety, the value chain can encompass everything from the supplier's suppliers to the customer's customer.⁹ For instance, consider the value chain from growing macadamia nuts to selling macadamia nut cookies in a grocery store. The chain begins with a farmer who grows the macadamia nuts, picks them from trees, and sells them to a processing plant. The added value is the increase in the farmer's income for selling macadamia nuts and the material and labor costs for growing and picking them. The processing plant removes the shells, discards rotten nuts, and sells the rest to a bakery. The added value created by the processing plant is the difference between the cost of buying the macadamia nuts and the price at which these are sold to the bakery. The bakery adds value by blending the nuts with the cookie dough, baking the cookies, and selling them to the grocery store for a profit. The grocer adds value by buying the cookies from the bakery, transporting them to the store, stocking the shelves, and selling them for a profit.

Value chain management is the process of managing the sequence of activities and information along the entire value chain. In contrast to **supply chain management**, which is *internally* oriented and focuses on efficient flow of incoming materials to the organization, value chain management is *externally* oriented and focuses on both incoming materials and outgoing products and services. Although supply chain management is efficiency oriented (its goal is to reduce costs and make the organization more productive), value chain management is effectiveness oriented and aims to create the highest value for customers.¹⁰ The relationship between Magna International and General Motors illustrates the benefits of improving value chain management. Magna manufactures front and rear bumper covers for GM vehicles. After Magna moved from Ohio to a facility near the GM assembly plant in Michigan,

value

The performance characteristics, features, attributes, and any other aspects of goods and services for which customers are willing to give up resources

value chain

The entire series of organizational work activities that add value at each step from raw materials to finished product

value chain management

The process of managing the sequence of activities and information along the entire value chain

supply chain management

The process of managing the efficient flow of incoming materials to the organization

GM saved millions of dollars in purchase costs.¹¹ By moving closer to GM, Magna no longer needed to maintain a costly storage facility and incur high fuel costs for transport. In turn, the cost savings enables Magna to sell bumper covers to GM at a lower price.

The Goal of Value Chain Management

Who has the power in the value chain? Is it the suppliers providing needed resources and materials? After all, they have the ability to dictate prices and quality. Is it the manufacturer who assembles those resources into a valuable product or service? Their contribution in creating a product or service is quite obvious. Is it the distributor that makes sure the product or service is available where and when the customer needs it? Actually, it's none of these! In value chain management, ultimately customers are the ones with power. They're the ones who define what value is and how it's created and provided. Using value chain management, managers hope to find that unique combination that offers customers solutions to truly meet their unique needs incredibly fast and at a price that can't be matched by competitors.

With these factors in mind, then, the goal of value chain management is to create a value chain strategy that meets and exceeds customers' needs and desires and allows for full and seamless integration among all members of the chain. A good value chain involves a sequence of participants working together as a team, each adding some component of value—such as faster assembly, more accurate information, better customer response and service, and so forth—to the overall process. The better the collaboration among the various chain participants, the better the customer solutions. When value is created for customers and their needs and desires are satisfied, everyone along the chain benefits. For example, at Johnson Controls Inc., managing the value chain started first with improved relationships with internal suppliers, then expanded out to external suppliers and customers. As the company's experience with value chain management improved, so did its connection with its customers, which ultimately paid off for all its value chain partners.¹²

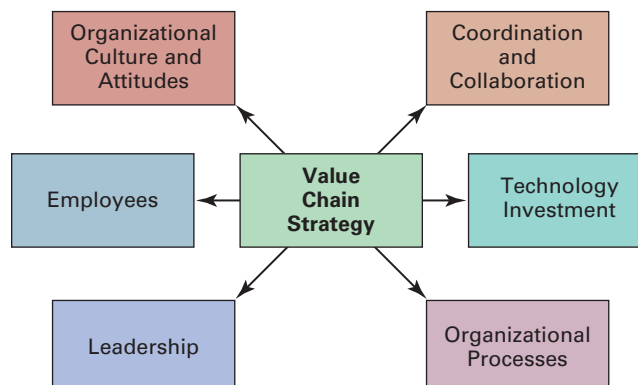
Benefits of Value Chain Management

Collaborating with external and internal partners in creating and managing a successful value chain strategy requires significant investments in time, energy, and other resources, and a serious commitment by all chain partners. Given these demands, why would managers ever choose to implement value chain management? There are at least four benefits of value chain management: improved procurement, improved logistics, improved product development, and enhanced customer order management.¹³

Value Chain Strategy

Exhibit MO-2 shows the six main requirements of a successful value chain strategy: coordination and collaboration, technology investment, organizational processes, leadership, employees, and organizational culture and attitudes.

Exhibit MO-2
Value Chain Strategy Requirement



COORDINATION AND COLLABORATION For the value chain to achieve its goal of meeting and exceeding customers' needs and desires, collaborative relationships among all chain participants must exist. Each partner must identify things they may not value but that customers do. Sharing information and being flexible as far as who in the value chain does what are important steps in building coordination and collaboration. This sharing of information and analysis requires open communication among the various value chain partners.

TECHNOLOGY INVESTMENT Successful value chain management isn't possible without a significant investment in information technology. The payoff from this investment, however, is that information technology can be used to restructure the value chain to better serve end users. For example, in response to a growth in online shopping, Lego went beyond a basic online store and created a virtual showroom for customers that provides a high-quality product viewing experience and the opportunity for easier virtual interactions with employees.¹⁴

ORGANIZATIONAL PROCESSES Value chain management radically changes organizational processes—that is, the ways that organizational work is done. When managers decide to manage operations using value chain management, old processes are no longer appropriate. All organizational processes must be critically evaluated from beginning to end to see where value is being added. Non-value-adding activities should be eliminated. Questions such as “Where can internal knowledge be leveraged to improve the flow of material and information?,” “How can we better configure our product to satisfy both customers and suppliers?,” “How can the flow of material and information be improved?,” and “How can we improve customer service?” should be asked for each and every process.

Three important conclusions can be made about organizational processes. First, better demand forecasting is necessary *and* possible because of closer ties with customers and suppliers. For example, in an effort to make sure that Listerine was on the store shelves when customers wanted it (known in the retail industry as *product replenishment rates*), Walmart and Pfizer's Consumer Healthcare Group collaborated on improving product demand forecast information. Through their mutual efforts, the partners boosted Walmart's sales of Listerine, an excellent outcome for both supplier and retailer. Customers also benefited because they were able to purchase the product when and where they wanted it.

Second, selected functions may need to be done collaboratively with other partners in the value chain. This collaboration may even extend to sharing employees. For instance, Coca-Cola Hellenic Bottling Company places employees in grocery stores, where they work with store employees to prepare the merchandising and placement of Coca-Cola products on the shelves.

Finally, new measures are needed for evaluating the performance of various activities along the value chain. Because the goal in value chain management is meeting and exceeding customers' needs and desires, managers need a better picture of how well this value is being created and delivered to customers. For example, when Nestlé USA implemented value chain management, it redesigned its metrics system to focus on one consistent set of measurements—including, for instance, accuracy of demand forecasts and production plans, on-time delivery, and customer-service levels—that allowed it to more quickly identify problem areas and take actions to resolve them.¹⁵

LEADERSHIP Successful value chain management isn't possible without strong and committed leadership. From top organizational levels to lower levels, managers must support, facilitate, and promote the implementation and ongoing practice of value chain management. Managers must seriously commit to identifying what value is, how that value can best be provided, and how successful those efforts have been. A culture where all efforts are focused on delivering superb customer value isn't possible without a serious commitment on the part of the organization's leaders.

Also, it's important that managers outline expectations for what's involved in the organization's pursuit of value chain management. Ideally, managers start with a vision or mission statement that expresses the organization's commitment to identifying, capturing, and providing the highest possible value to customers. Then, managers should clarify expectations regarding each employee's role in the value chain. But clear expectations aren't just important for internal partners. Being clear about expectations also extends to external partners.

EMPLOYEES/HUMAN RESOURCES Employees play an important role in value chain management. The three main human resource requirements for value chain management are flexible approaches to job design, an effective hiring process, and ongoing training.

Flexibility is the key to job design in value chain management. Traditional functional job roles—such as marketing, sales, accounts payable, customer service, and so forth—won't work. Instead, jobs must be designed around work processes that create and provide value to customers. It takes flexible jobs and flexible employees. For instance, at Nordson Corporation's facility in Swainsboro, Georgia, workers are trained to do several different tasks, which isn't all that uncommon in many manufacturing plants. What's unique about this facility is that even salaried employees are expected to spend four hours every month building products on the shop floor.¹⁶

In a value chain organization, employees may be assigned to work teams that tackle a given process and may be asked to do different things on different days depending on need. In such an environment, where customer value is best delivered through collaborative relationships that may change as customer needs change and where processes or job descriptions are not standardized, an employee's ability to be flexible is critical. Therefore, the organization's hiring process must be designed to identify those employees who have the ability to learn and adapt. The emerging gig economy discussed in **Chapter 1** offers opportunities for companies to build more flexible workforces. By engaging gig workers using on-demand staffing platforms, companies can enable innovation and accelerate production as needed in response to customer demand.¹⁷

Finally, the need for flexibility also requires a significant investment in continual and ongoing employee training. Whether that training involves learning how to use information technology software, how to improve the flow of materials throughout the chain, how to identify activities that add value, how to make better decisions faster, or how to improve any other number of potential work activities, managers must see to it that employees have the knowledge and tools they need to do their jobs efficiently and effectively.

ORGANIZATIONAL CULTURE AND ATTITUDES The last requirement for value chain management is having a supportive organizational culture and attitudes. From our extensive description of value chain management, you could probably guess the type of organizational culture that's going to support its successful implementation. Those cultural attitudes include sharing, collaborating, openness, flexibility, mutual respect, and trust. These attitudes encompass not only the internal partners in the value chain but also external partners.

CURRENT Issues in Managing Operations

We close out our discussion of operations management by looking at five contemporary operations issues: technology, quality management, quality standards, mass customization, and creating a lean organization.

Technology

As we have shared throughout this module, technology has had a significant impact on operations management. In this section we will highlight some specific examples of technologies that are continuing to evolve operations management.

Global positioning systems (GPS) are changing a number of enterprises from shipping to shopping, from healthcare to law enforcement, and even farming.¹⁸ GPS was originally invented for military use to track weapons and personnel as they moved. Now GPS is being used to track shipping fleets, to support emergency services, and in personal fitness technology.

The fifth generation of wireless technology (5G) is transforming factories by improving production processes and offering real-time monitoring of equipment. The technology allows more devices to become connected at once and improves the ability of engineers to deploy artificial intelligence and other smart factory tools. Instead of the Wi-Fi you might use in your home, manufacturers can install their own 5G network in their facilities, avoiding the challenge of an unreliable Wi-Fi network. For example, after challenges with self-driving vehicles that relied on Wi-Fi at its Clyde, Ohio, washer manufacturing facility, Whirlpool installed its own 5G network at the facility to avoid the work stoppages and delays caused by unreliable Wi-Fi.¹⁹

Smart companies are also looking at ways to harness technology to improve the customer experience. For instance, although self-ordering kiosks at fast-food restaurants have been around for decades, the COVID-19 pandemic led to a significant growth in their use to address pandemic-related restrictions. Restaurants such as McDonald's, Taco Bell, and Panera have increased the number of stores with kiosks, which has helped address labor shortages while allowing a more customized experience and improved service.²⁰

Technology is also allowing organizations to control costs, particularly in the areas of predictive maintenance, remote diagnostics, and utility cost savings. For instance, internet-compatible equipment increasingly contains embedded web servers that can communicate proactively—that is, if a piece of equipment breaks or reaches certain preset parameters indicating that it's about to break, it asks for help. Some devices have the ability to initiate email or signal a pager at a supplier, the maintenance department, or contractor describing the specific problem and requesting parts and service.²¹

ROBOTICS Throughout the text we have highlighted the emerging and significant role artificial intelligence (AI) plays in the management process. In operations management, AI-powered robots have become ubiquitous on factory floors, but they're also picking items at Amazon fulfillment centers and sorting grapes in Napa Valley. So what does this mean for management and future labor markets?

First, the jobs that are being replaced tend to be ones that are physically tasking or mind-numbing—jobs that most people would prefer *not* to do. Second, in most cases, robots won't be taking human jobs. Rather, they'll be taking on parts of jobs that humans have been doing. They'll be augmenting humans to make job performance more effective and efficient. For instance, surgeons will be using robots to perform complex surgical procedures with more precision, flexibility, and control. Surgeons' jobs won't be going away—they'll just be able to do their jobs better.

VIRTUAL REALITY It first saw light of day in science fiction. Then it found a huge market in video gaming. Now it has begun to be seen as a planning tool for managers. We're talking about **virtual reality (VR)**—a three-dimensional, interactive, computer-generated experience that takes place within a simulated environment.²²

German automaker Audi has sped up its production planning process using virtual reality headsets to allow designers to collaborate in real time. Designers can build a new car design in a virtual space and then join other designers as avatars in the virtual world to discuss and optimize the workplace design to produce the vehicle. This allows the company to save time, money, and other resources.²³

virtual reality (VR)

A three-dimensional, interactive, computer-generated experience that takes place within a simulated environment

Quality Management

What is *quality*? When you consider a product or service to have quality, what does that mean? Does it mean that the product doesn't break or quit working—that is, that it's reliable? Does it mean that the service is delivered in a way that you intended?

quality

The ability of a product or service to reliably do what it's supposed to do and to satisfy customer expectations

Does it mean that the product does what it's supposed to do? Or does quality mean something else? We're going to define **quality** as the ability of a product or service to reliably do what it's supposed to do and to satisfy customer expectations.

We introduced the management philosophy of total quality management in **Chapter 2**, but how is quality achieved? A good way to answer this is by looking at quality through the management functions—planning, organizing, leading, and controlling.

PLANNING FOR QUALITY Managers must have quality improvement goals, and strategies and plans to achieve those goals. Goals can help focus everyone's attention toward some objective quality standard. For instance, the *Forbes Travel Guide* rates hotels on a star system, with five stars representing the highest quality. Hotels must earn high ratings on 800 standards to earn the five-star highest rating.

A quality plan is a document that specifies quality standards, practices, resources, specifications, and the sequence of activities relevant to a particular product or service.²⁴ For instance, the quality plan for a manufacturing firm that machines metal parts might be made up of applicable procedures, a description of material standards, specific workmanship standards, and the measurement tolerances acceptable.²⁵

ORGANIZING AND LEADING FOR QUALITY Because quality improvement initiatives are carried out by organizational employees, it's important that managers look at how they can best organize and lead them. For instance, at the Moose Jaw, Saskatchewan, plant of General Cable Corporation, every employee participates in continual quality assurance training. In addition, the plant manager believes in giving employees the information they need to do their jobs better. He says, "Giving people who are running the machines the information is just paramount. You can set up your cellular structure, you can cross-train your people, you can use lean tools, but if you don't give people information to drive improvement, there's no enthusiasm." This company shares production data and financial performance measures with all employees.²⁶

Organizations with extensive and successful quality improvement programs tend to rely on two important people approaches: cross-functional work teams and self-directed, or empowered, work teams. Because achieving product quality is something in which all employees from upper to lower levels must participate, it's not surprising that quality-driven organizations rely on well-trained, flexible, and empowered employees.

CONTROLLING FOR QUALITY Quality improvement initiatives aren't possible without having some way to monitor and evaluate their progress. Whether it involves standards for inventory control, defect rate, raw materials procurement, or other operations management areas, controlling for quality is important. For instance, at the Northrop Grumman Corporation plant in Rolling Meadows, Illinois, several quality controls have been implemented, such as automated testing and IT that integrates product design and manufacturing and tracks process quality improvements. Also, employees are empowered to make accept/reject decisions about products throughout the manufacturing process. The plant manager explains, "This approach helps build quality into the product rather than trying to inspect quality into the product."²⁷

Quality Standards

To publicly demonstrate their quality commitment, many organizations worldwide have pursued challenging quality standards—the two best known being ISO 9001 and Six Sigma.

ISO 9001

A series of international quality management standards that set uniform guidelines for processes to ensure products conform to customer and regulatory requirements

ISO 9001:2015 **ISO 9001** is the international quality management standard established by the International Organization for Standardization, which sets uniform guidelines for processes to ensure that products conform to customer and regulatory requirements.²⁸ These standards cover everything from contract review to product design to product delivery.

The criteria set forth by ISO 9001 have become the internationally recognized standard for evaluating and comparing companies in the global marketplace. Although certification is not required when using this standard, organizations can become ISO 9001 certified, and over a million companies in 170 countries have earned the certification.²⁹ In fact, this type of certification can be a prerequisite for doing business globally.³⁰ And achieving ISO 9001 certification provides proof that a quality operations system is in place.

SIX SIGMA Motorola popularized the use of stringent quality standards almost 40 years ago through a trademarked quality improvement program called Six Sigma.³¹ Very simply, **Six Sigma** is a quality program designed to reduce defects to help lower costs, save time, and improve customer satisfaction.³² It's based on a statistical standard that establishes a goal of no more than 3.4 defects per million units or procedures. Six Sigma uses a common platform of knowledge, practices, and quality resources to increase an organization's effectiveness.

What does the name mean? Sigma is the Greek letter that statisticians use to define a standard deviation from a bell curve. The higher the sigma, the fewer the deviations from the norm—that is, the fewer the defects. At One Sigma, two-thirds of whatever is being measured falls within the curve. Two Sigma covers about 95 percent. At Six Sigma, you're about as close to defect-free as you can get. Although it's an extremely high standard to achieve, many quality-driven businesses are using it and benefiting from it. For instance, by implementing Six Sigma in the production line, Adidas reduced manufacturing time by more than 30 percent.³³ Other well-known companies pursuing Six Sigma include ITT Industries, GE, Dow Chemical, 3M Company, American Express, Sony Corporation, Nokia Corporation, and Johnson & Johnson.

Mass Customization

The term *mass customization* seems an oxymoron. However, the design-to-order concept is becoming an important operations management issue for today's managers. **Mass customization** provides consumers with a product when, where, and how they want it.³⁴ Companies as diverse as BMW, Ford, Levi Strauss, Mattel, and Dell are adopting mass customization to maintain or attain a competitive advantage. Mass customization requires flexible manufacturing techniques and continual customer dialogue. Technology plays an important role in both.

With flexible manufacturing, companies have the ability to quickly readjust assembly lines to make products to order. Using technology such as computer-controlled factory equipment, intranets, industrial robots, barcode scanners, 3D printers, and logistics software, companies can manufacture, assemble, and ship customized products with customized packaging to customers in incredibly short timeframes. Warby Parker is a good example of a company that uses flexible manufacturing techniques and technology to create custom eyeglasses to customers' specifications.

Technology also is important in the continual dialogue with customers. As discussed in **Chapter 12**, AI-powered chatbots are creating new opportunities to engage customers. Further, the ability to customize products to a customer's desires and specifications starts an important relationship between the organization and the customer. If the customer likes the product and it provides value, they are more likely to be a repeat customer. For instance, the Royal Bank of Canada uses an AI tool called NOMI to provide digital money management services to customers such as personalized budgets and savings recommendations based on buying behavior. The tool has helped positively engage customers with more interactions, and customers using NOMI have only a 2 percent attrition rate, compared to an 8 percent attrition rate for other customers.³⁵

Creating a Lean Organization

An intense focus on customers is also important in order to be a **lean organization**, which is an organization that understands what customers want, identifies customer value by analyzing all activities required to produce products, and then optimizes

Six Sigma

A quality program designed to reduce defects and help lower costs, save time, and improve customer satisfaction

mass customization

Providing customers with a product when, where, and how they want it

lean organization

An organization that understands what customers want, identifies customer value by analyzing all activities required to produce products, and then optimizes the entire process from the customer's perspective

the entire process from the customer's perspective.³⁶ Lean organizations drive out all activities that fail to add value in customers' eyes. The goals are to improve quality, eliminate waste, reduce time, and reduce total costs. Critical to achieving these goals is a commitment to continuous improvement.

Companies like United Parcel Service, LVMH, Moët, Hennessy, Louis Vuitton, and Harley-Davidson have pursued lean operations. "Lean operations adopt a philosophy of minimizing waste by striving for perfection through continuous learning, creativity, and teamwork."³⁷

REVIEW AND DISCUSSION QUESTIONS

- | | |
|--|--|
| <p>MO-1. What is operations management?</p> <p>MO-2. Do you think that manufacturing or service organizations have the greater need for operations management? Explain.</p> <p>MO-3. What is a value chain, and what is value chain management? What is the goal of value chain management? What are the benefits of value chain management?</p> <p>MO-4. What is required for successful value chain management? What obstacles exist to successful value chain management?</p> | <p>MO-5. How could you use value chain management in your everyday life?</p> <p>MO-6. How does technology play a role in manufacturing?</p> <p>MO-7. What are ISO 9001 and Six Sigma?</p> <p>MO-8. Describe lean management, and explain why it's important.</p> <p>MO-9. How might operations management apply to other managerial functions besides control?</p> |
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PART 6 Management Practice

Continuing Case: Starbucks—Controlling

Managers must monitor work activities to make sure they are being done as planned and correct any significant deviations. At Starbucks, managers control various functions, activities, processes, and procedures to achieve desired performance standards at all organizational levels.

Controlling the Coffee Experience

Why has Starbucks been so successful? Although many factors have contributed to its success, one significant factor is its ability to provide customers with a unique product of the highest quality delivered with exceptional service. And managers need controls to help monitor and evaluate what is being done and how it is being done. Starbucks's managers use different types of controls to meet the company's goals. These controls include transaction, security, employee, and organizational performance controls.

Every week, millions of customers make purchases at a Starbucks store somewhere in the world. These transactions between partners and customers—the exchange of products for money—are the major source of sales revenue for Starbucks. Measuring and evaluating these transactions' efficiency and effectiveness for walk-in customers and customers at drive-through windows is important. Starbucks has had drive-through offerings for years, but Starbucks also draws customers into stores with mobile orders they can pick up inside the store. Customers want Starbucks to add more speed and capability to drive-through and mobile ordering services at stores. Most customers no longer consider Starbucks a place to sit and work while enjoying a Starbucks coffee or coffee drink. Instead, many customers want speed and convenience. These transactions now need a focus on speed and quality—a different metric than for walk-in transactions. When a customer walks into a store and orders at the register or through the Starbucks app, they can step aside while the order is prepared; that is impossible in a drive-through line.

Starbucks faces a lot of competition in the drive-through coffee business. McDonald's, Dunkin', and even Panera Bread (with its lengthier food menu) have a reputation for short drive-through wait times. Recognizing these limitations, Starbucks has taken steps to improve its drive-through service.¹ However, Starbucks also leverages other partnerships and its mobile app to satisfy its customers. For example, Target stores with a Starbucks inside allow customers to shop in the store while enjoying their favorite drinks. Some Target customers, like Starbucks customers, have chosen to shop online and pick up their orders using curbside pickup. Starbucks followed suit

by offering curbside pickup from its locations in Target stores.² Promotions include giving customers a reason to make repeat purchases using the mobile app, like receiving 1,000 miles in Delta Airline Miles when two purchases were made in the same month.³ Or getting to listen to exclusive Taylor Swift playlists in store through a partnership with Swift's The Eras Tour. These promotions give customers a unique online and in-store experience, while partners like Starbucks and Swift benefit from each other's widespread popularity.⁴

Starbucks has new control challenges as it expands its delivery services. Customers who order by delivery want their coffee at the right temperature, looking and tasting the same as if they ordered it in a Starbucks store. Starbucks formed partnerships with Uber Eats and DoorDash as a way to expand its delivery service in the United States. Launching a partnership required more work than directing Starbucks's customers to the DoorDash app. Starbucks and DoorDash piloted their partnership in Atlanta, Houston, Sacramento, Seattle, and New York to ensure processes were in place and revised them until they could meet customers' expectations. Once these locations met these standards, they gradually expanded to other markets prior to being fully available nationwide in March 2023.⁵ It is important to Starbucks when partnering with other businesses to assure orders are delivered to customers with the same level of quality as orders consumed in or picked up from a Starbucks café.

Starbucks also controls the customers' experiences on social media. In fact, Starbucks uses social media to create a sense of community among Starbucks customers. Starbucks takes pride in responding to customer feedback, complaints, suggestions, and drink ideas on social media. It also collaborates with influencers and celebrities, who promote products and attract new customers to Starbucks.⁶ For example, videos of Ed Sheeran picking up a shift at a Starbucks can be found on Starbucks's social media page. The promotion helped launch the Pumpkin Spice Latte and allowed him to promote the release of a new album.⁷ The company's social media content is known for its high quality, creativity, and ability to communicate directly with customers, who get responses from Starbucks in ways that humanize the company. But more importantly, it works—half of millennials trust influencer product recommendations, 84 percent of people between the ages of 18 and 29 use at least one social media site, and the average person spends about 145 minutes daily on social media.⁸

Security is also an important issue for Starbucks. Keeping company assets (such as people, equipment, products, financial information, and so forth) safe and secure requires security controls. All partners share the

responsibility to follow all safety rules and practices; to cooperate with officials who enforce those rules and practices; to take necessary steps to protect themselves and other partners; to attend required safety training; and to report immediately all accidents, injuries, and unsafe practices or conditions. When hired, each partner is provided with a manual that covers safety, security, and health standards, and they are trained on the requirements outlined in the manual. In addition, managers receive ongoing training about these issues and are expected to keep employees up-to-date on any changes. And at any time, any partner can contact the Partner and Asset Protection Department for information and advice.

One security area that has been particularly important to Starbucks has been cybersecurity, which is challenging when there are no in-store IT experts. Starbucks is known for being an early adopter of a bug bounty program that incentivizes security experts outside of Starbucks to identify cybersecurity problems affecting the company. Soon after Starbucks began offering bug bounty incentives, a security expert identified bugs in Starbucks's website. The issues identified would have allowed hackers to get customers' credit card information, hijack customer accounts, and change customers' passwords. By continuing its bug bounty program, Starbucks can identify and resolve cybersecurity problems quickly.⁹

Although Starbucks's control methods are well thought out, some thefts occur and are not detected right away. For instance, a Starbucks store manager in Wisconsin admitted to stealing store deposits totaling over \$37,000 over three months to pay off student loans and credit card debt. Theft problems can come from customers too. Two customers in northern California were suspected of stealing other customers' laptops in at least three Starbucks stores over a three-month period. Because trust is so important to customers' perceptions and to Starbucks's reputation, stopping any theft is an important task for Starbucks.¹⁰

Exemplary customer service also is a top priority at Starbucks. Partners are encouraged to strive to make every customer's experience pleasant and fulfilling and to treat customers with respect and dignity. What kinds of employee controls does Starbucks use to ensure that this happens? Partners are trained in and are required to follow all proper procedures relating to the storage, handling, preparation, and service of Starbucks's products. In addition, partners are told to notify their managers immediately if they see anything that suggests a product may pose a danger to the health or safety of themselves or customers. Partners are also taught the warning signs associated with possible workplace violence and how to reduce their vulnerability if faced with a potentially violent situation. In any circumstance where product or partner safety and security are threatened, store managers have been trained in the appropriate steps to take.

The final controls important to Starbucks's managers are performance and financial controls. Starbucks uses the

typical financial control measures (such as revenue growth and operating income), but also looks at same-store sales growth as a performance standard. Starbucks has directed its attention toward accomplishing its five-step reinvention plan, announced in fall 2022. The plan intends to expand delivery offerings, the value of the Rewards program, and equipment upgrades. Equipment upgrades will be gradually released to improve the barista's job, with 50 percent of the upgrades implemented in stores by the end of 2025. Starbucks also attained 7–9 percent same-store growth annually in the United States in 2022. It saw increases in its loyalty program despite increasing costs. Executives expect to remain price competitive by automating processes and increasing digital sales.¹¹

One continual challenge is trying to control store operating costs. There is a fine balance between keeping costs low and keeping quality high. Some costs are beyond the company's control (such as the rising cost of rent and coffee beans). Other costs—like employee benefits and digital advancements—are part of Starbucks's mission and strategy, so they are thought to be necessary. To offset costs, Starbucks is streamlining its process for making cold brew coffee by reducing the number of steps required with a process that automatically grinds and presses the coffee beans while also reducing waste. This and other innovations centered on automation help the company address the challenge of keeping costs as low as possible so as not to force price increases.¹²

In addition to the typical financial measures, corporate governance procedures and guidelines are important to Starbucks's financial controls, as they are at any public corporation. The company has identified guidelines for its board of directors with respect to responsibilities, processes, procedures, and expectations.

Starbucks's Value Chain: From Bean to Cup

The steaming cup of coffee placed in a customer's hand at any Starbucks starts as coffee beans (berries) plucked from fields of coffee plants. From harvest to storage to roasting to retail to cup, Starbucks depends on each participant in its value chain.

Starbucks offers a selection of coffees from around the world, and its coffee buyers personally travel to the coffee-growing regions of Latin America, Africa/Arabia, and Asia/Pacific to select and purchase the highest-quality arabica beans. Once the beans arrive at any one of the company's five roasting facilities in the United States (and one in Amsterdam), Starbucks's master professional roasters take over. These individuals know coffee and do their "magic" in balancing flavors and creating the company's rich signature roast coffee. There are many potential challenges to transforming the raw material into the product and experience that customers have come to expect. Weather, shipping and logistics, technology, and political instability are examples of factors with potential impact.¹³

One issue Starbucks gives high priority to is environmental protection. For instance, the company has phased out plastic straws, eliminating more than 1 billion straws worldwide. It also aims to increase the number of environmentally certified retail stores by 2025. And it invests in solar farms, like one in North Carolina that supplies solar power to 600 Starbucks stores across more than six states. Seventy-two percent of the global company-operated facilities in 2022 were powered by renewable energy. To minimize Starbucks's environmental footprint throughout its supply chain, suppliers are asked to sign a code of conduct that deals with certain expectations in business standards and practices.

Starbucks has continually prioritized developing a greener cup for its beverages but failed to meet its 2022 goals. Developing recyclable paper cups or creating a program where customers bring their reusable coffee cups remains an unfulfilled priority. Reusable coffee cup initiatives are being experimented with in the United States and worldwide as a way to replace paper cups until a technology can be developed to recycle them. Starbucks hopes automation and reusable cup programs will make significant progress toward these sustainability goals, and cups are key, with an estimated 7 billion disposable ones used each year. Sustainability obviously means eliminating disposable single-use cups.¹⁴

Discussion Questions

- P6-1.** What might need to be different in Starbucks's control process due to customers' shifting preference for more and faster drive-through windows, mobile ordering options, and delivery services at its stores? What specific measures of performance might be needed with the drive-through service that are not as relevant to mobile ordering or Uber Eats and DoorDash sales? What are control issues that Starbucks may need to address related to its Uber Eats and DoorDash offerings?
- P6-2.** How could Starbucks use social media to practice effective levels of feedforward control, concurrent control, and feedback control? Which social media platform would be most effective for younger customers? Older customers?
- P6-3.** What companies might make good benchmarks for Starbucks's (a) drive-through and (b) mobile ordering? Why? What companies might want to benchmark Starbucks's in-store business? Why?
- P6-4.** What "red flags" might indicate significant deviations from the standard for (a) a store manager, (b) a supplier, (c) the executive in charge

of sustainability, (d) the executive vice president of finance, and (e) the CEO? Are there any similarities? Why or why not?

- P6-5.** Go to the Starbucks Investor Relations homepage (<https://investor.starbucks.com/ir-home/default.aspx>) and use Starbucks's most current financial statements to calculate the following financial ratios: current ratio, debt to assets, inventory turnover, total asset turnover, profit margin on sales, and return on investment. What do these ratios tell managers? Investors?
- P6-6.** Can Starbucks afford to ask its managers to put a high priority on controlling sustainability? If so, why? If not, why not?

Practice Your Data Analysis Skills

A coffee business started by three friends caught on and grew to over 50 locations. Last year, the stores started to plan the launch of a social media campaign on a particular social media site after a local university student turned influencer went viral on the site with a video about the company's seasonal coffee blend. At the moment, 135,000 of their followers (50 percent) are women between the ages of 16 and 22, but the coffee business would like to have a larger and more balanced audience. Analytics have revealed that their customers are more active on the social media site during the fall and winter holidays. The goal is to grow social media followers at each of the 50 locations by 5,000 to 6,500 fans between October 1 and December 31. To increase the number of followers, a local coffee-loving influencer in each of the 50 locations was hired to present the business's seasonal products to their audience creatively. Some influencers plan to talk coffee with their audience from their preferred social media platforms from 9 a.m. to 10 a.m. Others were encouraged to post content of their own creation on specific days during the specified time frame. Each influencer will be paid \$250 per sponsored post or product review up to two posts per week.

- P6-7.** What weekly benchmark should the coffee business set to evaluate whether the 5,000 to 6,500 fan increase per location goal will be met by the different influencers? How achievable is this weekly goal?
- P6-8.** What is the cost per fan added for the coffee business if (a) 5,000 and (b) 6,500 fans are added at each location? (Assume two posts are made per week by each influencer.)

- P6-9.** Assume the industry standard for paying influencers uses the following schedule:
- Nano influencers (1,000–10,000 followers): \$10–100 per post.
 - Micro influencers (10,000–50,000 followers): \$100–500 per post.
 - Mid-tier influencers (50,000–500,000 followers): \$500–5,000 per post.¹⁵

Based on this information, how effective do you think the coffee business's social media plan is?

- P6-10.** Recommend some controls you would implement to increase the number of fans outside the demographic of women between the ages of 16 and 22. Would you recommend that different controls be implemented to increase the number of fans outside the demographic of women between the ages of 16 and 22? Explain.

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Glossary

A

- Absenteeism** The failure to show up for work
- Acceptance view of authority** Authority comes from the willingness of subordinates to accept it
- Active listening** Listening for full meaning without making premature judgments or interpretations
- Activities** The time or resources needed to progress from one event to another in a PERT network
- Adjourning** The final stage of group development for temporary groups, during which group members are concerned with wrapping up activities rather than task performance
- Affective component** That part of an attitude that relates to emotions or feelings
- Analytics** The use of mathematics, statistics, predictive modeling, and machine learning to find meaningful patterns and knowledge in a data set
- Artificial intelligence (AI)** Hardware or software systems that learn to make decisions and carry out actions on behalf of the people that operate the systems
- Assessment centers** A set of performance-simulation tests designed to evaluate a candidate's managerial potential
- Association of Southeast Asian Nations (ASEAN)** A trading alliance of 10 Southeast Asian nations
- Assumed similarity** The assumption that others are like oneself
- Attitudes** Evaluative statements, either favorable or unfavorable, concerning objects, people, or events
- Attitude surveys** Surveys that elicit responses from employees through questions about how they feel about their jobs, work groups, supervisors, or the organization
- Attribution theory** A theory used to explain how we judge people differently depending on what meaning we attribute to a given behavior
- Authentic leadership** Leaders who know who they are, know what they believe in, and act on those values and beliefs openly and candidly
- Authority** The rights inherent in a managerial position to tell people what to do and to expect them to do it
- Autocratic style** A leader who dictates work methods, makes unilateral decisions, and limits employee participation
- Autonomy** The degree to which a job provides substantial freedom, independence, and discretion to the individual in scheduling work and determining the procedures to be used in carrying it out

B

- Balanced scorecard** A performance measurement tool that looks at performance from more than just the financial perspective
- Basic corrective action** Corrective action that looks at how and why performance deviated before correcting the source of deviation
- BCG matrix** A strategy tool that guides resource-allocation decisions on the basis of market share and growth rate of different business units within a company
- Behavior** The actions of people
- Behavioral component** That part of an attitude that refers to an intention to behave in a certain way toward someone or something
- Behavioral science theorists** Researchers who engaged in *objective* research of human behavior in organizations
- Behavioral theories of leadership** Theories that identify behaviors that differentiate effective leaders from ineffective leaders
- Benchmark** The standard of excellence against which to measure and compare
- Benchmarking** Identifying, analyzing, and adopting the best practices from other organizations that lead to their superior performance
- Bias** A tendency or preference toward a particular perspective or ideology
- Big data** Huge and complex sets of data
- Big Five Model** Personality trait model that includes extraversion, agreeableness, conscientiousness, emotional stability, and openness to experience
- Bounded rationality** Decision making that's rational but limited (bounded) by an individual's ability to process information
- Breakeven analysis** A technique for identifying the point at which total revenue is just sufficient to cover total costs
- Breakthrough innovation** An innovation that creates a new market where one did not exist before
- Budget** A numerical plan for allocating resources to specific activities
- Budgeting** The process of allocating resources to pay for designated future costs
- Bureaucracy** A form of organization characterized by division of labor, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships
- Business model** How a company uses resources to create value for customers and generate profits
- Business model canvas (BMC)** A tool to define and communicate a business idea or innovation

Business plan A written document that summarizes a business opportunity and defines and articulates how the identified opportunity is to be seized and exploited

C

Capabilities An organization's skills and abilities in doing the work activities needed in its business

Cascading objectives The organization's overall objectives are translated into specific objectives for each succeeding level

Centralization The degree to which decision making is concentrated at upper levels of the organization

Chain of command The line of authority extending from upper organizational levels to the lowest levels, which clarifies who reports to whom

Change agent Someone who acts as a catalyst and assumes the responsibility for managing the change process

Channel The medium a message travels along

Charismatic leader Someone to whom followers attribute heroic or extraordinary leadership abilities when they observe certain behaviors and tend to give power

Classical approach First studies of management, which emphasized rationality and making organizations and workers as efficient as possible

Classical view of social responsibility The view that management's only social responsibility is to maximize profits

Closed systems Systems that are not influenced by and do not interact with their environment

Closely held corporation A corporation owned by a limited number of people who do not trade the stock publicly

Code of ethics A formal statement of an organization's primary values and the ethical rules it expects its employees to follow

Coercive power The power a leader has to punish or control

Cognitive component That part of an attitude that's made up of the beliefs, opinions, knowledge, or information held by a person

Cognitive dissonance Any incompatibility or inconsistency between attitudes or between behavior and attitudes

Commitment concept Plans should extend far enough to meet those commitments made when the plans were developed

Communication The transfer and understanding of meaning

Communication networks The variety of patterns of vertical and horizontal flows of organizational communication

Communication process The seven elements involved in transferring meaning from one person to another

Competitive advantage What sets an organization apart; its distinctive edge

Competitive intelligence Gathering information about competitors that allows managers to anticipate competitors' actions

Competitive strategy An organizational strategy for how an organization will compete in its business(es)

Compliance officer The person responsible for ensuring an organization conducts its business in full compliance with all national and internal laws and regulations

Compressed workweek A workweek where employees work longer hours per day but fewer days per week

Conceptual skills The ability to think and to conceptualize about abstract and complex situations

Concurrent control Control that takes place while a work activity is in progress

Conflict Perceived incompatible differences that result in interference or opposition

Consideration The extent to which a leader has work relationships characterized by mutual trust and respect for group members' ideas and feelings

Contingency approach A management approach that recognizes organizations as different, which means they face different situations (contingencies) and require different ways of managing

Contingent workers Outsourced and non-permanent workers who are hired on a temporary basis

Contrast effect Potentially distorted perceptions based on comparisons to others

Control process A three-step process of measuring actual performance, comparing actual performance against a standard, and taking managerial action to correct deviations or inadequate standards

Controlling Management function that involves monitoring, comparing, and correcting work performance

Core competencies An organization's major value-creating capabilities that determine its competitive weapons

Corporate compliance The process of making sure an organization and its employees follow the laws, regulations, standards, and ethical practices

Corporate governance The system used to govern a corporation so that the interests of corporate owners are protected

Corporate strategy An organizational strategy that determines what businesses a company is in or wants to be in and what it wants to do with those businesses

Corporation A legal business entity that is separate from its owners and managers

Counterproductive workplace behavior Any intentional employee behavior that is potentially damaging to the organization or to individuals within the organization

Creativity The ability to combine ideas in a unique way or to make unusual associations between ideas

- Credibility** The degree to which followers perceive someone as honest, competent, and able to inspire
- Critical path** The longest sequence of activities in a PERT network
- Cross-functional team** A work team composed of individuals from various functional specialties
- Crowdsourcing** Relying on a network of people outside of the organization for ideas via the internet

D

- Dark Triad** The three personality traits of Machiavellianism, narcissism, and psychopathy
- Debt financing** Borrowing money with a promise to pay it back with interest
- Decentralization** The degree to which lower-level employees provide input or actually make decisions
- Decision** A conclusion or resolution made after considering alternatives
- Decision criteria** Criteria that define what's important or relevant to resolving a problem
- Decisional roles** Managerial roles that revolve around making choices
- Decoding** Retranslating a sender's message
- Decruitment** Reducing an organization's workforce
- Deep learning** Use of algorithms to create a hierarchical level of artificial neural networks that simulate functions of the human brain
- Deep-level diversity** Differences in values, personality, and work preferences
- Democratic style** A leader who involves employees in decision making, delegates authority, and uses feedback as an opportunity for coaching employees
- Departmentalization** The basis by which jobs are grouped together
- Design thinking** Approaching management problems as designers approach design problems
- Diagonal communication** Communication that cuts across work areas and organizational levels
- Digital transformation** The process of rethinking how to use technology, people, and processes to accomplish the work of the organization
- Directional plans** Plans that are flexible and set out general guidelines
- Disciplinary actions** Actions taken by a manager to enforce the organization's work standards and regulations
- Discrimination** When someone acts out their prejudicial attitudes toward people who are the targets of their prejudice
- Disruptive innovation** Innovations in products, services, or processes that radically change an industry's rules of the game
- Distributive justice** Perceived fairness of the amount and allocation of rewards among individuals
- Division of labor (job specialization)** The breakdown of jobs into narrow and repetitive tasks

- Divisional structure** An organizational structure made up of separate, semiautonomous units or divisions
- Downward communication** Communication that flows downward from a manager to employees
- Dysfunctional conflicts** Conflicts that prevent a group from achieving its goals

E

- Effectiveness** Doing those work activities that will result in achieving goals
- Efficiency** Getting the most output from the least amount of inputs or resources
- Ego strength** A personality measure of the strength of a person's convictions
- Electronic performance monitoring** Using electronic instruments or devices to collect, store, analyze, and report individual or group performance
- Emergent leadership** When the leader of a group or team naturally arises instead of being appointed
- Emotional intelligence (EI)** The ability to notice and to manage emotional cues and information
- Emotions** Intense feelings that are directed at someone or something
- Employee empowerment** Giving employees more authority to make decisions
- Employee engagement** When employees are connected to, satisfied with, and enthusiastic about their jobs
- Employee productivity** A performance measure of both efficiency and effectiveness
- Employee recognition program** a plan to encourage specific behaviors by formally appreciating specific employee contributions
- Employee resource group (ERG)** A voluntary, employee-led subgroup within an organization that shares distinctive qualities, interests, or goals
- Employee theft** Any unauthorized taking of company property by employees for their personal use
- Encoding** Converting a message into symbols
- Entrepreneurial mindset** Having an inclination to discover, evaluate, and take advantage of opportunities
- Entrepreneurship** The process of starting new businesses, generally in response to opportunities
- Environment** Institutions or forces that are outside the organization and potentially affect the organization's performance
- Environmental complexity** The number of components in an organization's environment and the extent of the organization's knowledge about those components
- Environmental scanning** Screening large amounts of information to detect emerging trends and create a set of scenarios
- Environmental uncertainty** The degree of change and complexity in an organization's environment
- Equity** Approach to addressing unique circumstances to create equal outcomes or opportunities

Equity financing Selling a percentage of ownership in the company

Equity theory The theory that an employee compares their job's input–outcomes ratio with those of relevant others and then corrects any inequity

Esteem needs A person's needs for internal factors, such as self-respect, autonomy, and achievement, and external factors, such as status, recognition, and attention

Ethics Moral principles that define right and wrong conduct

Ethnicity The social and culture factors—including nationality, regional culture, and ancestry—that define the groups a person belongs to

Ethnocentric attitude The parochial belief that the best work approaches and practices are those of the home country

European Union (EU) A union of 27 European nations created as a unified economic and trade entity

Events End points that represent the completion of major activities in a PERT network

Evidence-based management (EBMgt) The systematic use of the best available evidence to improve management practice

Expectancy theory The theory that an individual tends to act in a certain way based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome to the individual

Expert power Power that's based on expertise, special skills, or knowledge

Exporting Making products domestically and selling them abroad

F

Feasibility study An analysis of the various aspects of a proposed entrepreneurial venture designed to determine its feasibility

Feedback The degree to which carrying out work activities required by a job results in the individual's obtaining direct and clear information about his or her performance effectiveness

Feedback control Control that takes place after a work activity is done

Feedforward control Control that takes place before a work activity is done

Fiedler contingency model A leadership theory proposing that effective group performance depends on the proper match between a leader's style and the degree to which the situation allows the leader to control and influence

Filtering The deliberate manipulation of information to make it appear more favorable to the receiver

First mover An organization that's first to bring a product innovation to the market or to use a new process innovation

First-line (frontline) managers Managers at the lowest level of management who manage the work of nonmanagerial employees

Flextime A scheduling system in which employees work a specific number of hours per week and can vary their hours of work within limits

Forecasts Predictions of outcomes

Foreign subsidiary Directly investing in a foreign country by setting up a separate and independent production facility or office

Formal communication Communication that takes place within prescribed organizational work arrangements

Formalization How standardized an organization's jobs are and the extent to which employee behavior is guided by rules and procedures

Forming stage The first stage of group development in which people join the group and then define the group's purpose, structure, and leadership

Franchising An organization gives another organization the right to use its name and operating methods

Free market economy An economic system in which resources are primarily owned and controlled by the private sector

Functional conflicts Conflicts that support a group's goals and improve its performance

Functional structure An organizational design that groups together similar or related occupational specialties

Fundamental attribution error The tendency to underestimate the influence of external factors and overestimate the influence of internal factors when making judgments about the behavior of others

G

Gantt chart A scheduling chart developed by Henry Gantt that shows actual and planned output over a period of time

General Agreement on Tariffs and Trade (GATT) An agreement between countries that seeks to reduce or eliminate tariffs and other trade barriers

General environment Everything outside the organization

General partnership A form of legal organization in which two or more business owners share the management and risk of the business

Geocentric attitude A world-oriented view that focuses on using the best approaches and people from around the globe

Gig economy The labor market created by workers doing freelance work

Glass ceiling The invisible barrier that limits the level to which women and other demographic groups can advance within an organization

Global company An MNC that centralizes management and other decisions in the home country

Globalization A process by which organizations develop influence or operations across international borders

Global Leadership and Organizational Behavior Effectiveness (GLOBE) program The research program that studies cross-cultural leadership behaviors

Global sourcing Purchasing materials or labor from around the world wherever it is cheapest

Goal-setting theory The proposition that specific goals increase performance and that difficult goals, when accepted, result in higher performance than do easy goals

Grapevine The informal organizational communication network

Green management Managers considering the impact of their organization on the natural environment

Group Two or more interacting and interdependent individuals who come together to achieve specific goals

Group cohesiveness The degree to which group members are attracted to one another and share the group's goals

Groupthink When a group exerts extensive pressure on an individual to align their opinion with others' opinions

Growth strategy A corporate strategy that's used when an organization wants to expand the number of markets served or products offered, either through its current business(es) or through new business(es)

H

Halo effect A general impression of an individual based on a single characteristic

Hawthorne Studies A series of studies during the 1920s and 1930s that provided new insights into individual and group behavior

Heuristics Shortcuts that managers use to simplify or speed up decision making

Hierarchy of needs theory Maslow's theory that human needs—physiological, safety, social, esteem, and self-actualization—form a hierarchy and that each level in the needs hierarchy must be substantially satisfied before the next need becomes dominant

High-high leader A leader high in both initiating structure and consideration behaviors

High-involvement work practices Work practices designed to elicit greater input or involvement from workers

Holacracy An organizational structure that aims to distribute decision making throughout the organization by requiring teams or workgroups to manage themselves, rather than centralizing decision making in a traditional hierarchy

Human relations movement Management approach based on the belief that a satisfied worker is a productive worker

Human relations view of conflict The view that conflict is a natural and inevitable outcome in any group

Human resource planning Ensuring that the organization has the right number and kinds of capable people in the right places and at the right times

Hybrid work The practice of working remotely part of the time but working at the company's worksite as well

Hygiene factors Factors that eliminate job dissatisfaction, but don't motivate

I

Idea champions Individuals who actively and enthusiastically support new ideas, build support, overcome resistance, and ensure that innovations are implemented

Ideation The process of finding or creating new ideas

Immediate corrective action Corrective action that corrects problems at once to get performance back on track

Importing Acquiring products made abroad and selling them domestically

Inclusion Creating a welcoming, affirming, and respectful workplace

Incremental budgeting Process starting with the current budget from which managers decide whether they need additional resources and the justification for requesting them

Incubation The process of testing and validating an idea

Industrial Revolution A period during the late eighteenth century when machine power was substituted for human power, making it more economical to manufacture goods in factories than at home

Informal communication Communication that is not defined by the organization's structural hierarchy

Information overload When information exceeds our processing capacity

Informational roles Managerial roles that involve collecting, receiving, and disseminating information

Initiating structure The extent to which a leader defines their role and the roles of group members in attaining goals

Innovation Taking creative ideas and turning them into useful products or work methods

Interactionist view of conflict The view that some conflict is necessary for a group to perform effectively

International Monetary Fund (IMF) An organization of 190 countries that provides temporary loans to its members, facilitates international trade, and seeks to promote economic growth and reduce poverty

Internet of Things (IoT) A network of physical objects embedded with sensors and software that allows connections and sharing of data across systems and other devices over the internet

Interpersonal communication Communication between two or more people

Interpersonal roles Managerial roles that involve people and other duties that are ceremonial and symbolic in nature

Interpersonal skills The ability to work well with other people individually and in a group

Intuitive decision making Making decisions on the basis of experience, feelings, and accumulated judgment

ISO 9001 A series of international quality management standards that set uniform guidelines for processes to ensure products conform to customer and regulatory requirements

J

Jargon Specialized terminology or technical language that members of a group use to communicate among themselves

Job analysis A process that defines jobs and the behaviors necessary to perform them

Job characteristics model (JCM) A framework for analyzing and designing jobs that identifies five primary core job dimensions, their interrelationships, and their impact on outcomes

Job depth The degree of control employees have over their work

Job description (position description) A written statement that describes a job

Job design The way tasks are combined to form complete jobs

Job enlargement The horizontal expansion of a job by increasing job scope

Job enrichment The vertical expansion of a job by adding planning and evaluating responsibilities

Job involvement The degree to which an employee identifies with their job, actively participates in it, and considers their job performance to be important to self-worth

Job satisfaction An employee's general attitude toward their job

Job scope The number of different tasks required in a job and the frequency with which those tasks are repeated

Job sharing The practice of having two or more people split a full-time job

Job specification A written statement of the minimum qualifications a person must possess to perform a given job successfully

Joint venture A specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose

K

Key performance indicator (KPI) A measurable target aligned with strategic goals that indicates how the company is performing

Knowledge workers Trained professionals who use high-level knowledge to develop products or services

L

Labor union An organization that represents workers and seeks to protect their interests through collective bargaining

Laissez-faire style A leader who lets the group make decisions and complete the work in whatever way it sees fit

Lateral communication Communication that takes place among any employees on the same organizational level

Law of comparative advantage The economic proposition that a country should produce goods or service for which it has the lowest opportunity costs

Leader Someone who can influence others and who has managerial authority

Leader-member exchange theory (LMX) The leadership theory that says leaders create in-groups and out-groups and those in the in-group will have higher performance ratings, less turnover, and greater job satisfaction

Leader-member relations One of Fiedler's situational contingencies that describes the degree of confidence, trust, and respect employees have for their leader

Leadership A process of influencing a group to achieve goals

Leading Management function that involves working with and through people to accomplish organizational goals

Lean organization An organization that understands what customers want, identifies customer value by analyzing all activities required to produce products, and then optimizes the entire process from the customer's perspective

Learning Any relatively permanent change in behavior that occurs as a result of experience

Least-preferred coworker (LPC) questionnaire A questionnaire that measures whether a leader is task or relationship oriented

Legitimate power The power a leader has as a result of their position in the organization

Licensing An organization gives another organization the right to make or sell its products using its technology or product specifications

Limited liability company (LLC) A form of legal organization that's a hybrid between a partnership and a corporation

Limited liability partnership (LLP) A form of legal organization consisting of general partner(s) and limited liability partner(s)

Line authority Authority that entitles a manager to direct the work of an employee

Linear programming A mathematical technique that solves resource allocation problems

Load chart A modified Gantt chart that schedules capacity by entire departments or specific resources

Locus of control A personality attribute that measures the degree to which people believe they control their own fate

Long-term plans Plans of five years or more

M

Machiavellianism A measure of the degree to which people are pragmatic, maintain emotional distance, and believe that ends justify means

Machine learning A method of data analysis that automates analytical model building

Management Coordinating and overseeing the work activities of others so their activities are completed efficiently and effectively

Management by objectives (MBO) A system in which specific performance objectives are jointly determined by subordinates and their superiors, progress toward objectives is periodically reviewed, and rewards are allocated on the basis of this progress

Management information system (MIS) A system used to provide management with needed information on a regular basis

Manager Someone who coordinates and oversees the work of other people so organizational goals can be accomplished

Managerial grid A two-dimensional grid for appraising leadership styles

Managerial roles Specific actions or behaviors expected of and exhibited by a manager

Manufacturing organizations Organizations that produce physical goods

Mass customization Providing customers with a product when, where, and how they want it

Mass production The production of items in large batches

Matrix structure An organizational structure that assigns specialists from different functional departments to work on one or more projects

Mechanistic organization An organizational design that's rigid and tightly controlled

Mentoring A process whereby an experienced (typically senior) organizational member (a mentor) provides advice and guidance to a less-experienced member (a protégé)

Message A purpose to be conveyed

Middle managers Managers between first-line managers and the top level of the organization

Mission The purpose of an organization

Motivation The process by which a person's efforts are energized, directed, and sustained toward attaining a goal

Motivators Factors that increase job satisfaction and motivation

Multidomestic corporation An MNC that decentralizes management and other decisions to the local country

Multinational corporation (MNC) A broad term that refers to any and all types of international companies that maintain operations in multiple countries

Myers-Briggs Type Indicator® (MBTI®) A personality assessment instrument that classifies people in four categories

N

Narcissism A grandiose sense of self-importance, a need for excessive admiration, and arrogance

National culture The values and attitudes shared by individuals from a specific country that shape their behavior and beliefs about what is important

Nationalism Patriotic ideals and policies that glorify a country's values

Need for achievement (nAch) The drive to succeed and excel in relation to a set of standards

Need for affiliation (nAff) The desire for friendly and close interpersonal relationships

Need for power (nPow) The need to make others behave in a way that they would not have behaved otherwise

Noise Any disturbances that interfere with the transmission of a message

Nonprogrammed decisions Unique and nonrecurring decisions that require a custom-made solution

Norming stage The third stage of group development, characterized by close relationships and cohesiveness

Norms Standards or expectations that are accepted and shared by a group's members

North American Free Trade Agreement (NAFTA) An agreement among the Mexican, Canadian, and US governments in which barriers to trade were eliminated

O

Objectives (also called goals) Desired outcomes for individuals, groups, or entire organizations

Omnipotent view of management The view that managers are directly responsible for an organization's success or failure

Open systems Systems that interact with their environment

Open-book management A motivational approach in which an organization's financial statements are shared with all employees

Operant conditioning A theory of learning that says behavior is a function of its consequences

Operating agreement The document that outlines the provisions governing the way an LLC will conduct business

Operational plans Plans that specify the details of how the overall objectives are to be achieved

Operations management The transformation process that converts resources into finished goods and services

Opportunities Positive trends in the external environment

Organic organization An organizational design that's highly adaptive and flexible

Organisation for Economic Co-operation and Development (OECD) An international economic organization that helps its 38 member countries achieve sustainable economic growth and employment

Organization A deliberate arrangement of people to accomplish some specific purpose

Organizational behavior (OB) The study of the actions of people at work

Organizational change Any alteration of people, structure, or technology in an organization

Organizational chart The visual representation of an organization's structure

Organizational citizenship behavior (OCB) Discretionary behavior that is not part of an employee's formal job requirements, but that promotes the effective functioning of the organization

- Organizational commitment** The degree to which an employee identifies with a particular organization and its goals and wishes to maintain membership in that organization
- Organizational communication** All the patterns, networks, and systems of communication within an organization
- Organizational culture** The shared values, principles, traditions, and ways of doing things that influence the way organizational members act and that distinguish the organization from other organizations
- Organizational design** Creating or changing an organization's structure
- Organizational development (OD)** Change methods that focus on people and the nature and quality of interpersonal work relationships
- Organizational effectiveness** A measure of how appropriate organizational goals are and how well those goals are being met
- Organizational performance** The accumulated results of all the organization's work activities
- Organizational structure** The formal arrangement of jobs within an organization
- Organizing** Management function that involves arranging and structuring work to accomplish the organization's goals
- Orientation** Introducing a new employee to their job and the organization

P

- Parochialism** Viewing the world solely through your own perspectives, leading to an inability to recognize differences between people
- Path-goal theory** A leadership theory that says the leader's job is to assist followers in attaining their goals and to provide direction or support needed to ensure that their goals are compatible with the goals of the group or organization
- Pay-for-performance programs** Compensation plans that vary with some measure of individual or organizational performance
- Perceived organizational support** Employees' general belief that their organization values their contribution and cares about their well-being
- Perception** A process by which we give meaning to our environment by organizing and interpreting sensory impressions
- Performance** The end result of an activity
- Performing stage** The fourth stage of group development, when the group is fully functional and works on the group's task
- Personality** The unique combination of emotional, thought, and behavioral patterns that affect how a person reacts to situations and interacts with others
- Persuasion skills** Skills that enable a person to influence others to change their minds or behavior
- PERT network** A flowchart diagram showing the sequence of activities needed to complete a project and the time or cost associated with each
- Physiological needs** A person's needs for food, drink, shelter, sexual satisfaction, and other physical requirements
- Planned economy** An economic system in which economic decisions are planned by a central government
- Planning** Management function that involves setting goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate activities
- Policy** A guideline for making decisions
- Polycentric attitude** The view that the managers in the host country know the best work approaches and practices for running their business
- Position power** One of Fiedler's situational contingencies that describes the degree of influence a leader has over activities such as hiring, firing, discipline, promotions, and salary increases
- Prejudice** A preconceived belief, opinion, or judgment toward a person or a group of people
- Principles of management** Fundamental rules of management that could be applied in all organizational situations and taught in schools
- Proactive personality** A personality trait that describes individuals who have a disposition toward taking intentional action to influence their situation or environment
- Proactive perspective of work design** An approach to job design in which employees take the initiative to change how their work is performed
- Problem** A discrepancy between an existing and a desired condition
- Problem-solving team** A team from the same department or functional area that's involved in efforts to improve work activities or to solve specific problems
- Procedural justice** Perceived fairness of the process used to determine the distribution of rewards
- Procedure** A series of sequential steps used to respond to a well-structured problem
- Process conflict** Conflict over how work gets done
- Process production** The production of items in continuous processes
- Productivity** The amount of goods or services produced divided by the inputs needed to generate that output
- Programmed decision** A repetitive decision that can be handled by a routine approach
- Progressive disciplinary action** Discipline that moves sequentially through steps to ensure that the minimum penalty to an offense is imposed
- Project** A one-time-only set of activities that has a definite beginning and ending point in time
- Project management** The task of getting a project's activities done on time, within budget, and according to specifications

Project structure An organizational structure in which employees continuously work on projects

Psychopathy A lack concern for others and a lack guilt or remorse when actions cause harm

Pulse survey A short employee attitude survey sent to employees at a regular interval, such as weekly

Q

Qualitative forecasting Forecasting that uses the judgment and opinions of knowledgeable individuals to predict outcomes

Quality The ability of a product or service to reliably do what it's supposed to do and to satisfy customer expectations

Quantitative approach The use of quantitative techniques to improve decision making

Quantitative forecasting Forecasting that applies a set of mathematical rules to a series of past data to predict outcomes

R

Race Physical characteristics, such as bone structure, skin color, or eye color

Range of variation The acceptable parameters of variance between actual performance and the standard

Rational decision making Deciding on choices that are logical and consistent and maximize value

Readiness The extent to which people have the ability and willingness to accomplish a specific task

Reading skills The ability to understand written sentences and paragraphs in work-related documents

Realistic job preview (RJP) A preview of a job that provides both positive and negative information about the job and the company

Real objectives Objectives that an organization actually pursues, as defined by the actions of its members

Recruitment Locating, identifying, and attracting capable applicants

Referent power Power that arises because of a person's desirable resources or personal traits

Referents The persons, systems, or selves against which individuals compare themselves to assess equity

Reinforcement theory The theory that behavior is a function of its consequences

Reinforcers Consequences immediately following a behavior, which increase the probability that the behavior will be repeated

Relational perspective of work design An approach to job design that focuses on how people's tasks and jobs are increasingly based on social relationships

Relationship conflict Conflict based on interpersonal relationships

Reliable selection device A selection device that measures the same thing consistently

Remote work The practice of accomplishing work tasks away from the company's worksite

Renewal strategy A corporate strategy designed to address declining performance

Resources An organization's assets—including financial, physical, human, and intangible—that are used to develop, manufacture, and deliver products to its customers

Responsibility The obligation or expectation to perform assigned duties

Reward power The power a leader has to give positive rewards

Role Behavior patterns expected of someone occupying a given position in a social unit

Rule An explicit statement that tells managers what can or cannot be done

S

S corporation A specialized type of corporation that has the regular characteristics of a corporation but is unique in that the owners are taxed as a partnership as long as certain criteria are met

Safety needs A person's needs for security and protection from physical and emotional harm

Satisfice To choose solutions that are satisfactory and sufficient or "good enough"

Scenario A consistent view of what the future is likely to be

Scenario plans Plans involving making assumptions about the future and determining how the company will respond

Scheduling Detailing what activities have to be done, the order in which they are to be completed, who is to do each, and when they are to be completed

Scientific management An approach that involves using the scientific method to find the "one best way" for a job to be done

Selection Screening job applicants to ensure that the most appropriate candidates are hired

Selective perception Biased perception based on our interests, background, experience, and attitudes

Self-actualization needs A person's need to become what they are capable of becoming

Self-efficacy An individual's belief that they are capable of performing a task

Self-esteem An individual's degree of like or dislike for themselves

Self-managed work team A work team that operates without a manager and is responsible for a complete work process or segment

Self-monitoring A personality trait that measures the ability to adjust behavior to external situational factors

Self-serving bias The tendency for individuals to attribute their own successes to internal factors while putting the blame for failures on external factors

Servant leadership Leadership that goes beyond self-interest and focuses on opportunities to help followers grow and develop

Service organizations Organizations that produce non-physical products in the form of services

- Sexual harassment** Any unwanted action or activity of a sexual nature that explicitly or implicitly affects an individual's employment, performance, or work environment
- Shanghai Cooperation Organization** An eight-nation cooperative made up of China, India, Pakistan, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan
- Shaping behavior** The process of guiding learning in graduated steps using reinforcement or lack of reinforcement
- Short-term plans** Plans covering less than one year
- Simple structure** An organizational design with little departmentalization, wide spans of control, centralized authority, and little formalization
- Single-use plan** A one-time plan specifically designed to meet the needs of a unique situation
- Situational leadership theory (SLT)** A leadership contingency theory that focuses on followers' readiness
- Six Sigma** A quality program designed to reduce defects and help lower costs, save time, and improve customer satisfaction
- Skill variety** The degree to which a job requires a variety of activities so that an employee can use a number of different skills and talents
- Skill-based pay** A pay system that rewards employees for the job skills they can demonstrate
- Skunk works** A small group within a large organization, given a high degree of autonomy and unhampered by corporate bureaucracy, whose mission is to develop a project primarily for the sake of radical innovation
- Slack time** The amount of time an individual activity can be delayed without delaying the whole project
- Social entrepreneurship** An entrepreneurial activity with an embedded social purpose
- Social learning theory** A theory of learning that says people can learn through observation and direct experience
- Social loafing** The tendency for individuals to expend less effort when working collectively than when working individually
- Social needs** A person's needs for affection, belongingness, acceptance, and friendship
- Social obligation** Meeting economic and legal responsibilities and no more
- Social-person approaches** Management theories that focus on the organization's human and social factors
- Social responsibility** A firm's obligation, beyond that required by the law and economics, to pursue long-term goals that are good for society
- Social responsiveness** Adapting to changing societal conditions
- Socialization** A process that helps new employees learn the organization's way of doing things
- Socioeconomic view of social responsibility** The view that management's social responsibility goes beyond making profits to include protecting and improving society's welfare
- Sole proprietorship** A form of legal organization in which the owner maintains sole and complete control over the business and is personally liable for business debts
- Span of control** The number of employees a manager can efficiently and effectively manage
- Speaking skills** The ability to communicate information and ideas by talking so others will understand
- Specific environment** The part of the environment consisting of crucial constituencies or stakeholders that can positively or negatively influence an organization's effectiveness
- Specific plans** Plans that are clearly defined and leave no room for interpretation
- Stability strategy** A corporate strategy in which an organization continues to do what it is currently doing
- Staff authority** Positions created to support, assist, and advise those holding line authority
- Standing plans** Ongoing plans that provide guidance for activities performed repeatedly
- Stated objectives** Official statements of what an organization says and what it wants various publics to believe
- Static plans** Plans made under the assumption that the business environment and internal conditions will remain unchanged
- Status** A prestige grading, position, or rank within a group
- Stereotyping** Judging a person based on a perception of a group to which that person belongs
- Storming stage** The second stage of group development, characterized by intragroup conflict
- Strategic alliance** A partnership between an organization and foreign company partner(s) in which both share resources and knowledge in developing new products or building production facilities
- Strategic business unit (SBU)** The single independent businesses of an organization that formulate their own competitive strategies
- Strategic management** The formulation and implementation of initiatives by top management that will allow the organization to achieve its goals
- Strategic management process** A five-step process that encompasses strategic planning, implementation, and evaluation
- Strategic plans** Plans that apply to the entire organization, that establish the organization's overall objectives, and that seek to position the organization in terms of its environment
- Strategies** The plans for how the organization will do what it's in business to do, how it will compete successfully, and how it will attract and satisfy its customers in order to achieve its goals
- Strengths** Any activities the organization does well or its unique resources
- Strong cultures** Organizational cultures in which the key values are intensely held and widely shared
- Structured problems** Straightforward, familiar, and easily defined problems

Supply chain management The process of managing the efficient flow of incoming materials to the organization

Surface-level diversity Easily perceived differences that may trigger certain stereotypes, but that do not necessarily reflect the ways people think or feel

Sustaining innovation Small and incremental changes in established products rather than dramatic breakthroughs

SWOT analysis An analysis of the organization's strengths, weaknesses, opportunities, and threats

Symbolic view of management The view that much of an organization's success or failure is due to external forces outside managers' control

System A set of interrelated and interdependent parts arranged in a manner that produces a unified whole

T

Task conflict Conflicts over content and goals of the work

Task identity The degree to which a job requires completion of a whole and identifiable piece of work

Task significance The degree to which a job has a substantial impact on the lives or work of other people

Task structure One of Fiedler's situational contingencies that describes the degree to which job assignments are formalized and structured

Team structure An organizational structure in which the entire organization is made up of work teams

Technical skills Job-specific knowledge and techniques needed to proficiently perform work tasks

Telecommuting A work arrangement in which employees work at home and are linked to the workplace by computer

Theory X The assumption that employees dislike work, are lazy, avoid responsibility, and must be coerced to perform

Theory Y The assumption that employees are creative, enjoy work, seek responsibility, and can exercise self-direction

Therbligs A classification scheme for labeling basic hand motions

Threats Negative trends in the external environment

Three-needs theory The motivation theory that says three acquired (not innate) needs—achievement, power, and affiliation—are major motives in work

Three-step change process Unfreezing the status quo, changing to a new state, and refreezing to make the change permanent

Top managers Managers at or near the upper levels of the organizational structure who are responsible for making organization-wide decisions and establishing the strategy and goals that affect the entire organization

Total quality management (TQM) A philosophy of management that is driven by continuous improvement and responsiveness to customer needs and expectations

TPP A trade agreement among 12 nations, including the United States, Canada, Mexico, and Japan

Traditional objective setting Objectives are set at the top and then broken down into subgoals for each level of an organization

Traditional view of authority A superior's right to exact compliance from subordinates develops at the top and moves down through an organization

Traditional view of conflict The view that all conflict is bad and must be avoided

Transactional leaders Leaders who lead primarily by using social exchanges (or transactions)

Transformational leaders Leaders who stimulate and inspire (transform) followers to achieve extraordinary outcomes

Transnational or borderless organization An MNC in which artificial geographical barriers are eliminated

Trust The belief in the integrity, character, and ability of a leader

Turnover The voluntary and involuntary permanent withdrawal from an organization

Two-factor theory (motivation–hygiene theory) The motivation theory that proposes intrinsic factors are related to job satisfaction and motivation, whereas extrinsic factors are associated with job dissatisfaction

U

Unconscious bias Deeply engrained beliefs about others that one is not aware of but that influence attitudes and behaviors

Unit production The production of items in units or small batches

United States–Mexico–Canada Agreement (USMCA) An update on the original NAFTA agreement between the United States, Mexico, and Canada

Unity of command The management principle that each person should report to only one manager

Universality of management The reality that management is needed in all types and sizes of organizations, at all organizational levels, in all organizational areas, and in all organizations worldwide

Unstructured problems Problems that are new or unusual and for which information is ambiguous or incomplete

Upward communication Communication that flows upward from employees to managers

V

Valid selection device A selection device characterized by a proven relationship to some relevant criterion

Value The performance characteristics, features, attributes, and any other aspects of goods and services for which customers are willing to give up resources

Value chain The entire series of organizational work activities that add value at each step from raw materials to finished product

Value chain management The process of managing the sequence of activities and information along the entire value chain

Value proposition A statement that explains how the innovation satisfies a customer need

Values Basic convictions about what is right and wrong

Variable pay A pay system in which an individual's compensation is contingent on performance

Virtual organization An organization that consists of a small core of full-time employees and outsources its major business functions

Virtual reality (VR) A three-dimensional, interactive, computer-generated experience that takes place within a simulated environment

Virtual team A work team that uses computer technology to link physically dispersed members and achieve a common goal

VUCA An acronym describing an environment of non-stop volatility, uncertainty, complexity, and ambiguity

W

Weaknesses Activities the organization does not do well or resources it needs but does not possess

Whistle-blowing An act of an individual within an organization who discloses information in order to report and correct corruption

Work sample tests Hands-on simulations of part or all the work that workers in a job routinely must perform

Work specialization Dividing work activities into separate job tasks

Work teams Groups whose members work intensely on a specific, common goal using their positive synergy, individual and mutual accountability, and complementary skills

Workforce diversity The ways in which people in an organization are different from and similar to one another

World Bank A financial institution that provides assistance to countries around the world

World Economic Forum Annual meeting that brings together several thousand of the world's leaders to find solutions to economic, social, and political problems

World Trade Organization (WTO) A global organization of 164 countries that deals with the rules of trade among nations

Writing skills Communicating effectively in text that is most appropriate for its audience

Z

Zero-based budgeting (ZBB) Process starting with an established point of zero rather than using the current budget as the basis for adding, modifying, or subtracting resources

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