activebook™ experience

Table of Contents

Go to Student View
Search
Rate the Difficulty
System Req's

Management (activebook), 7/e

Stephen P. Robbins Mary Coulter

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter Outline

Go to Student View
Table of Contents
Chapter Contents
Search
Rate the Difficulty
In the News
Internet Exercises
Robbins OnLine Learning System (R.O.L.L.S.)
Faculty Resources
Misc. Resources

Chapter 1: Introduction to Management and Organizations

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...

Surprise!! Surprise!!! The Internet is Not Always Efficient (05/18/01)

Management Lessons from the Dot.com Frenzy (11/03/00)

Moving beyond E-Commerce to E-Business (04/05/00)

The Best Corporate Reputations in America (12/02/99)

100 Best Companies to Work for in America (01/12/99)

By the Way - Your Staff Hates You (01/05/99)

Virtual Teams: Technology and the Workplace of the Future (12/10/98)

Will A Fight With Pilots Throw U.S. Airways Into Reverse? (06/05/97)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Management and the Web (11/08/00)

Total Quality Management (09/22/99)

Streamlining the Internet for Executive Work (08/03/99)

Exploring Organization Design (12/18/98)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...	
	Instructors Manual - chap01.doc
	Lecture Presentation - chap01.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Modules - modules.doc
	Preface - preface.doc
	Self Assessment Library 2.0 - selfas.doc
	Table of contents - toc.doc

Add to...	Just for Students

Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> What's Ahead

A Manager's Dilemma

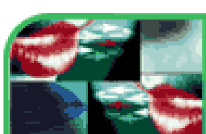
You might be surprised to find the passionate emphasis placed on people management at a CPA firm.[1] Yet, at Lipschultz, Levin & Gray, self-described "head bean counter," Steven P. Siegel, recognizes that his people make the organization. He describes his primary responsibility as assuring that LLG's clients have the best professionals working for them. And the best way to do this, Siegel feels, is by developing the creativity, talent, and diversity of its staff so that new knowledge can be acquired and shared without getting hung up on formal organizational relationships or having employees shut away in corner offices.

Siegel has implemented several significant changes at LLG. Because he's convinced that people do their best intellectual work in nontraditional settings, every telltale sign of what most people consider boring, dull CPA work has been eliminated. None of the firm's employees or partners has an office or desk to call his or her own. Instead, everyone is part of a nomadic group that wheels stuff (files, phones, laptops) to a new spot every day. Everywhere you look in the company's office, you see versatility, comfort, and eccentricity. For instance, a miniature golf course is located in the middle of everything. The motivation behind this open office design is to create opportunities for professionals to gather—on purpose or by accident—without walls, cubicles, or offices to get in the way.

Visitors to LLG realize that the firm is different as soon as they walk in the door. A giant wall-mounted abacus (remember the image of bean counters) decorates the interior. And visitors are greeted by a "Welcome Wall" with a big-screen television that flashes a continuous slide show of one-liners about business, life, and innovation.

Keeping professionals excited about work that can be routine and standardized is a major challenge for Siegel. Now put yourself in Siegel's shoes. What managerial skills would you use to maintain an environment that encourages innovation and professionalism in his CPA firm?

What would you do?



click here to explore now

active poll <

Before you begin reading this chapter, try a short warm-up activity.

click here to explore now

objectives <

Take a moment to familiarize yourself with the key objectives of this chapter.

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Steven Siegel is an excellent example of what today's successful managers are like and the skills they must have in dealing with the problems and challenges of managing in the twenty-first century. These managers may not be what you might expect! They can be found from under age 18 to over 80. They run large corporations as well as entrepreneurial start-ups. They're found in government departments, hospitals, small businesses, not-for-profit agencies, museums, schools, and even such nontraditional organizations as political campaigns and consumer cooperatives. Managers can also be found doing managerial work in every country on the globe. In addition, some managers are at the top level of their organizations whereas others are near the bottom, and today they are just as likely to be women as they are men. However, although women are well represented in the lower and middle levels of management, the number in top executive positions remains low. Data collected by Catalyst, a nonprofit research group, found that only 11.9 percent of corporate officers at the 500 largest U.S. companies are women. That figure drops to 5.1 percent if you look at only the elite top-level managerial jobs of chairman, president, chief executive officer, chief operating officer, and executive vice president. A number of organizations including Southwest Airlines, Avon, Hewlett-Packard, Kraft Foods, Xerox, and Golden West Financial have taken significant steps to attract and promote women executives.[2] But no matter where managers are found or what gender they are, the fact is that managers have exciting jobs!

This book is about the fun, exciting, and challenging work that Steven Siegel and millions of other managers like him do. It recognizes the reality facing today's managers—that management is changing. In workplaces of all types—factories, offices, restaurants, retail stores, and the like—new technologies and new ways of organizing work are radically altering old approaches. This new world has changed how work is done and the relationship between workers and managers. In this chapter, we introduce you to managers and management by looking at who managers are, what management is, what managers do, and what an organization is. Finally, we'll wrap up the chapter by discussing why it's important to study management.

> Who Are Managers?

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*; the latter term described those organizational members who worked directly on a job or task and had no one reporting to them. But it isn't quite that simple anymore! The changing nature of organizations and work has, in many organizations, blurred the clear lines of distinction between managers and nonmanagerial employees. Many traditional jobs now include managerial activities, especially on teams. For instance, team members often develop plans, make decisions, and monitor their own performance. And as these nonmanagerial employees assume responsibilities that traditionally were part of management, definitions we've used in the past no longer describe every type of managerial situation.

How *do* we define who managers are? A manager is someone who works with and through other people by coordinating their work activities in order to accomplish organizational goals. 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 composed of people from several different departments or even people outside the organization such as temporary employees or employees who work for the organization's suppliers. Keep in mind, also, that managers may have other work duties not related to coordinating and integrating the work of others. For example, an insurance claims supervisor may also process claims in addition to coordinating the work activities of other claims clerks.

Is there some way to classify managers in organizations? There is, particularly for traditionally structured organizations—that is, those organizations in which the number of employees is greater at the bottom than at the top. (These types of organizations are often pictured as being shaped like a pyramid.) As shown in Exhibit 1.1, we typically describe managers as first-line, middle, or top in this type of organization. Identifying exactly who the managers are in these organizations isn't difficult, although you should be aware that managers may have a variety of titles. First-line managers are the lowest level of management and manage the work of non-managerial individuals who are involved with the production or creation of the organization's products. They're often called *supervisors* but may also be called line managers, office managers, or even foremen. Middle managers include all levels of management between the first-line level and the top level of the organization. These managers manage the work of first-line managers and may have titles such as department head, project leader, plant manager, or division manager. At or near the top of the organization are the top managers, who are responsible for making organization-wide decisions and establishing the plans and goals that affect the entire organization. These individuals typically have titles such as executive vice president, president, managing director, chief operating officer, chief executive officer, or chairman of the board. In the chapter-opening case, Steven Siegel is a top-level manager. He holds the title of managing member and is involved in creating and implementing broad and comprehensive changes that affect the entire organization.

Exhibit 1.1 **Organizational Levels**

Why are organizations visualized as pyramids? Does this pyramidal shape reflect the new realities of what organizations are like?

Throughout this book, we'll be discussing organizations and managers from this more traditional pyramidal perspective, although not all organizations may reflect this arrangement. But even organizations that are more flexibly and loosely configured need individuals to fulfill the role of manager—that is, someone who works with and through other people by coordinating their work to accomplish organizational goals.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> What Is Management?

Simply speaking, management is what managers do. However, this simple statement doesn't tell us much. We define management as the process of coordinating work activities so that they are completed efficiently and effectively with and through other people. Let's look at some specific parts of this definition.

The *process* represents the ongoing functions or primary activities engaged in by managers. These functions are typically labeled planning, organizing, leading, and controlling. We'll elaborate on these functions and the management process when we discuss what managers do.

We already know that the second part of the definition—coordinating the work of others—is what distinguishes a managerial position from a nonmanagerial one. In addition, management involves the efficient and effective completion of organizational work activities, or at least that's what managers aspire to do.

Efficiency refers to getting the most output from the least amount of inputs. Because managers deal with scarce inputs—including resources such as people, money, and equipment—they are concerned with the efficient use of those resources. For instance, at the Beiersdorf Inc. factory in Cincinnati, where employees make body braces and supports, canes, walkers, crutches, and other medical assistance products, efficient manufacturing techniques were implemented by cutting inventory levels, decreasing the amount of time to manufacture products, and lowering product reject rates. These efficient work practices paid off as the company was named one of *Industry Week's* best plants.[3] From this perspective, efficiency is often referred to as "doing things right"—that is, not wasting resources. However, it's not enough just to be efficient. Management is also concerned with being effective, completing activities so that organizational goals are attained. Effectiveness is often described as "doing the right things"—that is, those work activities that will help the organization reach its goals. For instance, at the Beiersdorf factory, goals included open communication between managers and employees and cutting costs. Through various work programs, these goals were pursued *and* achieved. Whereas efficiency is concerned with the means of getting things done, effectiveness is concerned with the ends, or attainment of organizational goals (see Exhibit 1.2). Management is concerned, then, not only with getting activities completed and meeting organizational goals (effectiveness) but also with doing so as efficiently as possible. In successful organizations, high efficiency and high effectiveness typically go hand in hand. Poor management is most often due to both inefficiency and ineffectiveness or to effectiveness achieved through inefficiency.

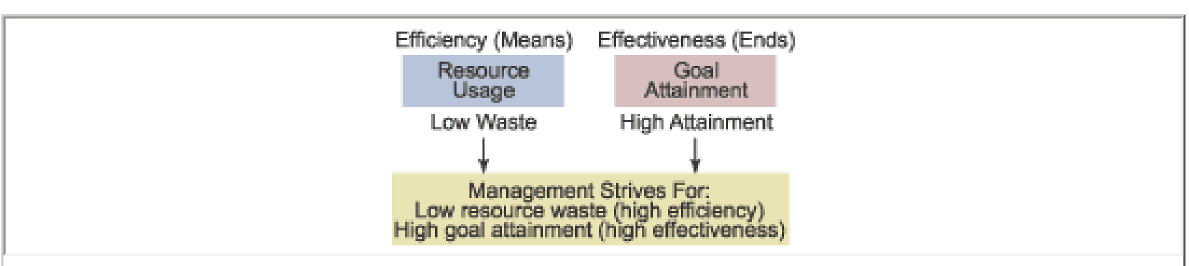


Exhibit 1.2	Efficiency and Effectiveness in Management

click here to explore now

active poll

What do you think? Voice your opinion and find out what others have to say.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 << previous | next >>

> What Do Managers Do?

Describing what managers do isn't an easy or simple task! Just as no two organizations are alike, no two managers' jobs are alike. But management writers and researchers have, after many years of study, developed some specific categorization schemes to describe what managers do. What are these categorization schemes? We're going to look at what managers do in terms of functions and process, roles, skills, managing systems, and situational analysis.

Management Functions and Process

In the early part of the twentieth century, a French industrialist by the name of Henri Fayol proposed that all managers perform five management functions: planning, organizing, commanding, coordinating, and controlling.[4] In the mid-1950s, a management textbook first used the functions of planning, organizing, staffing, directing, and controlling as a framework. Most management textbooks (and this one is no exception) still continue to be organized around the management functions, although they have been condensed down to four basic and very important functions: planning, organizing, leading, and controlling (see Exhibit 1.3). Let's briefly define what each of these management functions encompasses.

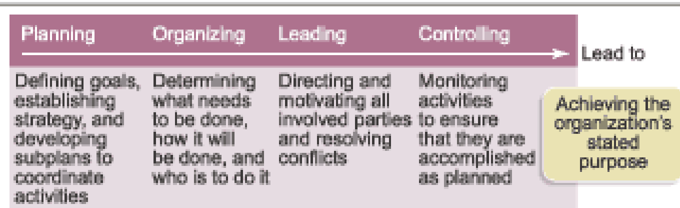


Exhibit 1.3 Management Functions

If you have no particular destination in mind, then you can take any road. However, if you have someplace in particular you want to go, then you've got to plan the best way to get there. Because organizations exist to achieve some particular purpose, someone must clearly define that purpose and the means for its achievement. Management is that someone. The planning function involves the process of defining goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate activities.

Managers are also responsible for arranging work to accomplish the organization's goals. We call this function organizing. It involves the process of determining 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 includes people, and management's job is to work with and through people to accomplish organizational goals. This is the leading function. When managers motivate subordinates, influence individuals or teams as they work, select the most effective communication channel, or deal in any way with employee behavior issues, they are leading.

The final management function managers perform is controlling. After the goals are set and the plans are formulated (planning), the structural arrangements determined (organizing), and the people hired, trained, and motivated (leading), there has to be some evaluation of whether things are going as planned. To ensure that work is going as it should, managers must monitor and evaluate performance. Actual performance must be compared with the previously set goals. If there are any significant deviations, it's management's job to get work performance back on track. This process of monitoring, comparing, and correcting is what we mean by the controlling function.

The reality of managing isn't quite as simplistic as these descriptions of the management functions might lead you to believe. There are no simple, cut-and-dried beginning or ending points as managers plan, organize, lead, and control. As managers do their jobs, they often find themselves doing some planning, some organizing, some leading, and some controlling, and maybe not even in that sequential order. It's probably more realistic to describe the functions managers perform from the perspective of a process. The management process is the set of ongoing decisions and work activities in which managers engage as they plan, organize, lead, and control. What this means is that as managers manage, their work activities are usually done in a continuous manner—that is, in a process.

The continued popularity of the functional and process approaches to describe what managers do is a tribute to their clarity and simplicity—managers plan, organize, lead, and control. But are these descriptions accurate?[5] Let's look at another perspective.

Management Roles

Henry Mintzberg, a prominent management researcher, says that what managers do can best be described by looking at the roles they play at work.[6] From his study of actual managers at work, Mintzberg developed a categorization scheme for defining what managers do. He concluded that managers perform 10 different but highly interrelated roles. The term management roles refers to specific categories of managerial behavior. (Think of the different roles you play and the different behaviors you're expected to exhibit and play in these roles as a student, a sibling, an employee, a volunteer, and so forth.) As shown in Exhibit 1.4, Mintzberg's 10 managerial roles can be grouped as those primarily concerned with interpersonal relationships, the transfer of information, and decision making.

Role	**Description**	**Examples of Identifiable Activities**
Interpersonal		
Figurehead	Symbolic head; obliged to perform a number of routine duties of a legal or social nature	Greeting visitors; signing legal documents
Leader	Responsible for the motivation of subordinates responsible for staffing, training, and associated duties	Performing virtually all activities that involve subordinates

Liaison	Maintains self-developed network of outside contacts and informers who provide favors and information	Acknowledging mail; doing external board work; performing other activities that involve outsiders
Informational		
Monitor	Seeks and receives wide variety of internal and external information to develop thorough understanding of organization and environment	Reading periodicals and reports; maintaining personal contacts
Disseminator	Transmits information received from outsiders or from subordinates to members of the organization	Holding informational meetings; making phone calls to relay information
Spokesperson	Transmits information to outsiders on organization's plans, policies, actions, results, etc.	Holding board meetings; giving information to the media
Decisional		
Entrepreneur	Searches organization and its environment for opportunities and initiates "improvement projects" to bring about changes	Organizing strategy and review sessions to develop new programs
Disturbance handler	Responsible for corrective action when organization faces important, unexpected disturbances	Organizing strategy and review sessions that involve disturbances and crises
Resource allocator	Responsible for the allocation of organizational resources of all kinds—making or approving all significant organizational decisions	Scheduling; requesting authorization; performing any activity that involves budgeting and the programming of subordinates' work
Negotiator	Responsible for representing the organization at major negotiations	Participating in union contract negotiations

Exhibit 1.4 **Mintzberg's Managerial Roles**

Source: H. Mintzberg, *The Nature of Managerial Work* (New York: Harper & Row, 1973), pp. 93-94.

The interpersonal roles are roles that involve people (subordinates and persons outside the organization) and other duties that are ceremonial and symbolic in nature. The three interpersonal roles include being a figurehead, leader, and liaison. The informational roles involve receiving, collecting, and disseminating information. The three informational roles include a monitor, disseminator, and spokesperson. Finally, the decisional roles revolve around making choices. The four decisional roles include entrepreneur, disturbance handler, resource allocator, and negotiator.

A number of follow-up studies have tested the validity of Mintzberg's role categories among different types of organizations and at different levels within given organizations.[7] The evidence generally supports the idea that managers—regardless of the type of organization or level in the organization—perform similar roles. However, the emphasis that managers give to the various roles seems to change with their organizational level.[8] Specifically, the roles of disseminator, figurehead, negotiator, liai-son, and spokesperson are more important at the higher levels of the organization; 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 to describing what managers do is correct—functions or roles? Each has merit. However, the functional approach still represents the more useful way of conceptualizing the manager's job. "The classical functions provide clear and discrete methods of classifying the thousands of activities that managers carry out and the techniques they use in terms of the functions they perform for the achievement of goals."[9] Many of Mintzberg's roles align smoothly with one or more of the functions. For instance, resource allocation is part of planning, as is the entrepreneurial role, and all three of the interpersonal roles are part of the leading function. Although most of the other roles fit into one or more of the four functions, not all of them do. The difference can be explained by the fact that all managers do some work that isn't purely managerial.[10] Our decision to use the management functions to describe what managers do doesn't mean that Mintzberg's role categories are invalid as he clearly offered new insights into managers' work.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management Skills

As you can see from the preceding discussion, a manager's job is varied and complex. Managers need certain skills to perform the duties and activities associated with being a manager. What types of skills does a manager need? Research by Robert L. Katz found that managers need three essential skills or competencies.[11] Technical skills include knowledge of and proficiency in a certain specialized field, such as engineering, computers, accounting, or manufacturing. These skills are more important at lower levels of management since these managers are dealing directly with employees doing the organization's work. Human skills involve the ability to work well with other people both individually and in a group. Because managers deal directly with people, this skill is crucial! Managers with good human skills are able to get the best out of their people. They know how to communicate, motivate, lead, and inspire enthusiasm and trust. These skills are equally important at all levels of management. Finally, conceptual skills are the skills managers must have to think and to conceptualize about abstract and complex situations. Using these skills, managers must be able to see the organization as a whole, understand the relationships among various subunits, and visualize how the organization fits into its broader environment. These skills are most important at the top management levels. Exhibit 1.5 shows the relationship of these skills and the levels of management.

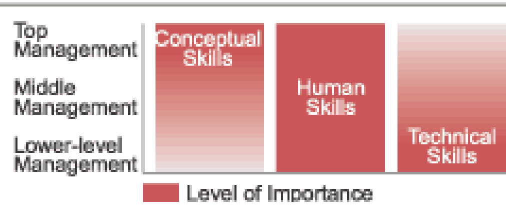


Exhibit 1.5 **Skills Needed at Different Management Levels**

How relevant are management skills to today's managers? In today's demanding and dynamic workplace, employees who are invaluable to an organization must be willing to constantly upgrade their skills and take on extra work outside their own specific job area. There's no doubt that skills will continue to be an important way of describing what a manager does. In fact, understanding and developing management skills are so important that we've incorporated a condensed skills feature in the text. The skills we've chosen to feature in these skill-building modules reflect a broad cross section of managerial activities that we and most experts believe are important elements of the four management functions. A matrix showing the relationship between these skills and the management functions is shown in Exhibit 1.6. Note that many of the skills are important to more than one function. As you study the management functions in more depth in later chapters of the book, you'll have the opportunity to practice some of the key skills that are part of doing what a manager does. Although no skill-building module can make you an instant expert in a certain area, these exercises can provide you an introductory understanding and appreciation of some of the skills you'll need to master in order to be an effective manager.

	Function			
Skill	**Planning**	**Organizing**	**Leading**	**Controlling**
Acquiring power		√	√	
Active listening			√	√
Assessing cross-cultural differences		√	√	
Budgeting	√			√
Choosing an effective leadership style			√	
Coaching			√	
Creating effective teams		√	√	
Delegating (empowerment)		√	√	
Designing motivating jobs		√	√	
Developing trust			√	
Disciplining			√	√
Interviewing		√	√	
Managing resistance to change		√	√	√
Managing time	√			√
Mentoring			√	
Negotiating			√	
Providing feedback			√	
Reading an organization's culture		√	√	
Running productive meetings	√	√	√	√
Scanning the environment	√			√
Setting goals	√			√
Solving problems creatively	√			

Exhibit 1.6	Management Skills and Management Functions Matrix

Managing Systems

Another way to look at the manager's job is from the perspective of managing systems. A system is a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. It's a concept taken from the physical sciences and applied to organizations. The two basic types of systems are closed and open. Closed systems are not influenced by and do not interact with their environment. In contrast, open systems dynamically interact with their environment. Today, when we call organizations systems, we mean open systems, that is, an organization that constantly interacts with its environment. Exhibit 1.7 shows a diagram of an organization from an open systems perspective. As you can see, an organization takes in inputs (resources) from the environment and transforms or processes these resources into outputs that are distributed into the environment. The organization is "open" to its environment and continually interacts with that environment.

Exhibit 1.7 **The Organization as an Open System**

How does the systems perspective add to our understanding of what managers do? Systems researchers envisioned an organization as being made up of "interdependent factors, including individuals, groups, attitudes, motives, formal structure, interactions, goals, status, and authority."[12] Using this approach, then, the job of a manager is to coordinate the work activities of the various parts of the organization and ensure that all the interdependent parts of the organization are working together so that the organization's goals can be achieved.

In addition, the systems view of a manager's job implies that decisions and actions taken in one organizational area will affect others and vice versa (this is the interdependency characteristic of systems). For instance, no matter how efficient an organization's production department might be, if the marketing department does not anticipate changes in consumer tastes and work with the product development department in creating products consumers want, the organization's overall performance will suffer.

Finally, an important part of a manager's job is recognizing and understanding the impact of the various external factors. The open systems approach recognizes that organizations are not self-contained. They rely on their environment for essential inputs and as sources to absorb their outputs. No organization can survive for long if it ignores government regulations, supplier relations, or the varied external constituencies upon which it depends. (We'll cover these external environmental forces in Chapter 3 as we discuss how managers must understand the environment and the constraints it imposes.)

Just how relevant is the systems approach for describing what a manager does? It appears to be quite relevant, particularly since a manager's job entails working with and through other people by coordinating various work activities so that the system (the organization) meets its goals. Think, for example, of a day-shift manager at a local Wendy's restaurant who every day must coordinate the work of individuals taking and filling customer orders at the front counter and the drive-through windows, direct the delivery and unloading of food supplies, and address any customer concerns that come up. The manager "manages" all the parts of this "system" so that the restaurant's daily sales goals are met. Although the systems perspective doesn't provide specific descriptions of what managers do, it does provide a more general and broader picture than other perspectives do. Moreover, viewing the manager's job as linking the organization to its environment makes the organization appear more sensitive and responsive to its key constituencies such as customers, suppliers, government agencies, the community, and so forth.

Managing in Different and Changing Situations

Management is not (and cannot be) based on simplistic principles. Different and changing situations require managers to use different approaches and techniques. Managing an entrepreneurial start-up requires different actions and decisions than managing a departmental work team in a large corporate setting. The contingency perspective (sometimes called the situational approach) of management underscores and emphasizes the fact that because organizations are different, they face different circumstances (contingencies) and, thus, may require different ways of managing. Therefore, when we describe what managers do from this perspective, we're recognizing that managers must "read" and attempt to interpret the situational contingencies facing them before deciding the best way to work with and through others as they coordinate work activities.

A contingency approach to describing what managers do is intuitively logical because organizations and even units within the same organization are diverse—in size, objectives, work being done, 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 it depends upon. Management researchers have been working to identify these "what" variables. Exhibit 1.8 describes four popular contingency variables. The list is by no means comprehensive—more than 100 different "what" variables have been identified—but it represents those most widely used and gives you an idea of what we mean by the term *contingency variable*. As you can see from this short list, the contingency variables can have a significant impact on what managers do. The primary value of the contingency approach to describing what managers do is that it stresses that there are no simplistic or universal rules for managers to follow in doing their jobs. Instead, a manager's job involves managing different and changing situations, and managers' actions should be appropriate for the situations in which they find themselves.

click here to explore now

video example

If situations are all different, how can we have a common body of knowledge about it?

Organization Size. The number of people in an organization is a major influence on what managers do. As size increases, so do the problems of coordination. For instance, the type of organization structure appropriate for an organization of 50,000 employees is likely to be inefficient for an organization of 50 employees

Routineness of Task Technology. To achieve its purpose, an organization uses technology; that is, it engages in the process of transforming inputs into outputs. 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 political, technological, sociocultural, and economic 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.

Exhibit 1.8 **Popular Contingency Variables**

Summary of Multiple Perspectives on the Manager's Job

As we've shown throughout this section, a manager's job can be described from various perspectives: functions, roles, essential skills, systems, and contingencies. Each approach provides a different perspective on the manager's job. Although we'll use the functions approach as our framework for our study of management, we're not just forgetting the other perspectives! You'll see aspects of each as we discuss various management topics in the rest of the book.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 1

go to page: 5

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> What Is an Organization?

Managers work in organizations. If there were no organizations, there would be no need for managers. What is an organization? An organization is a deliberate arrangement of people to accomplish some specific purpose. Your college or university is an organization; so are fraternities and sororities, government departments, churches, Amazon.com, your neighborhood video store, the United Way, the Colorado Rockies baseball team, and the Mayo Clinic. These are all organizations because they all share three common characteristics as shown in Exhibit 1.9.

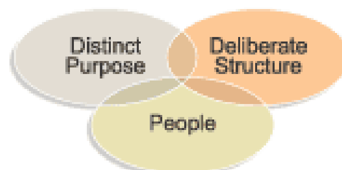


Exhibit 1.9 **Characteristics of Organizations**

First, each organization has a distinct purpose. This purpose is typically expressed in terms of a goal or a set of goals that the organization hopes to accomplish. Second, each organization is composed of people. One person working alone is not an organization, and it takes people to perform the work that's necessary for the organization to achieve its goals. Third, all organizations develop some deliberate structure so that their members can do their work. That structure may be open and flexible, with no clear and precise delineations of job duties or strict adherence to any explicit job arrangements—in other words, it may be a simple network of loose relationships. Or the structure may be more traditional with clearly defined rules, regulations, and job descriptions, and some members may be identified as "bosses" who have authority over other members. But no matter what type of structural arrangement an organization uses, it does require some deliberate structure so members' work relationships are clarified. In summary, the term *organization* refers to an entity that has a distinct purpose, includes people or members, and has some type of deliberate structure.

The 2000 U.S. women's national soccer team is an organization. How? It has a distinct purpose, includes people, and has a deliberate structure.

Although these three characteristics are important to our definition of *what* an organization is, the concept of an organization is changing. It's no longer appropriate to assume that all organizations are going to be structured like Procter & Gamble, Exxon-Mobil, or General Motors, with clearly identifiable divisions, departments, and work units. In fact, one of GM's subsidiaries, Saturn Corporation, may be more characteristic of what contemporary organizations look like, with its flexible work arrangements, employee work teams, open communication systems, and supplier alliances. Just how is the concept of an organization changing? Exhibit 1.10 lists some differences between traditional organizations and new organizations. As these comparisons show, today's organizations are becoming more open, flexible, and responsive to changes.[13]

Traditional Organization	New Organization
• Stable	• Dynamic
• Inflexible	• Flexible
• Job-focused	• Skills-focused
• Work is defined by job positions	• Work is defined in terms of tasks to be done
• Individual-oriented	• Team-oriented
• Permanent jobs	• Temporary jobs
• Command-oriented	• Involvement-oriented
• Managers always make decisions	• Employees participate in decision making
• Rule-oriented	• Customer-oriented
• Relatively homogeneous workforce	• Diverse workforce
• Workdays defined as 9 to 5	• Workdays have no time boundaries
• Hierarchical relationships	• Lateral and networked relationships
• Work at organizational facility during specific hours	• Work anywhere, anytime

Exhibit 1.10 **The Changing Organization**

Why are organizations changing? Because the world around them has changed and is continuing to change. Societal, economic, global, and technological changes have created an environment in which successful organizations (those that consistently attain their goals) must embrace new ways of getting work done. Examples of how the world is changing include the increased dependence on e-business models and approaches, continuing spread of information technology and its impact on workplaces, increasing globalization, and changing employee expectations. Even though the concept of organizations may be changing, managers and management continue to be important to organizations.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 << previous | next >>

> Why Study Management?

You may be wondering why you need to study management. If you're an accounting major, a marketing major, or any major other than management, you may not understand how studying management is going to help you in your career. We can explain the value of studying management by looking at the universality of management, the reality of work, and the rewards and challenges of being a manager.

The Universality of Management

Just how universal is the need for management in organizations? 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, no matter in what country they're located. This is known as the universality of management. (See Exhibit 1.11.) Managers in all these settings will plan, organize, lead, and control. However, this is not to say that management is done the same way in all these scenarios. The differences in what a supervisor in a software applications testing facility at Cisco Systems does versus what the president of Cisco does are a matter of degree and emphasis, not of function. Because both are managers, both will plan, organize, lead, and control.

Figure 1.11 Universal Need for Management

Since management is universally needed in all organizations, we have a vested interest in improving the way organizations are managed. Why? We interact with organizations every single day of our lives. Does it frustrate you when you have to spend three hours in a department of motor vehicles office to get your driver's license renewed? Are you irritated when none of the salespeople in a department store seem interested in helping you? Do you get annoyed when you call an airline three times and its sales representatives quote you three different prices for the same trip? These are all examples of problems created by poor management. Organizations that are well managed—and we'll share many examples of these throughout the text—develop a loyal customer base, grow, and prosper. Those that are poorly managed find themselves with a declining customer base and reduced revenues. By studying management, you'll be able to recognize poor management and work to correct it. In addition, you'll be able to recognize good management and encourage it, whether it's in an organization with which you're simply interacting or whether it's in an organization in which you're employed.

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 on management careers, an understanding of the management process forms the foundation upon which to build your management skills. For those of you who don't see yourself in a management position, you are still likely to have to deal with managers. Assuming that you will have to work for a living and recognizing that you are very likely to work in an organization, you'll probably have some managerial responsibilities even if you're not a manager. Our experience tells us that you can gain a great deal of insight into the way your boss behaves and the internal workings of organizations by studying management. Our point is that you don't have to aspire to be a manager to gain something valuable from a course in management.

Rewards and Challenges of Being a Manager

We can't leave our discussion of the value of studying management without looking at the rewards and challenges of being a manager. (See Exhibit 1.12.) What *does* it mean to be a manager?

Rewards	Challenges
• Create a work environment in which organizational members can work to the best of their ability	• Do hard work
• Have opportunities to think creatively and use imagination	• Have to deal with a variety of personalities
• Help others find meaning and fulfillment in work	• Often have to make do with limited resources
• Support, coach, and nurture others	• Motivate workers in chaotic and uncertain situations
• Work with a variety of people	• Successfully blend knowledge, skills, ambitions, and experiences of a diverse work group
• Receive recognition and status in organization and community	• Success depends on others' work performance
• Play a role in influencing organizational outcomes	
• Receive appropriate compensation in form of salaries, bonuses, and stock options	
• Good managers are needed by organizations	

Exhibit 1.12 **Rewards and Challenges of Being a Manager**

Being a manager in today's dynamic workplace presents many challenges. Being a manager *is* hard work. It can be a tough and often thankless job. You may have to deal with a variety of personalities and often have to make do with limited resources. It can be a challenge to motivate workers in the face of uncertainty and chaos. And managers may find it difficult to effectively blend the knowledge, skills, ambitions, and experiences of a diverse group of employees. Finally, as a manager, your success typically depends on others' work performance.

Despite these seemingly difficult challenges, being a manager *can be* very rewarding. The most important work of any organization anywhere is creating a work environment in which organizational members can do their work to the best of their ability and help the organization achieve its goals. And managers get to do that! In addition, as a manager, you often have the opportunity to think creatively and use your imagination. You help others find meaning and fulfillment in their work. You get to support, coach, and nurture others and help them make good decisions. Also, as a manager, you'll get to meet and work with a variety of people—both inside and outside the organization. Other rewards of being a manager may include receiving recognition and status in the organization and in the community, playing a role in influencing organizational outcomes, and receiving appropriate compensation in the form of salaries, bonuses, and stock options. Finally, organizations need good managers. Nothing great ever happens alone! It's through the combined efforts of motivated and passionate people working together that organizations accomplish their goals. As a manager, you can get satisfaction from knowing that your efforts, skills, and abilities are needed.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 1

go to page: 7

[Go to Student View](#)
[Table of Contents](#)
[Chapter Contents](#)
[Search](#)
[Add Annotation](#)
[View Annotations](#)
[Rate the Difficulty](#)

> Chapter Wrap-Up

You had a chance to voice your opinion about Steven P. Siegel's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Shannon McMurtrey
President
McMurtrey/Whitaker & Associates, Inc., Springfield, Missouri

[Not working? Get Quicktime](#)

I see the task of managing people and their careers as bordering on "sacred ground." I agree with Siegel in his recognition of his responsibility to his customers to ensure that they have the best professionals working for them. I would extend his view to encompass the responsibility that he has to his employees.

I view a major part of my responsibility as a manager as helping my employees fulfill their capacities as humans. I do not see them as "cogs in the professional

James G. Amalfitano, Esq.
Vice President of National Accounts
ILX Systems, New York, New York

[Not working? Get Quicktime](#)

In a CPA firm, professionalism is important. Clients trust that the individuals working on their account are competent and skilled. Even though the setting may have changed, the goal of producing the best intellectual work and acquiring and retaining business shouldn't have changed. The managerial skills that Siegel should use to maintain an environment of innovation and professionalism include emphasizing the importance of building and maintaining client trust, letting employees know the expectations,

services wheel" that turn solely on the whims of our clients. I find that our employees produce outstanding results for our clients whey they feel that they can serve in an environment that allows them to grow and excel. With that said, I would agree with Siegel's approach in creating a fun, stimulating work environment. I would suggest that he add opportunities for professional development, training, and continuing education; allow significant personal time that can be used for employees' families or their own growth; and spend time with each employee to get to know him or her personally and professionally.	and reviewing employees on their merit. To build client trust, Siegel should review the reasons why clients trusted their business to the organization all along. Then Siegel should emphasize to employees why it's important to continue to do those things. To let employees know the expectations, Siegel should make them aware of the guidelines for working in such a nontraditional setting. Although the eccentric workplace will be stimulating for professional creativity, there will be times when employees need to focus on serious business situations that call for more traditional approaches. Finally, employees need to know that they are productive and that they are recognized as contributors. Therefore, evaluations should be customized to the new organizational style.

> end-of-chapter resources

- Chapter Summary
- Video Q & A
- Practice Quiz
- Key Terms
- Thinking About Management Issues
- Log on: Internet Based Exercise
- Working Together: Team Based Exercise
- Case Application

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter Outline

Go to Student View
Table of Contents
Chapter Contents
Search
Rate the Difficulty
In the News
Internet Exercises
Robbins OnLine Learning System (R.O.L.L.S.)
Faculty Resources
Misc. Resources

Chapter 2: Management Yesterday and Today

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Do Unto Others as You Would Have Them Do Unto You (06/04/02)
	Temporary Workers Go Uncounted In Twin Towers (01/30/02)
	When Family Businesses Last for Generations (04/13/01)
	Kraft's New CEO Is One Streetwise Lady (02/15/01)
	You're Fired! (02/22/99)
	100 Best Companies to Work for in America (01/04/99)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Managing Diversity Today and Tomorrow (05/23/02)
	Effective Communication Strategies--A Powerful Tool For Leadership (04/10/01)

Language Classes Help Smooth the Communications for Both Employees and Managers (04/10/01)

Using the Internet to Influence Organizational Stakeholders (12/02/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap02.doc

Lecture Presentation - chap02.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

Modules - modules.doc

Preface - preface.doc

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Add to... Just for Students

Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter 2

go to page: 1

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> What's Ahead

A Manager's Dilemma

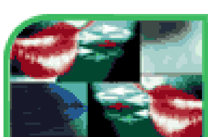
Toyota Motor Corporation is renowned worldwide for its many outstanding business accomplishments.[1] Many experts have tried to decipher the keys to Toyota's successes. Assessments of the company demonstrate over and over again that Toyota's successes can be attributed to finely tuned and coordinated work activities. For instance, manufacturing work processes, activities, and production flows are rigidly scripted yet exceedingly flexible and adaptable. How can a rigid system also be flexible? As Toyota has discovered over five decades of being in business, it's those very rigid manufacturing specifications that nourish and preserve employees' work flexibility and creativity. However, the creativity and innovation behind Toyota's manufacturing system pales in comparison to the project Shigeki Tomoyama and a fellow engineer pioneered—a proj-ect so momentous that it had the potential to transform Toyota into one of the New Economy's most daring players.

In a small office in Toyota city, Tomoyama and Akio Toyoda (the son of Honorary Chairman Shoichiro Toyoda) put together a simple computer network that allowed car dealers to display online photos of used Toyotas. Through their innovative approach, the number of consumers looking at the used cars increased. Test marketing showed that the use of the computer reduced the average stay of a used car on dealers' lots from 90 days to 10 days.

From this simple beginning, their Web site, now called Gazoo.com, has become one of Japan's most popular online portals. The company's Gazoo.com division has more than 50 vendors and 500,000 members. Over 2,000 new members sign up every day. The Web site is so popular that over 13,000 convenience stores want Gazoo.com terminals placed in their stores. Through these Gazoo kiosks, customers place orders and pick up their deliveries later at the store.

Put yourself in Tomoyama's position. How can he make sure that Gazoo.com maintains its innovation and flexibility—two important organizational characteristics needed for success in this new e-business venture?

What Would You Do?



click here to explore now

active poll <

Before you begin reading this chapter, try a short warm-up activity.

Take a moment to familiarize yourself with the key objectives of this chapter.

go to page: 1 2 3 4 5 6 7 8 9 next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

Toyota's push into Web-based operations isn't all that unusual today. Many other organizations, large and small, have made similar commitments to understanding the challenges and rewards of doing business on the Web. The practice of management has always reflected the times and social conditions, so now we are seeing organizations responding to technology breakthroughs and developing Web-based operations. These new business models reflect today's reality: Information can be shared and exchanged instantaneously anywhere on the planet. Although Tomoyama must build an organizational division that is flexible and innovative, he recognizes that it's not always easy to implement new ideas. In fact, the history of management practice is filled with examples of evolutions and revolutions in implementing new ideas about how organizations should be managed.

The purpose of this chapter is to demonstrate that a knowledge of management history can help you understand today's management theory and practice. We'll introduce you to the origins of many contemporary management concepts and show how they have evolved to reflect the changing needs of organizations and society as a whole. We'll also introduce important trends and issues that managers currently face in order to link the past with the future and to demonstrate that the field of management is still evolving.

> Management's Connection to Other Fields of Study

Why do college faculty make you take courses in psychology or political science if you're a business major? College courses frequently appear to be independent bodies of knowledge. Too often, little of what is taught in one course is linked to other courses. As a result, many students don't believe that they need to remember what they've previously learned. This has been especially true in most business curriculums. There is typically a lack of connectedness between core business courses and between other business courses and liberal arts courses. Accounting classes, for instance, make little reference to marketing; and marketing classes typically make little reference to courses in economics or political science. College curriculums resemble a group of silos with each silo representing a separate and distinct discipline. However, a number of management educators have begun to recognize the need to build bridges between these silos by integrating courses across the college curriculum. Management courses have a rich heritage from humanities and social science courses. Let's briefly look at some of these courses that have directly affected management theories and practices.

Anthropology is the study of societies, which helps us learn about humans and their activities. Anthropologists' work on cultures and environments, for instance, has helped managers better understand differences in fundamental values, attitudes, and behavior between people in different countries and within different organizations.

Economics is concerned with the allocation and distribution of scarce resources. It provides us with an understanding of the changing economy as well as the role of competition and free markets in a global context. For instance, why are most athletic shoes made in Asia? Why does Mexico now have more automobile plants than Detroit? Economists provide the answers to these questions when they discuss comparative advantage. Similarly, an understanding of free trade and protectionist policies is absolutely essential to any manager operating in the global marketplace.

Philosophy courses examine the nature of things, particularly values and ethics. Ethical concerns go directly to the existence of organizations and what constitutes appropriate behavior within them. For instance, the liberty ethic (John Locke) proposed that freedom, equality, justice, and private property were legal rights; the Protestant ethic (John Calvin) encouraged individuals to be frugal, work hard, and attain success; and the market ethic (Adam Smith) argued that the market and competition, not government, should be the sole regulators of economic activity. These ethics have shaped today's organizations by providing a basis for legitimate authority, linking rewards to performance, and justifying the existence of business and the corporate form of organization.

Political science studies the behavior of individuals and groups within a political environment. Specific topics of concern to political scientists include structuring of conflict, allocating power in an economic system, and manipulating power for individual self-interest. Managers are affected by a nation's form of government—whether it allows citizens to hold property, by citizens' ability to engage in and enforce contracts, and by the appeal mechanisms available to redress grievances. A nation's position on property, contracts, and justice, in turn, shapes the type, form, and policies of its organizations.

Several academic disciplines including economics, psychology, sociology, and others have contributed to the development of management theories and practices.

We can't leave the topic of management's connection to other disciplines without recognizing the important role that *psychology* and *sociology* have played in its development. Psychology is the science that seeks to measure, explain, and sometimes change the behavior of humans and other animals. Sociology is the study of people in relation to their fellow human beings. Both disciplines have contributed greatly to our understanding of people and their behavior at work, both as individuals and in groups. Most of what we know about motivation, leadership, communication, group processes, teamwork, and other behavioral issues in organizations is based on concepts and theories from the fields of psychology and sociology.

go to page: 1 2 3 4 5 6 7 8 9 << previous | next >>

> Historical Background of Management

Organized endeavors directed by people responsible for planning, organizing, leading, and controlling activities have existed for thousands of years. The Egyptian pyramids and the Great Wall of China, for instance, are tangible evidence that projects of tremendous scope, employing tens of thousands of people, were undertaken well before modern times. The pyramids are a particularly interesting example. The construction of a single pyramid occupied more than 100,000 workers for 20 years.[2] Who told each worker what to do? Who ensured that there would be enough stones at the site to keep workers busy? The answer to such questions is *managers*. 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 largest of the pyramids contained more than 2 million blocks, each weighing several tons. Someone had to design the structure, find a stone quarry, and arrange for the stones to be cut and moved—possibly over land and by water—to the construction site. Then someone had to organize the people and materials, lead and direct the workers, and impose controls to ensure that everything was completed as planned.

Another example of early management can be seen during the 1400s in the city of Venice, Italy, a major economic and trade center. The Venetians developed an early form of business enterprise and engaged in many activities common to today's organizations. For instance, at the arsenal of Venice, warships were floated along the canals and at each stop materials and riggings were added to the ship. Doesn't that sound a lot like a car "floating" along an automobile assembly line and components being added to it? In addition to this assembly line, the Venetians also had a warehouse and inventory system to monitor its contents, personnel (human resource management) functions required to manage the labor force, and an accounting system to keep track of revenues and costs.[3]

These examples from the past demonstrate that organizations have been around for thousands of years and that management has been practiced for an equivalent period. However, two pre-twentieth-century events played particularly significant roles in promoting the study of management.

First, in 1776, Adam Smith published a classical economics doctrine, *The Wealth of Nations*, in which he argued the economic advantages that organizations and society would gain from the division of labor, the breakdown of jobs into narrow and repetitive tasks. Using the pin manufacturing industry as an example, Smith claimed that 10 individuals, each doing a specialized task, could produce about 48,000 pins a day among them. However, if each person worked separately and had to perform each task, it would be quite an accomplishment to produce even 10 pins a day! Smith concluded that division of labor increased productivity by increasing each worker's skill and dexterity, by saving time lost in changing tasks, and by creating labor-saving inventions and machinery. The continued popularity of job specialization—for example, specific tasks performed by members of a hospital surgery team, specific meal preparation tasks done by workers in restaurant kitchens, or specific positions played by players on a football team—is undoubtedly due to the economic advantages cited by Adam Smith.

The second, and possibly most important, pre-twentieth-century influence on management was the Industrial Revolution. Starting in the eighteenth century in Great Britain, the revolution had crossed the Atlantic to America by the end of the Civil War. The major contribution of the Industrial Revolution was the substitution of machine power for human power, which, in turn, made it more economical to manufacture goods in factories rather than at home. These large, efficient factories using power-driven equipment required managerial skills. Why? Managers were needed to forecast demand, ensure that enough material was on hand to make products, assign tasks to people, direct daily activities, coordinate the various tasks, ensure that the machines were kept in good working condition and work standards were maintained, find markets for the finished products, and so forth. Planning, organizing, leading, and controlling became necessary, and the development of large corporations would require formal management practices. The need for a formal theory to guide managers in running these organizations had arrived. However, it wasn't until the early 1900s that the first major step toward developing such a theory was taken.

The development of management theories has been characterized by differing beliefs about what managers do and how they should do it. In the next sections we present the contributions of four approaches. Scientific management looked at management from the perspective of improving the productivity and efficiency of manual workers. General administrative theorists were concerned with the overall organization and how to make it more effective. Then a group of theorists focused on developing and applying quantitative models to management practices. Finally, a group of researchers emphasized human behavior in organizations, or the "people" side of management.

Keep in mind that each is concerned with the same "animal"; the differences reflect the backgrounds and interests of the writer. A relevant analogy is the classic story of the blind men and the elephant, in which each man declares the elephant to be like the part he is feeling: The first man touching the side declares that the elephant is like a wall; the second touches the trunk and says the elephant is like a snake; the third feels one of the elephant's tusks and believes the elephant to be like a spear; the fourth grabs a leg and says an elephant is like a tree; and the fifth touches the elephant's tail and concludes that the animal is like a rope. Each is encountering the same elephant, but what each observes depends on where he stands. Similarly, each of the four management perspectives is correct and contributes to our overall understanding of management. However, each is also a limited view of a larger animal. (See Exhibit 2.1.) We'll begin our journey into management's past by looking at the contributions of scientific management.

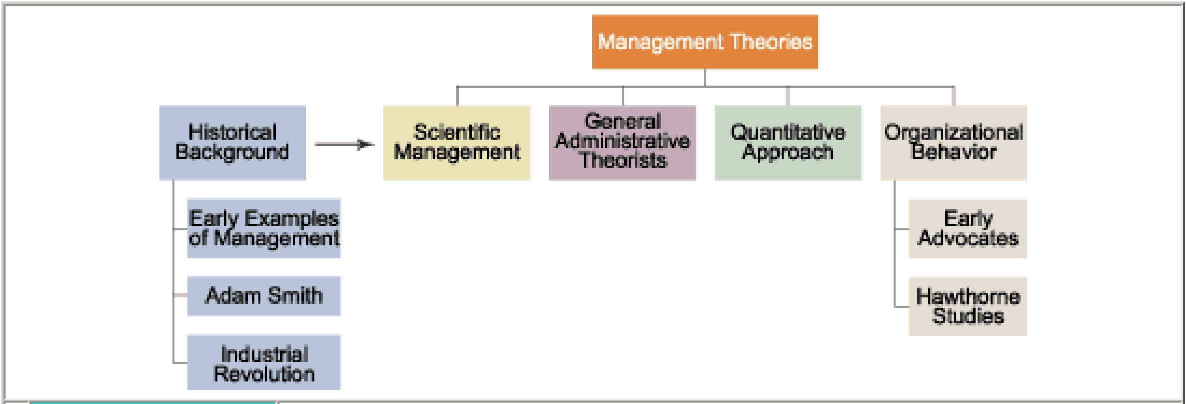


Exhibit 2.1 Development of Major Management Theories

click here to explore now

video example

Why do I need to know management history?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 8 9 << previous | next >>

> Scientific Management

If you had to pinpoint the year modern management theory was born, 1911 might be a logical choice. That was the year Frederick Winslow Taylor's *Principles of Scientific Management* was published. Its contents became widely accepted by managers around the world. The book described the theory of scientific management: the use of scientific methods to define the "one best way" for a job to be done.

Important Contributions

Important contributions to scientific management theory were made by Frederick W. Taylor and Frank and Lillian Gilbreth. Let's look at what they did.

Frederick W. Taylor

Taylor did most of his work at the Midvale and Bethlehem Steel Companies in Pennsylvania. As a mechanical engineer with a Quaker and Puritan background, he was continually appalled by workers' inefficiencies. Employees used vastly different techniques to do the same job. They were inclined to "take it easy" on the job, and Taylor believed that worker output was only about one-third of what was possible. Virtually no work standards existed. Workers were placed in jobs with little or no concern for matching their abilities and aptitudes with the tasks they were required to do. Managers and workers were in continual conflict. He set out to correct the situation by applying the scientific method to shop floor jobs. He spent more than two decades passionately pursuing the "one best way" for each job to be done.

Taylor's experiences at Midvale led him to define clear guidelines for improving production efficiency. He argued that these four principles of management (see Exhibit 2.2) would result in prosperity for both workers and managers.[4] How did these scientific principles really work? Let's look at an example.

1. Develop a science for each element of an individual's work, which will replace the old rule-of-thumb method.
2. Scientifically select and then train, teach, and develop the worker. (Previously, workers chose their own work and trained themselves as best they could.)
3. Heartily cooperate with the workers so as 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 takes over all work for which it is better fitted than the workers. (Previously, almost all the work and the greater part of the responsibility were thrown

on the workers.)

Exhiit 2.2	Taylor's Four Principles of Management

Probably the best known example of Taylor's scientific management was the 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. After scientifically trying different combinations of procedures, techniques, and tools, Taylor succeeded in getting that level of productivity. How? He put the right person on the job with the correct tools and equipment, had the worker follow his instructions exactly, and motivated the worker with an economic incentive of a significantly higher daily wage. Using similar approaches to other jobs, Taylor was able to define the "one best way" for doing each job. Overall, Taylor achieved consistent productivity improvements in the range of 200 percent or more. Through his groundbreaking studies of manual work using scientific principles, Taylor became known as the "father" of scientific management. His ideas spread in the United States and also in France, Germany, Russia, and Japan, and 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 his contracting career in 1912 to study scientific management after hearing Taylor speak at a professional meeting. Frank and his wife Lillian, a psychologist, studied work 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.[5]

Frank is probably best known for his experiments in bricklaying. By carefully analyzing the bricklayer's job, he reduced the number of motions in laying exterior brick from 18 to about 5, and on laying interior brick the motions were reduced from 18 to 2. Using Gilbreth's techniques, the bricklayer could be more productive and less fatigued at the end of the day.

The Gilbreths were among the first researchers to use motion pictures to study hand-and-body motions. They invented a device called a microchronometer that recorded a worker's motions and the amount of time spent doing 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 scheme allowed the Gilbreths a more precise way of analyzing a worker's exact hand movements.

Frank and Lillian Gilbreth, parents of 12 children, ran their household using scientific management principles and techniques. Two of their children wrote a book, *Cheaper by the Dozen*, that described life with the two masters of efficiency.

How Do Today's Managers Use Scientific Management?

The guidelines that Taylor and others devised for improving production efficiency are still used in organizations today.[6] When managers analyze the basic work tasks that must be performed, use time-and-motion study to eliminate wasted motions, hire the best qualified workers for a job, and design incentive systems based on output, they're using the principles of scientific management. But current management practice isn't restricted to the scientific management approach. In fact, we can see theories and ideas from the next major approach we'll discuss—the general administrative approach—being used as well.

click here to explore now
video example
Take a closer look at the concepts and issues you've been reading about.

click here to explore now
active concept check
Testing...Testing...1, 2, 3

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> General Administrative Theorists

Another group of writers looked at the subject of management but focused on the entire organization. We call them the general administrative theorists. They developed more general theories of what managers do and what constituted good management practice. Let's look at some important contributions to this perspective.

Important Contributions

The two most prominent theorists behind the general administrative approach were Henri Fayol and Max Weber.

Henri Fayol

We mentioned Fayol in Chapter 1 because he described management as a universal set of functions that included planning, organizing, commanding, coordinating, and controlling. Because his ideas were important, let's look closer at what he had to say.[7]

Fayol wrote during the same time period as Taylor. While Taylor was concerned with management at the lowest organizational level and used the scientific method, Fayol's attention was directed at the activities of *all* managers. He wrote from personal experience as a practitioner since he was the managing director of a large French coal-mining firm.

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 endeavors in business, government, and even in the home. He then proceeded to state 14 principles of management—fundamental rules of management that could be taught in schools and applied in all organizational situations. These principles are shown in Exhibit 2.3.

1. *Division of work*. Specialization increases output by making employees more efficient.
2. *Authority*. Managers must be able to give orders. Authority gives them this right. Along with authority, however, goes responsibility.
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*. This term refers to the degree to which subordinates are involved in decision making.
9. *Scalar chain*. The line of authority from top management to the lowest ranks is the scalar chain.
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 who are 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.

Exhibit 2.3 **Fayol's 14 Principles of Management**

Max Weber

Weber (pronounced VAY-ber) was a German sociologist who studied organizational activity. Writing in the early 1900s, he developed a theory of authority structures and relations.[8] Weber described an ideal type of organization he called a bureaucracy—a form of organization characterized by division of labor, a clearly defined hierarchy, detailed rules and regulations, and impersonal relationships. Weber recognized that this "ideal bureaucracy" didn't exist in reality. Instead he intended it as a basis for theorizing about work and how work could be done in large groups. His theory became the model structural design for many of today's large organizations. The features of Weber's ideal bureaucratic structure are outlined in Exhibit 2.4.

Exhibit 2.4 **Weber's Ideal Bureaucracy**

Bureaucracy, as described by Weber, is a lot like scientific management in its ideology. Both emphasize rationality, predictability, impersonality, technical competence, and authoritarianism. Although Weber's writings were less operational than Taylor's, the fact that his "ideal type" still describes many contemporary organizations attests to the importance of his work.

How Do Today's Managers Use General Administrative Theories?

Some 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 can be attributed to Fayol. And even though the contingency perspective of a manager's job (which we introduced in Chapter 1) proposed that universalistic management principles for all types of organizations are not feasible, Fayol's 14 principles do serve as a frame of reference from which many current management concepts and theories of planning, organizing, leading, and controlling have evolved.

Weber's bureaucracy was an attempt to formulate an ideal prototype for designing organizations. Although many characteristics of Weber's bureaucracy are still evident in large organizations, his model isn't as popular today as it was throughout most of the twentieth century. Many contemporary managers feel that bureaucracy's emphasis on strict division of labor, adherence to formal rules and regulations, and impersonal application of rules and controls takes away the individual employee's creativity and the organization's ability to respond quickly to an increasingly dynamic environment. However, even in highly flexible organizations of talented professionals—such as General Electric or Cisco Systems—some bureaucratic mechanisms are necessary to ensure that resources are used efficiently and effectively.

click here to explore now
active concept check

> Quantitative Approach to Management

The quantitative approach involves the use of quantitative techniques to improve decision making. This approach has also been labeled *operations research* or *management science*.

Important Contributions

The quantitative approach evolved out of the development of mathematical and statistical solutions to military problems during World War II. After the war was over, many of the techniques that had been used for military problems were applied to the business sector. 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. Two of these individuals whose names you might recognize are Robert McNamara (who went on to become president of Ford, U.S. Secretary of Defense, and head of the World Bank) and Charles "Tex" Thornton (who founded Litton Industries).

What exactly does the quantitative approach do? This approach to management involves applications of statistics, optimization models, information models, and computer simulations 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. Decisions on determining a company's optimum inventory levels have been significantly influenced by the economic order quantity model. Each of these is an example of quantitative techniques being applied to improve managerial decision making.

How Do Today's Managers Use the Quantitative Approach?

The quantitative approach has contributed directly to management decision making in the areas of planning and control. For instance, when managers make budgeting, scheduling, quality control, and similar decisions, they typically rely on quantitative techniques. The availability of sophisticated computer software programs to aid in developing models, equations, and formulas has made the use of quantitative techniques somewhat less intimidating for managers, although they must still be able to interpret the results. We cover some of the more important quantitative techniques in Chapters 9 and 20.

The quantitative approach, although important in its own way, has not influenced management practice as much as the next one we're going to discuss—organizational behavior—for a number of reasons. These include the fact that many managers are unfamiliar with and intimidated by quantitative tools, behavioral problems are more widespread and visible, and it is easier for most students and managers to relate to real, day-to-day people problems than to the more abstract activity of constructing quantitative models.

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

> Toward Understanding Organizational Behavior

As we know, managers get things done by working with people. This explains why some writers and researchers have chosen to look at management by focusing on the organization's human resources. The field of study concerned with the actions (behavior) of people at work is called organizational behavior (OB). Much of what currently makes up the field of human resources management and contemporary views on motivation, leadership, trust, teamwork, and conflict management have come out of organizational behavior research.

Early Advocates

Although there were a number of people in the late 1800s and early 1900s who recognized the importance of the human factor to an organization's success, four individuals stand out as early advocates of the OB approach. They are Robert Owen, Hugo Munsterberg, Mary Parker Follett, and Chester Barnard. The contributions of these individuals were varied and distinct, yet they all had in common a belief that people were the most important asset of the organization and should be managed accordingly. Their ideas provided the foundation for such management practices as employee selection procedures, employee motivation programs, employee work teams, and organization-external environment management techniques. Exhibit 2.5 summarizes the most important ideas of these early advocates.

Exhibit 2.5	Early Advocates of OB

The Hawthorne Studies

Without question, the most important contribution to the developing OB field came out of the Hawthorne Studies, a series of studies conducted at the Western Electric Company Works in Cicero, Illinois. These studies, started in 1924 and continued through the early 1930s, were initially designed by Western Electric industrial engineers as a scientific management experiment. They wanted to examine the effect of various illumination levels on worker productivity. Control and experimental groups were set up with the experimental group being exposed to various lighting intensities, and the control group working under a constant intensity. If you were one of the industrial engineers in charge of this experiment, what would you have expected to happen? That individual output in the experimental group would be directly related to the intensity of the light? Seems perfectly logical, doesn't it? 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 a moonlit night. What would explain these unexpected results? The engineers couldn't explain what they had witnessed but concluded that illumination intensity was not directly related to group productivity, and that something else must have contributed to the results. However, they weren't able to pinpoint what that "something else" was.

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.[9] 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 did group pressure, acceptance, and the accompanying security. The researchers concluded that social norms or group standards were the key determinants of individual work behavior.

Scholars generally agree that the Hawthorne Studies had a dramatic impact on the direction of management beliefs about the role of human behavior in organizations. Mayo concluded that behavior and sentiments are closely related, that group influences significantly affect individual behavior, that group standards establish individual worker output, and that money is less a factor in determining output than are group standards, group sentiments, and security. These conclusions led to a new emphasis on the human behavior factor in the functioning of organizations and the attainment of their goals.

However, the conclusions from the Hawthorne Studies weren't without criticism. Critics attacked the research procedures, analyses of findings, and the conclusions.[10] From a historical standpoint, however, 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 human behavior in organizations. The Hawthorne Studies played a significant role in changing the dominant view at the time that employees were no different from any other machines that the organization used.

How Do Today's Managers Use the Behavioral Approach?

The behavioral approach has largely shaped today's contemporary organizations. From the way that managers design motivating jobs to the way that they work with employee teams to the way that they open up communication channels, we can see elements of the behavioral approach. The behavioral approach also influences decision making, organization structure design, and the types of control tools and techniques used. Much of what the early OB advocates proposed and the conclusions from the Hawthorne Studies provided the foundation for our current theories of motivation, leadership, group behavior and development, and numerous other behavioral topics. We'll address these topics fully in later chapters.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> Current Trends and Issues

Where are we today? What current management concepts and practices are shaping "tomorrow's history"? In this section, we'll attempt to answer those questions by introducing several trends and issues that we believe are changing the way managers do their jobs: globalization, workforce diversity, entrepreneurship, managing in an e-business world, need for innovation and flexibility, quality management, learning organizations and knowledge management, and workplace spirituality. Throughout the text we focus more closely on many of these themes in various boxes, examples, and exercises included in each chapter.

Globalization

Management is no longer constrained by national borders. BMW, a German firm, builds cars in South Carolina. McDonald's, a U.S. firm, sells hamburgers in China. Toyota, a Japanese firm, makes cars in Kentucky. Australia's leading real estate company, Lend Lease Corporation, built the Bluewater shopping complex in Kent, England, and has contracts with Coca-Cola to build all the soft-drink maker's bottling plants in Southeast Asia. Swiss company ABB Ltd. has constructed power generating plants in Malaysia, South Korea, China, and Indonesia. The world has definitely become a global village!

Managers in organizations of all sizes and types around the world are faced with the opportunities and challenges of operating in a global market.[11] Globalization is such a significant topic that we devote one chapter to it (Chapter 4) and integrate discussion of its impact on the various management functions throughout the text. In fact, you'll see that several of our chapter-opening manager dilemmas, end-of-chapter cases, and chapter examples feature global managers and organizations.

Workforce Diversity

One of the major challenges facing managers in the twenty-first century will be coordinating work efforts of diverse organizational members in accomplishing organizational goals. Today's organizations are characterized by workforce diversity—a workforce that's more heterogeneous in terms of gender, race, ethnicity, age, and other characteristics that reflect differences. How diverse is the workforce? A report on work and workers in the twenty-first century, called *Workforce 2020*, stated that the U.S. labor force would continue its ethnic diversification, although at a fairly slow pace.[12] Throughout the early years of the twenty-first century, minorities will account for slightly more than one-half of net new entrants to the U.S. workforce. The fastest growth will be Asian and Hispanic workers. However, this report also stated that a more significant demographic force affecting workforce diversity during the next decade will be the aging of the population. This trend will significantly affect the U.S. workforce in three ways. First, these aging individuals may choose to continue full-time work, work part-time, or retire completely. Think of the implications for an organization when longtime employees with their vast wealth of knowledge, experience, and skills choose to retire, or imagine workers who refuse to retire and block opportunities for younger and higher-potential employees. Second, these aging individuals typically begin to receive public entitlements (mainly Social Security and Medicare). Having sufficient tax rates to sustain these programs has serious implications for organizations and younger workers since there will be more individuals demanding entitlements and a smaller base of workers contributing dollars to the program budgets. Finally, the aging population will become a powerful consumer force driving demand for certain types of products and services. Organizations in industries of potentially high market demand (such as entertainment, travel, and other leisure-time pursuits; specialized health care; financial planning, home repair, and other professional services; etc.) will require larger workforces to meet that demand whereas organizations in industries in which market demand faces potential declines (such as singles bars, ski resorts, etc.) may have to make adjustments in their workforces through layoffs and downsizing.

Workforce diversity is an issue facing managers of organizations in Japan, Australia, Germany, Italy, and other countries. For instance, as the level of immigration increases in Italy, the number of women entering the workforce rises in Japan, and the population ages in Germany, managers are finding they need to effectively manage diversity.

Does the fact that workforce diversity is a current issue facing managers mean that organizations weren't diverse before? No. They were, but diverse individuals made up a small percentage of the workforce, and organizations, for the most part, ignored the issue. Prior to the early 1980s, people took a "melting pot" approach to differences in organizations. We assumed that people who were "different" would somehow automatically want to assimilate. But we now recognize that employees don't set aside their cultural values and lifestyle preferences when they come to work. The challenge for managers, therefore, is to make their organizations more accommodating to diverse groups of people by addressing different lifestyles, family needs, and work styles. The melting pot assumption has been replaced by the recognition and celebration of differences.[13] Smart managers recognize that diversity can be an asset because it brings a broad range of viewpoints and problem-solving skills to a company. An organization that uses *all* of its human resources will enjoy a powerful competitive advantage. Many companies such as Levi Strauss, Advantica, Dole Food, Avis Rent A Car, SBC Communications, Avon Products, and Xerox have strong diversity management programs.[14]

click here to explore now

video example

Isn't the push for workforce diversity just a fancy way to give hiring preferences to women and minorities; and discriminate against white males?

Entrepreneurship

Practically everywhere you turn these days you'll read or hear about entrepreneurs. If you pick up a current newspaper or general news magazine or log on to one of the Internet's news sites, chances are you'll find at least one story (and probably many more) about an entrepreneur or an entrepreneurial business. Entrepreneurship is a popular topic! But what exactly *is* it?

Entrepreneurship is the process whereby an individual or a group of individuals uses organized efforts and means to pursue opportunities to create value and grow by fulfilling wants and needs through innovation and uniqueness, no matter what resources are currently controlled. It involves the discovery of opportunities and the resources to exploit them. Three important themes stick out in this definition of entrepreneurship. First is the pursuit of opportunities. Entrepreneurship is about pursuing environmental trends and changes that no one else has seen or paid attention to.

For example, Jeff Bezos, founder of Amazon.com, was a successful programmer at an investment firm on Wall Street in the mid-1990s. However, statistics on the explosive growth in the use of the Internet and World Wide Web (at that time, it was growing about 2,300 percent a month) kept nagging at him. He decided to quit his job and pursue what he felt were going to be enormous retailing opportunities on the Internet. And the rest, as they say, is history. Today, Amazon sells books, music, home improvement products, cameras, cars, furniture, jewelry, and numerous other items from its popular Web site.

The second important theme in entrepreneurship is innovation. Entrepre-neurship involves changing, revolutionizing, transforming, and introducing new approaches—that is, new products or services or new ways of doing business. Dineh Mohajer is a prime example of this facet of entrepreneurship. As a fashion-conscious young woman, she hated the brilliant and bright nail polishes that were for sale in stores. The bright colors clashed with her trendy pastel-colored clothing. She wanted pastel nail colors that would match what she was wearing. When she couldn't find the nail polish colors she was looking for, Mohajer decided to mix her own. When her friends raved over her homemade colors, she decided to take samples of her nail polish to exclusive stores in Los Angeles. They were an instant hit! Today, her company, Hard Candy, sells a whole line of cosmetics in trendy and fashionable stores across the United States—all the result of Mohajer's innovative ideas.

The final important theme in entrepreneurship is growth. Entrepreneurs pursue growth. They are not content to stay small or to stay the same in size. Entrepreneurs want their businesses to grow and work very hard to pursue growth as they continually look for trends and continue to innovate new products and new approaches.

Entrepreneurship will continue to be important to societies around the world.[15] For-profit and even not-for-profit organizations will need to be entrepreneurial—that is, pursuing opportunities, innovations, and growth—if they want to be successful. We think that an understanding of entrepreneurship is so important that at the end of each major section in this book we've included a special entrepreneurship module that looks at the topics presented in that section from the perspective of entrepreneurship.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Managing in an E-Business World

What a difference three years makes! The last time we revised this book, the Internet and World Wide Web were still a novelty to most managers and organizations. E-mail as a form of communication was gaining in popularity, and occasionally you saw Web addresses in company advertisements. Those days are long gone! Now, everywhere you look, organizations (small to large, all types, global and domestic, and in all industries) are becoming e-businesses. Today's managers must manage in an e-business world! In fact, as a student, your learning may increasingly be taking place in an electronic environment. What do we know about this e-business world?

E-business (electronic business) is a comprehensive term describing the way an organization does its work by using electronic (Internet-based) linkages with its key constituencies (employees, managers, customers, suppliers, and partners) in order to efficiently and effectively achieve its goals. It's more than e-commerce, although e-business can include e-commerce. E-commerce (electronic commerce) is any form of business exchange or transaction in which the parties interact electronically.[16] Firms such as Dell (computers), Varsitybooks (textbooks), and PC Flowers and Gifts (flowers and other gifts) are engaged in e-commerce because they sell products over the Internet. Exhibit 2.6 explains the main forms of e-commerce transactions. Although e-commerce applications will continue to grow in volume, they are only one part of an e-business.

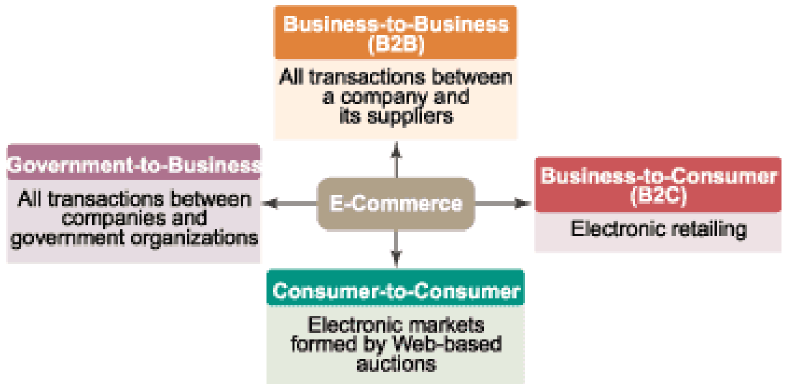


Exhibit 2.6 **Types of E-Commerce Transactions**

Not every organization is or needs to be a total e-business. Exhibit 2.7 illustrates three categories of e-business involvement.[17] The first type is what we're going to call an e-business *enhanced* organization, a traditional organization that sets up e-business capabilities, usually e-commerce, while maintaining its traditional structure. Many *Fortune 500* type organizations are evolving into e-businesses using this approach. They use the Internet to *enhance* (not to replace) their traditional ways of doing business. For instance, Sears, a traditional bricks-and-mortar retailer with thousands of physical stores worldwide started an Internet division whose goal is to make Sears "the definitive online source for the home."[18] Although Sears Internet division, Sears.com, represents a radical departure for an organization founded in 1886 as a catalog-sales company, it's intended to expand, not replace, the company's main source of revenue. Many other traditional organizations—for instance, Merrill Lynch, Office Depot, Starbucks, Tupperware, and Whirlpool—have become e-business enhanced organizations.

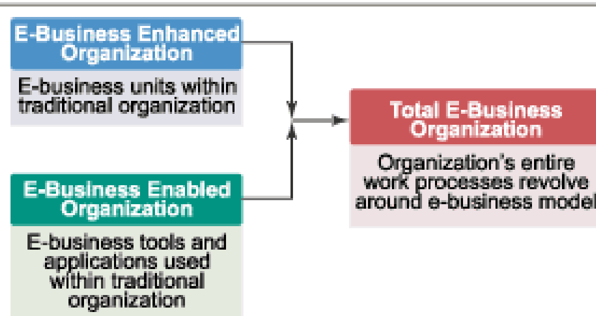


Exhibit 2.7 **Categories of E-Business Involvement**

Another category of e-business involvement is an e-business *enabled* organization. In this type of e-business, an organization uses the Internet to perform its traditional business functions better but not to sell anything. In other words, the Internet *enables* organizational members to do their work more efficiently and effectively. There are numerous organizations using electronic linkages to communicate with employees, customers, or suppliers and to support them with information. For instance, Levi Strauss & Co. uses its Web site to interact with customers, providing them the latest information about the company and its products, but they can't buy Levis there. It also uses an intranet, an internal organizational communication system that uses Internet technology and is accessible only by organizational employees, to communicate with its global workforce. Other organizations are using enterprise-wide software solutions that link together all organizational areas and levels. For example, employees at Silicon Graphics can access over 800 specialized internal Web sites containing more than 144,000 pages of technical information and can access all corporate databases. Information that used to take days to get can now be obtained in a matter of a few minutes simply by linking, pointing, and clicking. These organizations have found that being an e-business enabled organization makes them more competitive.

The last category of e-business involvement is when an organization becomes a total e-business. Many organizations—such as Amazon.com, Yahoo, E*Trade, and eBay—started as total e-business organizations. Their whole existence is made possible by and revolves around the Internet. Other organizations, such as Charles Schwab & Company, have evolved into e-business organizations that seamlessly integrate traditional and e-business functions. When an organization becomes a total e-business, there's a complete transformation in the way it does its work. For instance, at Schwab when managers made the decision to merge its traditional and e-business operations, it had to reprice its core products, retrain all of its employees, and renovate all of its systems.[19] Was it worth it? Analysts describe Schwab as the best positioned of all retail brokerages in an e-business world.

Managing in an e-world, whether as an e-business enhanced, e-business enabled, or total e-business organization requires new insights and perspectives.

Need for Innovation and Flexibility

Innovation has been called the most precious capability that any organization in today's economy must have and nurture. Without a constant flow of new ideas—not only for new products and services, but also for new ways of doing things—an organization is doomed to obsolescence or even worse, failure.[20] In a survey about what makes an organization valuable, innovation showed up at the top of the list.[21] Which companies were cited as the most innovative in this study? Intel, Procter & Gamble, and AOL came out on top. There is absolutely no doubt that innovation is crucial. How do managers encourage innovative thinking among all organizational members? That's an important question and one that all managers at all levels must resolve. We'll cover the topic of managing innovation in Chapter 13.

Another demand facing today's organizations and managers is the need for flexibility. In a context in which customers' needs may change overnight, in which new competitors come and go at breathtaking speed, and in which employees and their skills are shifted as needed from project to project, you can see how flexibility might be valuable. As we discuss organizational strategy, organizational design, and job design (Chapters 8, 10, and 16), we'll examine the role of flexibility.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Quality Management

A quality revolution swept through both the business and public sectors during the 1980s and 1990s.[22] The generic term used to describe this revolution was total quality management, or TQM for short. 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 espoused by these two men in the 1950s had few supporters in the United States but were enthusiastically embraced by Japanese organizations. As Japanese manufacturers began beating out U.S. competitors in quality comparisons, Western managers soon began taking a more serious look at TQM. Deming's and Juran's ideas became the basis for today's organizational quality management programs.

TQM is a philosophy of management driven by continual improvement and responding to customer needs and expectations. (See Exhibit 2.8.) The term *customer* in TQM has expanded beyond the original definition of the purchaser outside the organization to include 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. The objective is to create an organization committed to continuous improvement in work processes.

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

Exhibit 2.8 **What Is TQM?**

TQM is a departure from earlier management theories that were based on the belief that low costs were the only road to increased productivity. For example, the U.S. car industry is often used as a classic example of what can go wrong when managers focus solely on trying to keep costs down. In the late 1970s, GM, Ford, and Chrysler built products that many consumers rejected. Your second author remembers vividly purchasing a new Pontiac Grand Prix in 1978, driving it off the lot, pulling up to a gas pump, filling the gas tank and watching gas pour out on the ground because of a hole in the car's gas tank! When the costs of rejects, repairing shoddy work, product recalls, and expensive controls to identify quality problems were considered, U.S. manufacturers actually were *less* productive than many foreign competitors. The Japanese demonstrated that it *was* possible for the highest-quality manufacturers to be among the lowest-cost producers. American manufacturers in the car and other industries soon realized the importance of TQM and implemented many of its basic components.

Quality management is important, and we'll discuss it throughout this book. For example, we'll show how it can contribute to a competitive advantage in Chapter 8, is used for benchmarking competition in Chapter 9, and plays a role in value chain management in Chapter 19.

Learning Organizations and Knowledge Management

Today's managers confront an environment in which change takes place at an unprecedented rate. Constant innovations in information and computer technologies combined with the globalization of markets have created a chaotic world. As a result, many of the past management guidelines and principles—created for a world that was more stable and predictable—no longer apply. Successful organizations of the twenty-first century must be able to learn and respond quickly. These organizations will be led by managers who can effectively challenge conventional wisdom, manage the organization's knowledge base, and make needed changes. In other words, these organizations will need to be learning organizations. A learning organization is one that has developed the capacity to continuously learn, adapt, and change. Exhibit 2.9 clarifies how a learning organization is different from a traditional organization.

	Traditional Organization	**Learning Organization**
Attitude toward change	If it's working, don't change it.	If you aren't changing, it won't be working for long.
Attitude toward new ideas	If it wasn't invented here, reject it.	If it was invented or reinvented here, reject it.
Who's responsible for innovation?	Traditional areas such as R & D	Everyone in organization
Main fear	Making mistakes	Not learning; not adapting
Competitive advantage	Products and service	Ability to learn, knowledge and expertise
Manager's job	Control others	Enable others

Exhibit 2.9 **Learning Organization versus Traditional Organization**

Part of a manager's responsibility in fostering an environment conducive to learning is to create learning capabilities throughout the organization—from lowest level to highest level and in all areas. How can managers do this? An important step is understanding the value of knowledge as an important resource, just like cash, raw materials, or office equipment. To illustrate the value of knowledge, think about how you register for college classes. Do you talk to others who have had a certain professor? Do you listen to their experiences with this individual and make your decision based on what they have to say (their knowledge about the situation)? If you do, you're tapping into the value of knowledge. But in an organization, just recognizing the value of accumulated knowledge or wisdom isn't enough. Managers must deliberately manage that base of knowledge. Knowledge management involves cultivating a learning culture in which organizational members systematically gather knowledge and share it with others in the organization so as to achieve better performance.[23] For instance, accountants and consultants at Ernst & Young, one of the Big Five professional services firms, document best practices they have developed, unusual problems they have dealt with, and other work information. This "knowledge" is then shared with all employees through computer-based applications and through COIN (community of interest) teams that meet regularly throughout the company. Many other organizations—General Electric, Toyota, Hewlett-Packard, Buckman Laboratories—have recognized the importance of knowledge management to being a learning organization.

Organizations that are continually learning are faced with changing and improving the way work is done. Managers play an important role in planning, organizing, and leading change efforts, and managers themselves are having to change their styles. They're transforming themselves from bosses to team leaders. Instead of telling people what to do and how to do it, managers are finding that they are more effective when they listen, motivate, coach, and nurture.

Workplace Spirituality

At first, the words *workplace* and *spirituality* might seem incongruous. After all, how can an organizational system that's based on rationality, logic, and "rules" of management (think of Weber, Fayol, Barnard, and other management theorists we've introduced in this chapter) ever be consistent with spirituality? Yet, we're seeing a growing interest in spirituality at work by employees at all levels and in all areas of organizations.[24] Companies such as Taco Bell, Pizza Hut, and subsidiaries of Wal-Mart have hired chaplains from all religious backgrounds to counsel employees on life issues and challenges. The chairman of Aetna International (the insurance company) has shared with employees the benefits of meditation and talked with them about using spirituality in their careers. This search for spirituality in the workplace is impacting organizations and the job of managers.

What is workplace spirituality? It's *not* about organized religious practices. Rather, it's "a recognition of an inner life that nourishes and is nourished by meaningful work that takes place in the context of community."[25] Employees are looking for meaning, purpose, and a sense of connectedness or community from their work and their workplace. Why? Where is this trend coming from?

In part, what we see happening is just a reflection of broader trends in society. People are searching for a deeper understanding of who they are and why they're here on Earth. They want more from their lives than just a steady job and a paycheck. They want to feel that there is some meaning in their lives and that they're part of something greater than just themselves. Since those feelings of meaning, connectedness, and fulfillment aren't coming from family or community structures anymore as people are more mobile and working longer hours, they're looking to the workplace—where they spend a significant portion of their waking hours—to provide these. Another contributing factor to the increase in workplace spirituality appears to be the change and uncertainty so descriptive of the environment facing today's organizations. Uncertainty makes people anxious. Practicing spirituality—in whatever ways they're comfortable with—provides employees with a sense of calm, belonging, connection, fulfillment, and meaning.

What are the implications for managers? Is workplace spirituality just another management fad? These are difficult questions to answer. However, research studies looking at the connection between workplace spirituality and productivity have shown some interesting results, which might tend to make you believe that issues of workplace spirituality won't be fleeting. One study showed that when companies implemented programs that used spiritual techniques for their employees, productivity improved and turnover was significantly reduced. Another study found that employees who worked for organizations they considered to be spiritual were less fearful, less likely to compromise their values, and more able to commit to their jobs.[26]

As a current issue affecting managers, workplace spirituality is likely to be manifested in how managers treat employees and how employees' contributions are respected and valued. It may be seen in the degree of trust that exists in all organizational dealings (both internal and external) and how organizational partners are treated. It can also be seen in how ethical and responsible managers are as they make decisions and take actions.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 8 9 << previous | next >>

Management (activebook), 7/e

Stephen P. Robbins   Mary Coulter

> Chapter Wrap-Up

You had a chance to voice your opinion about Tomoyama Toyoda's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Marilyn Farrar-Wagner
Hospital Manager
Ridgewood Veterinary Hospital,
Ridgewood, New Jersey

[Not working? Get Quicktime](#)

To maintain innovation in any company, a manager must identify the client's needs, follow trends, and successfully predict what those needs will be in the future. I would suggest using a simple questionnaire (two or three questions) that clients be required to complete to place an order online. The responses could help accurately target clients' current and future needs. We did this when expanding our veterinary business. We asked clients what they would like to see. By investing in what we know our customers want, we've succeeded in surpassing their expectations.

It's also important for Tomoyama

Adam Ferguson
Data Resource Coordinator
Cox Health Systems, Springfield, Missouri

[Not working? Get Quicktime](#)

With any e-application, it's of the utmost importance to be able to first maintain what you already have. As a site's traffic increases, there is the necessity to keep new information posted—not to mention the hardware and software requirements for larger volume. You don't want your site to lose speed or have people not be able to even get on your site due to traffic. If you have established yourself as a leader in a particular area, the loss of quality is much more visible than an increase in it.

The second thing I would do is surround myself with many intelligent and young people. I believe I remember hearing Gene Kranz (former flight director of NASA in the 1960s and 1970s) say that the average age of Mission Control employees for the

to be flexible in what the Web site offers. However, he also needs to maintain credibility while being flexible. With numerous online companies offering countless products and services, success will be achieved faster with reputation and quality. Toyota's credibility doesn't lie in dishwashers, for example. If Toyota wishes to diversify and maintain the quality expected, some research and development must be used to determine what other types of online services users might want.	Apollo 13 mission was around 25. I believe that smart application of young innovation is what dictates who goes and who stays in the e-world.

> end-of-chapter resources

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter Outline

Go to Student View
Table of Contents
Chapter Contents
Search
Rate the Difficulty
In the News
Internet Exercises
Robbins OnLine Learning System (R.O.L.L.S.)
Faculty Resources
Misc. Resources

Chapter 3: Organizational Culture and Environment: The Constraints

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...

A Culture of Endurance (05/14/02)

A Culture of Endurance (05/14/02)

The Culture of Cleaning Up (04/04/02)

The Culture of Cleaning Up (04/04/02)

If You're Thinking Of Hiring A New CEO, The First Thing You Should Do Is Send Them To A Shrink! (02/09/01)

If You're Thinking Of Hiring A New CEO, The First Thing You Should Do Is Send Them To A Shrink! (02/09/01)

How Will the General Environment Impact Disney? (02/07/01)

How Will the General Environment Impact Disney? (02/07/01)

Campaign 2000 (10/03/00)

Campaign 2000 (10/03/00)

Intellectual Property Rights in the Age of AIDS (03/27/00)

Intellectual Property Rights in the Age of AIDS (03/27/00)

When Giants Merge (01/11/00)

When Giants Merge (01/11/00)

Why Johnny May Learn To Add (01/04/00)

Why Johnny May Learn To Add (01/04/00)

The Best Corporate Reputations in America (12/02/99)

The Best Corporate Reputations in America (12/02/99)

Is the Marriage of Viacom and CBS Co. As Perfect As it Seems? (11/02/99)

Is the Marriage of Viacom and CBS Co. As Perfect As it Seems? (11/02/99)

Powered by the People (08/24/99)

Powered by the People (08/24/99)

Gender Differences May Muddy Communictions (06/15/99)

Gender Differences May Muddy Communictions (06/15/99)

Designed for Innovation (02/10/99)

Designed for Innovation (02/10/99)

What's Wrong With AOL/Netscape? (01/14/99)

What's Wrong With AOL/Netscape? (01/14/99)

Help to Avoid a Failure: Learn the Company Culture (11/09/98)

Help to Avoid a Failure: Learn the Company Culture (11/09/98)

Two on Top (06/18/98)

Two on Top (06/18/98)

Two for the Road (11/03/97)

Two for the Road (11/03/97)

Transforming the Power Business (10/20/97)

Transforming the Power Business (10/20/97)

Will A Fight With Pilots Throw U.S. Airways Into Reverse? (06/05/97)

Will A Fight With Pilots Throw U.S. Airways Into Reverse? (06/05/97)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

A New Influx of Business for Voting Machine Manufacturers (02/07/01)

A New Influx of Business for Voting Machine Manufacturers (02/07/01)

Making the Grade - What Separates the 100 Best Companies From the Rest of the Pack? (02/07/01)

Making the Grade - What Separates the 100 Best Companies From the Rest of the Pack? (02/07/01)

Planning for the Future of Electricity (01/10/01)

Planning for the Future of Electricity (01/10/01)

A Look at Diversity and Diversity Training (11/02/99)

A Look at Diversity and Diversity Training (11/02/99)

Streamlining the Internet for Executive Work (08/03/99)

Streamlining the Internet for Executive Work (08/03/99)

Evaluating the Cola Cultures (02/22/99)

Evaluating the Cola Cultures (02/22/99)

Preparing Successful Expatriate Managers (01/04/99)

Preparing Successful Expatriate Managers (01/04/99)

Add to...

[Link to the R.O.L.L.S. Website with Self Assessment Library 2.0]

[Link to the R.O.L.L.S. Website with Self Assessment Library 2.0]

Faculty Resources

legend: add to favorites, provide feedback

Add to...

[Instructors Manual - chap03.doc]

[Instructors Manual - chap03.doc]

[Lecture Presentation - chap03.ppt]

[Lecture Presentation - chap03.ppt]

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

[Modules - modules.doc]

[Modules - modules.doc]

[Preface - preface.doc]

[Preface - preface.doc]

Self Assessment Library 2.0 - selfas.doc

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Table of contents - toc.doc

Add to... Just for Students

Chapter Outlines - chapoutlines.doc

Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> What's Ahead

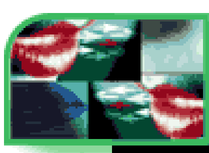
A Manager's Dilemma

One of the most beautiful cities in North America has to be Vancouver, British Columbia. The city is surrounded by jagged mountain peaks, sandy beaches, and sparkling English Bay. Vancouver's multiethnic population of over 543,000 people resides in 23 distinct communities. Catherine Deslauriers, the city of Vancouver's staff and organizational development coordinator, is focused on training the city's managers to be more accountable for the quality of city services and ultimately to increase citizen satisfaction.[1] Deslauriers's job is made more challenging by the fact that the city's "product" is always on public display.

Deslauriers accepted this job in January 2000. Part of her job duties involves designing and delivering training programs for city employees. Prior to her arrival, the city's various training programs had consisted of ongoing classes in a number of areas including leadership and change management. Even though individual training sessions received positive participant feedback, they had not been well planned and integrated across all business units. As Deslauriers soon discovered, each business unit in the city had its own culture. She explained, "How fire and rescue workers think and operate is quite different from those in engineering and public works." However, employee training is only part of what Deslauriers does.

One of her other major job responsibilities as outlined by Vancouver's City Council includes improving public involvement in city decisions and actions. Although it may sound like the residents of Vancouver aren't actively involved in city issues, that's not the case. Over a period of three years in the 1990s, more than 20,000 residents participated in developing a vision for the city's future. Vancouver's citizens care about the quality of services provided by the city. How can Deslauriers use what she knows about stakeholder relationship management to help her effectively and efficiently fulfill this mandate by City Council to improve public involvement? Put yourself in her position.

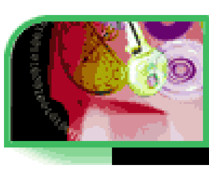
What Would You Do?



click here to explore now

active poll <

What do you think? Voice your opinion and find out what others have to say.



click here to explore now

objectives <

Take a moment to familiarize yourself with the key objectives of this chapter.

go to page: 1 2 3 4 5 next >>

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Catherine Deslauriers recognizes the roles that both internal organizational culture and external environment play in making her organization—the city of Vancouver—successful. She also recognizes the challenges facing the organization in trying to manage both its internal culture and external environment. But how much actual impact does a manager such as Deslauriers have on an organization's success or failure? In the following section, we explore this important question.

> The Manager: Omnipotent or Symbolic?

The dominant view in management theory and society in general is that managers are directly responsible for an organization's success or failure. We'll call this perspective the omnipotent view of management. In contrast, some observers have argued that much of an organization's success or failure is due to forces outside management's control. In other words, external forces, not management, determine outcomes. This perspective has been labeled the symbolic view of management. Let's look more closely at each of these perspectives so we can try to clarify just how much credit or blame managers should receive for their organization's performance.

click here to explore now

video example <

Take a closer look at the concepts and issues you've been reading about.

The Omnipotent View

In Chapter 1, we discussed the importance of managers and management to organizations. This view reflects a dominant assumption in management theory: The quality of an organization's managers determines the quality of the organization itself. It's assumed that differences in an organization's effectiveness or efficiency are due to the decisions and actions of its managers. Good managers anticipate change, exploit opportunities, correct poor performance, and lead their organizations toward their objectives, which even may be changed if necessary. When profits are up, management takes the credit and rewards itself with bonuses, stock options, and the like. When profits are down, the board of directors often replaces top management in the belief that "new blood" will bring improved results. For instance, it only took nine months for the board of directors at Lands' End, the catalog retailer, to replace its top manager when its operating income declined and holiday sales fell far short of expectations.

The view of managers as omnipotent is consistent with the stereotypical picture of the take-charge business executive who can overcome any obstacle in carrying out the organization's objectives. This omnipotent view, of course, isn't limited to business organizations. We can also use it to help explain the high turnover among college and professional sports coaches, who can be considered the "managers" of their teams. Coaches who lose more games than they win are seen as ineffective. They are fired and replaced by new coaches who, it is hoped, will correct the inadequate performance.

In the omnipotent view, when organizations perform poorly, someone has to be held accountable regardless of the reasons why, and in our society, that "someone" is the manager. Of course, when things go well, we need someone to praise. So managers also get the credit—even if they had little to do with achieving positive outcomes.

click here to explore now

video example

Is the success or failure of an organization ultimately due to the actions of its managers?

The Symbolic View

Winn-Dixie Stores operates 1,188 grocery stores across a 14-state southern region. When the company decided to close 10 percent of its stores and cut 11,000 jobs in April 2000, competitors such as Kroger found its business volume and revenues increasing. Was the increase in sales for Kroger the result of managers' decisions and actions, or was it beyond the control of the organizations' managers? The symbolic view would suggest that the positive performance wasn't due to anything that the managers did but instead was due to forces beyond their control.

The symbolic view says that a manager's ability to affect outcomes is influenced and constrained by external factors.[2] In this view, it's unreasonable to expect managers to significantly affect an organization's performance. Instead, an organization's results are influenced by factors outside the control of management. These factors include the economy, market (customer) changes, governmental policies, competitors' actions, conditions in the particular industry, control over proprietary technology, and decisions made by previous managers.

According to the symbolic view, managers have a limited effect on organizational outcomes.[3] A manager's roles are seen as creating meaning out of randomness, confusion, and ambiguity or trying to innovate and adapt. Managers symbolize control and influence by developing plans, making decisions, and engaging in other managerial activities. They do so for the benefit of stockholders, customers, employees, and the public. However, according to this view, the actual part that managers play in organizational success or failure is minimal.

ABC's managers were quite surprised at the sensational, almost overnight, success of the network television program "Who Wants to Be a Millionaire?" But how much impact did those managers really have on the show's success? Was the popularity of the show due to anything the managers did or was it just a reflection of the fickle tastes of television audiences? The symbolic view would say that this outcome was due to forces beyond managers' control.

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 arise from the organization's culture. In addition, external constraints come from the organization's environment.

Exhibit 3.1 shows managers as operating within the constraints imposed by the organization's culture and environment. Yet, despite these constraints, managers are not powerless. They can still influence an organization's performance. In the remainder of this chapter, we'll discuss organizational culture and environment as constraints. However, as we'll see in other chapters, these constraints don't mean that a manager's hands are tied. As Catherine Deslauriers in our chapter-opening dilemma recognizes, managers may be able to change and influence their culture and environment and, thus, expand their area of discretion as they plan, organize, lead, and control.

Exhibit 3.1 **Parameters of Managerial Discretion**

Management (activebook), 7/e

Stephen P. Robbins   Mary Coulter

> The Organization's Culture

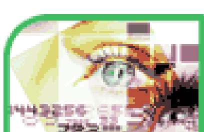
We know that every person has a unique personality. An individual's personality is a set of relatively permanent and stable traits. Our personality influences the way we act and interact with others. When we describe someone as warm, open, relaxed, or conservative, we're describing personality traits. An organization, too, has a personality, which we call its culture.

What is Organizational Culture?

What is organizational culture? It's a system of shared meaning and beliefs held by organizational members that determines, in large degree, how they act. It represents a common perception held by the organization's members. Just as tribal cultures have rules and taboos that dictate how members will act toward each other and outsiders, organizations have cultures that govern how its members should behave. In every organization, there are systems or patterns of values, symbols, rituals, myths, and practices that have evolved over time.[4] These shared values determine to a large degree what employees see and how they respond to their world.[5] When confronted with problems or work issues, the organizational culture—the "way we do things around here"—influences what employees can do and how they conceptualize, define, analyze, and resolve issues.

Our definition of culture implies several things. First, culture is a perception. Individuals perceive the organizational culture on the basis of what they see, hear, or experience within the organization. Second, 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 is the shared aspect of culture. Finally, organizational culture is a descriptive term. It's concerned with how members perceive the organization, not with whether they like it. It describes rather than evaluates.

Research suggests that there are seven dimensions that capture the essence of an organization's culture.[6] These dimensions are described in Exhibit 3.2. As you can see, each of these characteristics exists on a continuum from low to high. Appraising an organization on these seven dimensions gives a composite picture of the organization's culture. In many organizations, one of these cultural dimensions often rises above the others and essentially shapes the organization's personality and the way organizational members do their work. For instance, at Sony Corporation the focus is on product innovation. The company "lives and breathes" new-product development (outcome orientation), and employees' work decisions, behaviors, and actions support that goal. In contrast, Southwest Airlines has made its employees a central part of its culture (people orientation). Exhibit 3.3 demonstrates how these dimensions can be mixed to create significantly different organizations.



click here to explore now

video example <

Does every organization have a culture?

Exhibit 3.2	**Dimensions of Organizational Culture**

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."

Employees are required to follow extensive rules and regulations in this firm. Managers supervise employees closely to ensure that 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.

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 that its employees are hardworking and trustworthy. Management is concerned with high productivity but believes that this comes through treating its people right. The company is proud of its reputation as being 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.

Exhibit 3.3 **Contrasting Organizational Cultures**

Strong Versus Weak Cultures

Although all organizations have cultures, not all cultures have an equal impact on employees' behaviors and actions. Strong cultures—cultures in which the key values are deeply held and widely shared—have a greater influence on employees than do weak cultures. The more that employees accept the organization's key values and the greater their commitment to those values, the stronger the culture is.

Whether an organization's culture is strong, weak, or somewhere in between depends on factors such as the size of the organization, how long it has been around, how much turnover there has been among employees, and the intensity with which the culture was originated. Some organizations do not make clear what is important and what is not; this lack of clarity is a characteristic of weak cultures. In such organizations, culture is unlikely to greatly influence managers. Most organizations, however, have moderate to strong cultures. There is relatively high agreement on what's important, what defines "good" employee behavior, what it takes to get ahead, and so forth. In fact, one study of organizational culture found that employees in organizations with strong cultures were more committed to their organization than were employees in organizations with weak cultures. The organizations with strong cultures also used their recruitment efforts and socialization practices to build employee commitment.[7] And an increasing body of evidence suggests that strong cultures are associated with high organizational performance.[8] What are the implications for the way managers manage? As an organization's culture becomes stronger, it has an increasing impact on what managers do.[9]

Testing...Testing...1, 2, 3

The Source of Culture

An organization's current customs, traditions, and general way of doing things are largely due to what it has done before and the degree of success it has had with those endeavors. The original source of an organization's culture usually reflects the vision or mission of the organization's founders. Because the founders had the original idea, they also may have biases on how to carry out the idea. Their focus might be on aggressiveness or it might be on treating employees as family. The founders establish the early culture by projecting an image of what the organization should be. They're not constrained by previous customs or approaches. And the small size of most new organizations helps the founders instill their vision in all organizational members.

Let's look at an example of how an individual can have an enormous influence on shaping his or her organization's culture. Yvon Chouinard, the founder of the outdoor gear company Patagonia, Inc., was an avid "extreme adventurer." He approached the business in a laid-back, casual manner. For instance, he hired employees not on the basis of any specific business skills but because he had climbed, fished, or surfed with them. Employees were friends, and work was treated as something fun to do. In a speech Chouinard gave a few years ago, he is said to have uttered the timeless line, "Let my people go surfing!" Although the company (now called Lost Arrow) has more than 1,000 employees and revenues of over $182 million (2000), its culture still reflects Chouinard's values and philosophy. To keep employees happy, it offers child care and yoga classes at work and donates 1 percent of its sales to green causes. And if the surf is good, employees are free to go enjoy it!

What's the right organizational culture for you?

How Employees Learn Culture

Culture is transmitted to employees in a number of ways. The most significant are stories, rituals, 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.[10] For instance, managers at Nike feel that stories told about the company's past help shape the future. Whenever possible, corporate "storytellers" (senior executives) explain the company's heritage and tell stories that celebrate people getting things done. These stories provide prime examples that people can learn from.[11] To help employees learn the culture, organizational stories anchor the present in the past, provide explanations and legitimacy for current practices, and exemplify what is important to the organization.[12]

Rituals

Corporate rituals are repetitive sequences of activities that express and reinforce the values of the organization, what goals are most important, and which people are important and which ones are expendable.[13] One of the best-known corporate rituals is Mary Kay Cosmetics' annual meeting for its sales representatives.[14] Looking like a cross between a circus and a Miss America pageant, the awards ceremony takes place in a large auditorium, on a stage in front of a large, cheering audience, with all the participants dressed in glamorous evening clothes. Salespeople are rewarded for their success in achieving sales goals with an array of flashy gifts including gold and diamond pins, furs, and pink Cadillacs. This "show" acts as a motivator by publicly acknowledging outstanding sales performance. In addition, the ritual aspect reinforces founder Mary Kay's determination and optimism, which enabled her to overcome personal hardships, found her own company, and achieve material success. It conveys to her salespeople that reaching their sales goals is important and that, through hard work and encouragement, they too can achieve success. Your second author had the experience of being on a flight out of Dallas one year with a planeload of Mary Kay sales representatives headed home from the annual awards meeting. Their contagious enthusiasm and excitement made it obvious that this annual "ritual" played a significant role in establishing desired levels of motivation and behavioral expectations, which, after all, is what an organization's culture should do.

Material Symbols

When you walk into different businesses, do you get a "feel" for the place—formal, casual, fun, serious, and so forth? These feelings you get demonstrate the power of material symbols in creating an organization's personality. The layout of an organization's facilities, how employees dress, the types of automobiles top executives are provided, and the availability of corporate aircraft are examples of material symbols. Others include the size of offices, the elegance of furnishings, executive "perks" (extra "goodies" provided to managers such as health club memberships, use of company-owned resort facilities, and so forth), the existence of employee lounges or on-site dining facilities, and reserved parking spaces for certain employees. These material symbols convey to employees who is important, the degree of equality desired by top management, and the kinds of behavior (for example, risk taking, conservative, authoritarian, participative, individualistic, and so forth) that are expected and appropriate.

Language

Many organizations and units within organizations use language as a way to identify members of a culture. By learning this language, members attest to their acceptance of the culture and their willingness to help to preserve it. For instance, Microsoft, the software company, has its own unique vocabulary: work judo (the art of deflecting a work assignment to someone else without making it appear that you're avoiding it; eating your own dog food (a strategy of using your own software programs or products in the early stages as a way of testing them even if the process is disagreeable); flat food (goodies from the vending machine that can be slipped under the door to a colleague who's working feverishly on deadline); facemail (actually talking to someone face-to-face; considered by Microsoft employees a technologically backward means of communicating); death march (the countdown to shipping a new product); and so on.[15]

Over time, organizations often develop unique terms to describe equipment, key personnel, suppliers, customers, or products that are related to their business. New employees are frequently overwhelmed with acronyms and jargon that, after a short period of time, become a natural part of their language. Once learned, this language acts as a common denominator that unites members of a given culture.

click here to explore now

video exercise

Take a moment to apply what you've learned.

How Culture Affects Managers

Because it constrains what they can and cannot do, an organization's culture is particularly relevant to managers. These constraints are rarely explicit. They're not written down. It's unlikely that they'll even be spoken. But they're there, and all managers quickly learn what to do and not to do in their organization. For instance, you won't find the following values written down anywhere, 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 he or she is 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 steady increases in quarterly earnings, managers throughout the organization are unlikely to pursue programs that are innovative, risky, long term, or expansionary. For organizations that value and encourage workforce diversity, the and, thus, managers' decisions and actions should be supportive of diversity efforts. (See the "Managing Workforce Diversity" box for more information on creating an inclusive workplace.) 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. Why? The culture establishes for managers what is appropriate behavior. For instance, at St. Luke's advertising agency in London, a culture shaped by the value placed on freedom of expression, a lack of coercion and fear, and a determination to make work fun influences the way employees work and the way that managers plan, organize, lead, and control. The organization's culture is also reinforced by the office environment, which is open, versatile, and creative.[16]

An organization's culture, especially a strong one, constrains a manager's decision-making options in all management functions. As shown in Exhibit 3.4, the major areas of a manager's job are influenced by the culture in which he or she operates.

Planning

The degree of risk that plans should contain
Whether plans should be developed by individuals or teams
The degree of environmental scanning in which management will engage

Organizing

How much autonomy should be designed into employees jobs
Whether tasks should be done by individuals or in teams
The degree to which department managers interact with each other

Leading

The degree to which managers are concerned with increasing employee job satisfaction
What leadership styles are appropriate
Whether all disagreements even constructive ones should be eliminated

Controlling

Whether to impose external controls or to allow employees to control their own actions
What criteria should be emphasized in employee performance evaluations
What repercussions will occur from exceeding one s budget

Exhibit 3.4 **Managerial Decisions Affected by Culture**

click here to explore now

video example

What happens when a manager doesn't fit in with an organizational culture?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

> The Environment

Our discussion in Chapter 1 of an organization as an open system explained that an organization interacts with its environment as it takes in inputs and distributes outputs. Anyone who questions the impact of the external environment on managing should consider the following:

> The Cadillac Division of General Motors has watched its faithful buyers grow silver-haired. Its average new-car buyer is now over 60 years old. To counteract this demographic trend, the company's managers are looking at ways to attract a new generation of buyers.
>
> The year 2000 brought a harsh dose of reality to the booming stock market as the dramatic fall in the Nasdaq stock index affected the ability of companies, especially Internet companies, to raise additional capital. Some companies even canceled their initial public offerings (IPOs) of stock because of the dramatic decline in the stock market.

As these two examples show, there are forces in the environment that play a major role in shaping managers' actions. In this section, we'll identify some of the critical environmental forces that affect management and show how they constrain managerial discretion.

Defining the External Environment

The term external environment refers to forces and institutions outside the organization that potentially can affect the organization's performance. The external environment is made up of two components, the specific environment and the general environment, as shown in Exhibit 3.5.

Exhibit 3.5 **The External Environment**

The Specific Environment

The specific environment includes those constituencies that have a direct and immediate impact on managers' decisions and actions and are directly relevant to the achievement of the organization's goals. Each organization's specific environment is unique and changes with conditions. For instance, Timex and Rolex both make watches, but their specific environments differ because they operate in distinctly different market niches. What constituencies make up the specific environment? The main ones are customers, suppliers, competitors, and pressure groups.

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. (Think back to our chapter opener.) They exist to provide services, and we're reminded, especially at election time, that we indicate by our votes how satisfied we are as customers.

Customers obviously represent potential uncertainty to an organization. Their tastes can change; they can become dissatisfied with the organization's product or service. Of course, some organizations face considerably more uncertainty as a result of their customers than do others. For example, what do you think of when you think of Club Med? Club Med's image was traditionally one of carefree singles having fun in the sun at exotic locales. Club Med found, however, that as their target customers married and had children, these same individuals were looking for family-oriented vacation resorts where they could bring the kids. Although Club Med responded to the changing demands of its customers by offering different types of vacation experiences, including family-oriented ones, the company found it hard to change its original image.

Suppliers

When you think of an organization's suppliers, you typically think in terms of organizations that provide materials and equipment. For Walt Disney World resorts in Florida, these include organizations that sell soft-drink syrups, computers, food, flowers and other nursery stock, concrete, and paper products. But the term suppliers also includes providers of financial and labor inputs. Stockholders, banks, insurance companies, pension funds, and other similar organizations are needed to ensure a continuous supply of money. Labor unions, colleges and universities, occupational associations, trade schools, and local labor markets are sources of employees. When the sources of employees dry up, it can constrain managers' decisions and actions. For example, a lack of qualified nurses, a problem plaguing the health care industry, is making it difficult for health care providers to fulfill demand and achieve objectives.

Managers seek to ensure a steady flow of needed inputs at the lowest price available. Because these inputs represent uncertainties—that is, their unavailability or delay can significantly reduce the organization's effectiveness—managers typically go to great efforts to ensure a steady, reliable flow. The application of e-business principles and methods is changing the way that organizations deal with suppliers. (The "Managing in an E-Business World" box looks at this issue as well as how e-business is affecting other external constituencies.)

Competitors

All organizations have one or more competitors. Although the U.S. Postal Service has a monopoly on mail service, it competes with FedEx, UPS, and other forms of communication such as the telephone, e-mail, and fax. Nike competes against Reebok, Adidas, and Fila among others. Coca-Cola competes against Pepsi and other soft-drink companies. Not-for-profit organizations such as the Metropolitan Museum of Art and Girl Scouts USA also compete for dollars, volunteers, and customers.

Managers cannot afford to ignore the competition. When they do, they pay dearly. For instance, until the 1980s, the three major broadcast networks—ABC, CBS, and NBC—virtually controlled what you watched on television. Now, with digital cable, DVD players and VCRs, and even the World Wide Web, customers have a much broader choice of what to watch. As technological capabilities continue to expand, the number of viewing options will provide even more competition for the broadcast networks. The Internet is also having an impact on whom an organization's competitors are because it has virtually eliminated the geographic boundaries. Through the power of Internet marketing, a small maple syrup maker in Vermont can compete with the likes of Pillsbury, Quaker Oats, and Smuckers.

These examples illustrate that competitors—in terms of pricing, new products developed, services offered, and the like—represent an environmental force that managers must monitor and to which they must be prepared to respond.

Pressure Groups

Managers must recognize the special-interest groups that attempt to influence the actions of organizations. For instance, PETA's (People for the Ethical Treatment of Animals) pressure on McDonald's Corporation over its handling of animals during the slaughter process led McDonald's to stop buying beef from one of its suppliers until it met McDonald's standards for processing cattle. And it would be an unusual week if we didn't read that environmental or human rights activists were picketing, boycotting, or threatening some organization in order to get managers to change some decision or action.

As social and political attitudes change, so too does the power of pressure groups. For example, through their persistent efforts, groups such as MADD (Mothers Against Drunk Driving) and SADD (Students Against Destructive Decisions) have not only managed to make changes in the alcoholic beverage and restaurant and bar industries but have also raised public awareness about the problem of drunk drivers.

The General Environment

The general environment includes the broad economic, political/legal, sociocultural, demographic, technological, and global conditions that may affect the organization. Changes in any of these areas usually do not have as large an impact as the specific environment has, but managers must consider these areas as they plan, organize, lead, and control.

Economic Conditions

Interest rates, inflation, changes in disposable income, stock market fluctuations, and the stage of the general business cycle are some of the economic factors in the general environment that can affect management practices in an organization. For example, many specialty retailers such as Ikea, The Limited, and Williams-Sonoma are acutely aware of the impact the level of consumer disposable income has on their sales. When consumers' incomes fall or when their confidence about job security declines, they will postpone purchasing anything that isn't a necessity. Even charitable organizations such as the United Way or the Muscular Dystrophy Association feel the impact of economic factors. During economic downturns, not only does the demand for their services increase but their contributions typically decrease.

Political/Legal Conditions

Federal, state, and local governments influence what organizations can and cannot do. Some federal legislation has significant implications. For example, the Americans with Disabilities Act of 1990 (ADA) was designed to make jobs and facilities more accessible to people with disabilities. Exhibit 3.6 lists other significant legislation affecting business firms.

Legislation	**Purpose**
Occupational Safety and Health Act of 1970	Requires employer to provide a working environment free from hazards to health
Consumer Product Safety Act of 1972	Sets standards on selected products; requires warning labels, and orders product recalls
Equal Employment Opportunity Act of 1972	Forbids discrimination in all areas of employer-employee relations
Employee Retirement Income Security Act of 1974	Enacted by Congress to protect an employee's right to his or her pension
Tax Reform Act of 1986	Provided for a major restructuring of the U.S. federal income tax rate system
Worker Adjustment and Retraining Notification Act of 1988	Requires employers with 100 or more employees to provide 60 days' notice before a facility closing or mass layoff
Americans with Disabilities Act of 1990	Prohibits employers from discriminating against individuals with physical or mental disabilities or the chronically ill; also requires organizations to reasonably accommodate these individuals

Civil Rights Act of 1991	Reaffirms and tightens prohibition of discrimination; permits individuals to sue for punitive damages in cases of intentional discrimination
Women's Business Development Act of 1991	Assists the development of small business concerns owned and controlled by women through a training program and a loan program that eases access to credit through the Small Business Administration (SBA) loan program
Family and Medical Leave Act of 1993	Grants 12 weeks of unpaid leave each year to employees for the birth or adoption of a child or the care of a spouse, child, or parent with a serious health condition; covers organizations with 50 or more employees
North American Free Trade Agreement of 1993	Created a free-trade zone between the United States, Canada, and Mexico
Child Safety Protection Act of 1994	Provides for labeling requirements on certain toys that contain parts or packaging that could harm children and requires manufacturers of such toys to report any serious accidents or deaths of children to the Consumer Product Safety Commission
General Agreement on Tariffs and Trade (GATT) of 1994	Provides for the lowering of tariffs globally by roughly 40%, extending intellectual property protection worldwide, and tightening rules on investment and trade in services
U.S. Economic Espionage Act of 1996	Makes theft or misappropriation of trade secrets a federal crime
Electronic Signatures in Global and National Commerce Act of 2000	Gives online contracts (those signed by computer) the same legal force as equivalent paper contracts

Exhibit 3.6 **Selected U.S. Legislation Affecting Business**

Organizations spend a great deal of time and money to meet governmental regulations, but the effects of these regulations go beyond time and money.[19] They also reduce managerial discretion by limiting the choices available to managers. Consider the decision to dismiss an employee.[20] Historically, employees were free to quit an organization at any time and employers had the right to fire an employee at any time with or without cause. Laws and court decisions, however, have put increasing limits on what employers may do. Employers are increasingly expected to deal with employees by following the principles of good faith and fair dealing. Employees who feel that they've been wrongfully discharged can take their case to court. Juries are increasingly deciding what is or is not "fair." This trend has made it more difficult for managers to fire poor performers or to dismiss employees for off-duty conduct.

Other aspects of the political/legal sector are political conditions and the general stability of a country in which an organization operates and the attitudes that elected governmental officials hold toward business. In the United States, for example, organizations have generally operated in a stable political environment. However, management is a global activity. Managers should attempt to forecast major political changes in countries in which they operate because these political conditions can influence decisions and actions.

click here to explore now
video exercise
Take a moment to apply what you've learned.

Sociocultural Conditions

Managers must adapt their practices to the changing expectations of the society in which they operate. As societal values, customs, and tastes change, managers must also change. For instance, as workers have begun seeking more balance to their lives, organizations have had to adjust by offering family leave policies, more flexible work hours and arrangements, and even on-site child care facilities. Other sociocultural changes in the United States that have been identified include the increasing fear of crime and violence; more acceptance of gambling and gaming activities; more emphasis on religion and spiritual activities; pursuit of healthy lifestyles; and acceptance of technology in our lives. Each of these trends may pose a potential constraint to managers' decisions and actions. If an organization does business in other countries, managers need to be familiar with those countries' values and cultures and manage in ways that recognize and embrace those specific sociocultural aspects.

Demographic Conditions

The demographic conditions encompass trends in the physical characteristics of a population such as gender, age, level of education, geographic location, income, family composition, and so forth—the type of information that the U.S. Census Bureau collects.

One particular population group that you may have heard a lot about is the "baby boomers." This group typically includes individuals who were born from 1946 to 1964. The reason you hear so much about the baby boomers is that there are so many of them. Through every life stage they've entered (going to elementary school, teenage years, climbing the career ladder, and now the middle-age years), they've had an enormous impact because of their sheer numbers. Other age cohorts besides boomers that have been identified include the Depression group (born 1912–1921); the World War II group (born 1922–1927); the Postwar group (born 1928–1945); the Generation X or "zoomers" group (born 1965–1977); and Generation Y or baby boomlet generation (born 1978–1994). This last group is predicted to be as large as, if not larger than, its boomer parents. And the latter-born of this age group have been described as the Digital or Net generation because of their immersion into and acceptance of computers and all things digital.[21] The members of this generation are thinking, learning, creating, shopping, and playing in fundamentally different ways that are likely to greatly impact organizations and managers.

Technological

In terms of the general environment, the most rapid changes during the past quarter-century have occurred in technology. We live in a time of continuous technological change. For instance, the human genetic code has been cracked. Just think of the implications of such an incredible breakthrough! Information gadgets are getting smaller and more powerful. We have automated offices, electronic meetings, robotic manufacturing, lasers, integrated circuits, faster and more powerful microprocessors, synthetic fuels, and entirely new models of doing business in an electronic age. Companies that capitalize on technology such as General Electric and Nokia prosper. In addition, many successful retailers such as Wal-Mart and The Limited use sophisticated inventory information systems to keep on top of current sales trends. Other organizations such as Prime Trucking Inc. with its on-board truck computers, American Airlines with its Sabre Reservation System, and Amazon.com use information as a competitive advantage and have adopted technologically advanced e-business systems to stay ahead of their competitors. Similarly, hospitals, universities, airports, police departments, and even military organizations that adapt to major technological advances have a competitive edge over those that do not. The whole area of technology is radically changing the fundamental ways that organizations are structured and the way that managers manage. We consider it so important that we've addressed technological issues and their impact on managers throughout several chapters.

Global

As we discussed in Chapter 2, globalization is one of the major factors affecting managers and organizations. Managers of both large and small organizations are challenged by an increasing number of global competitors and consumer markets as part of the external environment. We'll cover this component of the external environment in detail in the next chapter.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

How the Environment Affects Managers

Knowing what the various components of the environment are is important to managers. However, understanding how the environment affects managers is equally as important. The environment affects managers through the degree of environmental uncertainty that is present and through the various stakeholder relationships that exist between the organization and its external constituencies.

Assessing Environmental Uncertainty

Not all environments are the same. They differ by what we call their degree of environmental uncertainty, which is determined by two dimensions: degree of change and degree of complexity in an organization's environment. Environmental uncertainty can be described as shown in the matrix in Exhibit 3.7. Let's take a closer look at the two dimensions that comprise environmental uncertainty.

Degree of Complexity	Degree of Change: Stable	Degree of Change: Dynamic
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 in continual process of change 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 in continual process of change High need for sophisticated knowledge of components

Exhibit 3.7 Environmental Uncertainty Matrix

The first of these dimensions is the degree of change. If the components in an organization's environment change frequently, we call it a dynamic environment. If change is minimal, we call it a stable one. A stable environment might be one in which there are no new competitors, no new technological breakthroughs by current competitors, little activity by pressure groups to influence the organization, and so forth. For instance, Zippo Manufacturing, best known for its Zippo lighters, faces a relatively stable environment. There are few competitors and little technological change. Probably the main environmental concern for the company is the declining trend in tobacco smokers, although the company's lighters have other uses and global markets remain attractive because tobacco use around the world is still strong.

In contrast, the Big Five of the music industry (Sony, Warner, BMG, EMI, and Universal) face a highly uncertain and unpredictable environment. Digital formats such as MP3 and music-swapping Internet services such as Napster Inc. are turning the recorded music industry upside down. Although the music companies have long earned revenues by selling physical commodities such as LP records, cassettes, CDs, and the like, the digital future represents chaos and uncertainty. This environment can definitely be described as dynamic.

What about rapid change that's predictable? Is that considered a dynamic environment? Bricks-and-mortar retail department stores provide a good example. They typically make one quarter to one third of their sales in December. The drop-off from December to January is significant. However, because the change is predictable, we don't consider the environment to be dynamic. When we talk about degree of change, we mean change that is unpredictable. If change can be accurately anticipated, it's not an uncertainty that managers must confront.

The other dimension of uncertainty describes the degree of environmental complexity. The degree of complexity refers to the number of components in an organization's environment and the extent of the knowledge that the organization has about those components. For example, Hasbro Toy Company, the second largest toy manufacturer (behind Mattel) has simplified its environment by acquiring many of its competitors such as Tiger Electronics, Wizards of the Coast, Kenner Toys, Parker Brothers, and Tonka Toys. The fewer competitors, customers, suppliers, government agencies, and so forth that an organization must deal with, the less complexity and, therefore, the less uncertainty there is in its environment.

Complexity is also measured in terms of the knowledge an organization needs to have about its environment. For instance, managers at the online brokerage E*Trade must know a great deal about their Internet service provider's operations if they want to ensure that their Web site is available, reliable, and secure for their stock-trading customers. On the other hand, managers of grocery stores have a minimal need for sophisticated knowledge about their suppliers.

How does the concept of environmental uncertainty influence managers? Looking again at Exhibit 3.7, each of the four cells represents different combinations of degree of complexity and degree of change. Cell 1 (an environment that is stable and simple) represents the lowest level of environmental uncertainty. Cell 4 (an environment that is dynamic and complex) is the highest. Not surprisingly, managers' influence on organizational outcomes is greatest in cell 1 and least in cell 4.

Because uncertainty is a threat to an organization's effectiveness, managers try to minimize it. Given a choice, managers would prefer to operate in environments such as those in cell 1. However, managers rarely have full control over that choice. In addition, most industries today are facing more dynamic change, making their environments more uncertain.

Stakeholder Relationship Management

What has made VH1 the TV channel for music-loving baby boomers? One reason is that VH1 President John Sykes knows the importance of building relationships with the organization's various external stakeholders: viewers, music celebrities, advertisers, affiliate TV stations, public service groups, and others. The nature of external stakeholder relationships is another way in which the environment influences managers. The more obvious and secure these relationships become, the more influence managers will have over organizational outcomes. In this section, we want to look at how we define these external stakeholder relationships, explain why managing external stakeholder relationships is important, and examine various ways of managing these relationships.

Who Are Stakeholders?

Stakeholders are any constituencies in the organization's external environment that are affected by the organization's decisions and actions. These groups have a stake in or are significantly influenced by what the organization does. In turn, these groups can influence the organization. For example, think of the groups that might be affected by the decisions and actions of Starbucks—coffee bean suppliers, employees, specialty coffee competitors, local communities, and so forth. Some of these stakeholders also may impact decisions and actions of Starbucks' managers. The idea that organizations have stakeholders is now widely accepted by both management academics and practicing managers.[22]

With what types of stakeholders might an organization have to deal? Exhibit 3.8 identifies some of the most common. Note that these stakeholders include internal and external groups. Why? Because both can affect what an organization does and how it operates. However, we're primarily interested in the external groups and their impact on managers' discretion in planning, organizing, leading, and controlling. This doesn't mean that the internal stakeholders aren't important, but we explain managing these relationships, primarily with organizational members (employees), throughout the rest of the book.

Exhibit 3.8 Organizational Stakeholders

Why Is Stakeholder Relationship Management Important?

Why should managers even care about managing stakeholder relationships?[23] One reason is that it can lead to other organizational outcomes such as improved predictability of environmental changes, more successful innovations, greater degrees of trust among stakeholders, and greater organizational flexibility to reduce the impact of change. But does it affect organizational performance? The answer is yes! Management researchers who have looked at this issue are finding that managers of high-performing companies tend to consider the interests of all major stakeholder groups as they make decisions.[24]

Another reason given for managing external stakeholder relationships is that it's the "right" thing to do. What does this mean? It means that an organization depends on these external groups as sources of inputs (resources) and as outlets for outputs (goods and services), and managers should consider their interests as they make decisions and take actions. We'll address this issue in more detail in Chapter 5 as we look at the concepts of managerial ethics and corporate social responsibility.

How Can These Relationships Be Managed?

There are four steps in managing external stakeholder relationships. The first step is identifying who the organization's stakeholders are. Which of the various external groups might be impacted by decisions that managers make and which external groups might influence those decisions? Those external groups that are likely to be influenced by and to influence organizational decisions are the organization's stakeholders. The second step is for managers to determine what particular interests or concerns these stakeholders might have—product quality, financial issues, safety of working conditions, environmental protection, and so forth. Next managers must decide how critical each stakeholder is to the organization's decisions and actions. In other words, how critical is it to consider this stakeholder's concerns as managers plan, organize, lead, and control? The very idea of a stakeholder—a group that has a "stake" in what the organization does—means that it is important. But some stakeholders are more critical to the organization's decisions and actions than others. For instance, a critical stakeholder of a publicly supported state university would be the state legislature because it controls how much budget money the university gets each year. On the other hand, the university's computer hardware and software suppliers are important but not critical. Once managers have determined these things, the final step is determining what specific approach they should use to manage the external stakeholder relationships. This decision depends on how critical the external stakeholder is to the organization and how uncertain the environment is.[25] The more critical the stakeholder and the more uncertain the environment, the more that managers need to rely on establishing explicit stakeholder partnerships. Exhibit 3.9 illustrates the various approaches to managing stakeholder relationships.

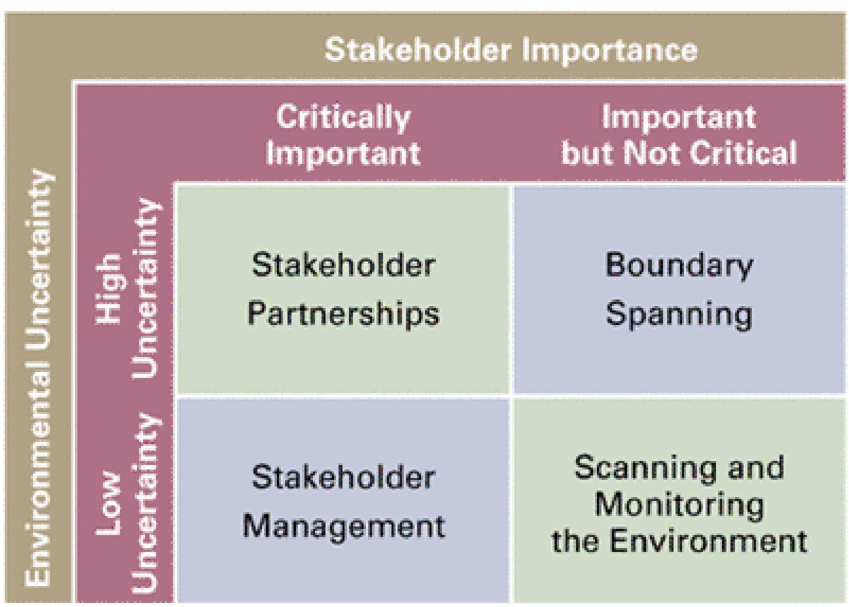


Exhibit 3.9 **Managing Stakeholder Relationships**

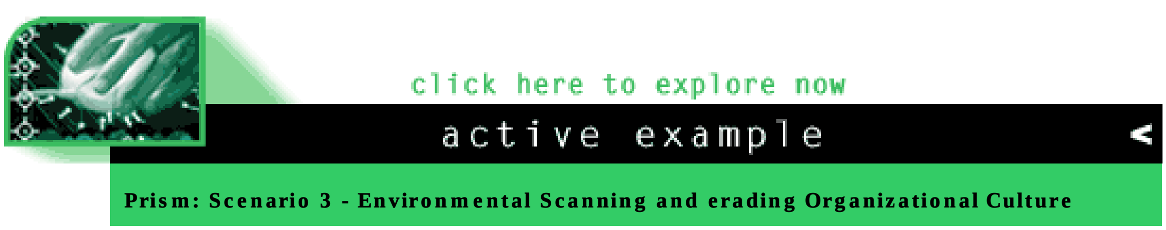
When external stakeholders are important but not critical and environmental uncertainty is low, managers usually rely on simply scanning and monitoring the environment for trends and forces that may be changing. In this situation, it's not necessary for managers to take specific actions to manage stakeholders. They just need to stay informed about what's happening with them, what concerns they might have, and whether these concerns are changing. (We'll discuss environmental scanning techniques in Chapter 9.)

When the stakeholder is important but not critical and environmental uncertainty is high, managers need to be more proactive in their efforts to manage the stakeholder relationships. They can do this by using boundary spanning, which involves interacting in more specific ways with various external stakeholders to gather and disseminate important information. In boundary spanning, organizational members move freely between the organization and external stakeholders. The boundaries of the organization become more flexible and permeable. Boundary spanners are often said to have their feet in multiple settings—that is, they span the organizational boundaries. For instance, individuals who interact day in and day out with external stakeholders as they do their jobs—such as a salesperson for Pfizer who interacts with doctors and health care professionals, a public relations manager who talks with newspaper and television reporters, a buyer at Target who works with clothing suppliers in Asia, an equipment installation specialist for GE Medical Systems who collaborates with a competitor in installing an expensive imaging machine for a hospital, and so forth—would establish closer and more explicit relationships with the various stakeholders. It's a step beyond just simply scanning and monitoring the environment because boundary spanners actively interact with stakeholders as they gather and disseminate information.

When the stakeholder is critical and environmental uncertainty is low, managers can use more direct stakeholder management efforts such as conducting customer marketing research, encouraging competition among suppliers, establishing governmental relations departments or lobbying efforts, initiating public relations connections with public pressure groups, and so forth. For instance, when Nike wanted to address the issue of the working conditions in its overseas factories, it worked with several stakeholders including customers, suppliers, government agencies, and public pressure groups to manage the situation.

Finally, when the stakeholder is critical and environmental uncertainty is high, managers should use stakeholder partnerships, which are proactive arrangements between an organization and a stakeholder to pursue common goals. These types of partnering activities allow organizations to build bridges—organization–supplier, organization–customer, organization–local communities, organization–competitor, and so forth—to their stakeholders. For instance, Compaq and IBM initiated a partnership to structure their data storage capabilities to work together. Together they're spending over $1 billion to achieve compatibility in their data storage devices. Stakeholder partnerships involve significant levels of commitment among the partners to be more interdependent rather than independent. This whole notion of stakeholder partnerships is the premise behind value chain management, which we'll discuss in detail in Chapter 19.

As we have seen, organizations are not self-contained or self-sufficient. They interact with and are influenced by their environment. Organizations depend on their environment as a source of inputs and as a recipient of their outputs. Many of the environmental forces—both specific and general—are dynamic and create considerable uncertainty for managers. The greater the environmental uncertainty an organization faces, the more the environment limits managers' options. However, through various approaches, managers are learning how to better manage those external relationships to minimize the constraints.



click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 << previous | next >>

> Chapter Wrap-Up

You had a chance to voice your opinion about Catherine Deslauriers dilemma at the beginning of this chapter. Now listen as two managers share their views.

Ricardo Mendiola
Senior Community Liaison
Houston Department of Health and Human Services, Houston, Texas

[Not working? Get Quicktime](#)

The key elements to successful stakeholder relationships between the community and the city are: cooperative objectives established by both; structured communication; focus on ways to enhance the relationship; strategies to effectively deliver services; regularly scheduled meetings; ongoing evaluation of services; and consideration of funding.

The long term success and vision of a city depends so much on its ability to establish and enhance a solid relationship between its community (stakeholders) and the city. By analyzing both the community and the city objectives, you can establish the City's approach and delivery of services.

I think it is essential that the city recognize the importance and value of the community and include them in the service delivery process. This makes the community feel that its stake in the service delivery process is recognized and valued.

Lynee Pauk
Laboratory Supervisor and Medical Technologist
St. John's Regional Health Center, Springfield, Missouri

[Not working? Get Quicktime](#)

In any situation, it is important to first recognize the goal of what is to be done. The goal in this situation is to improve public involvement in Vancouver's city issues.

Second, it's important to identify problem(s) which hinder the goal from being met. In this case, Deslauriers has identified the isolation of the business units as a problem.

To resolve this, it would be helpful to establish stakeholder relationships between the business units and the community to encourage involvement. How could she accomplish this? She would need to identify the relevant stakeholders and pinpoint their concerns and interests. Once she had done this, Deslauriers would need to prioritize these concerns and then determine an effective approach to use in managing the stakeholder relationships which would depend on how critical the stakeholder is and how uncertain the environment is.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log on: Internet Based Exercise
- Working Together: Team Based Exercise
- Case Application
- Mastering Management

go to page: 1 2 3 4 5 << previous

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter Outline

[Go to Student View](#)
[Table of Contents](#)
[Chapter Contents](#)
[Search](#)
[Rate the Difficulty](#)
[In the News](#)
[Internet Exercises](#)
[Robbins OnLine Learning System (R.O.L.L.S.)](#)
[Faculty Resources](#)
[Misc. Resources](#)

Chapter 4: Managing in a Global Environment

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	[How Corporate Social Responsibility Evolves Around the World](#) (07/10/02)
	[Japan's Distress Prompts An Odd Career Transition](#) (05/17/02)

The Geography of Poverty and Wealth (09/18/01)

Can Kraft Be A Big Cheese Abroad? (07/24/01)

Competitive Strategy Moves for Boeing (06/20/01)

Looking For Profits In Poverty (04/16/01)

Rallying The Troops At P & G---Revamping Its Globalization (11/10/00)

The Internet Creates New Global Legal Challenges ft. com (09/12/00)

Changing the Nature of International Trade (08/30/00)

Tiger Woods: Making the Risk Pay Big Time! (08/28/00)

A Vote for China's Freedom (06/01/00)

Entering the Satellite Business (05/09/00)

BACKLASH: Behind the Anxiety Over Globalization (04/25/00)

Intellectual Property Rights in the Age of AIDS (03/27/00)

Outsourcing from the New Silicon Valley (03/21/00)

Japan Goes Web Crazy (03/03/00)

Being Boeing (01/04/00)

Global Automakers Adapt Their Structures to Strategy and Culture (01/04/00)

What's Wrong With AOL/Netscape? (01/14/99)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

A Systems Model for Measuring Performance (04/04/02)

Wondering about Warming (10/02/00)

Exporting-A "How to Export" Guide (08/28/00)

Top Global Corporations Use The Internet As A Competitive Tool (08/11/00)

The Internet, Exporting, and Small Business Internationalization (06/30/00)

Rapid Response in Outer Space (06/12/00)

Building a Better Tomato (04/17/00)

Using the Internet to Influence Organizational Stakeholders (12/02/99)

International Trade, Development, and Governance Organizations-the World Trade Organization (WTO), the International Monetary Fund (IMF), and the World Bank.

(11/01/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap04.doc

Lecture Presentation - chap04.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

Modules - modules.doc

Preface - preface.doc

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Add to...

Just for Students

Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 4

go to page: 1

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> What's Ahead

A Manager's DilemaA

It's the world's third-largest cement producer and has excelled in global markets by continually working to improve the service it provides its customers, wherever they are. Cemex, based in Monterrey, Mexico, follows certain principles that it believes make "the Cemex difference."[1] These principles include enhancing customer service, customer-focused technology, operating efficiency, management development, ecological efficiency, empowering people, market leadership, strategic thinking, a passion for learning, *and* a global perspective. Cemex believes that to succeed in a competitive global environment, managers need multicultural perspectives. It has implemented several initiatives including educational programs that foster effective communication and unity among Cemex's worldwide offices, an expatriate program in which executives of different nationalities are assigned key positions in facilities in foreign countries, and other activities that give managers the opportunity to broaden their global expertise. Company managers such as Raymundo Gonzalez, an international trading division manager, are discovering how important it is to understand managing in a global environment.

Although he's based out of Monterrey, Mexico, Gonzalez will be working frequently in Cemex's Asian operations, primarily in Indonesia. Cemex has a 25 percent stake in Indonesian cement maker, Semen Gresik. This manufacturing operation is the largest for Cemex outside Mexico. Before formally joining with Gresik, Cemex had done a great deal of cement trading in Asia. There's no doubt that the Asian business is important to Cemex's future plans.

There are some similarities between Mexico and Indonesia. Both are developing nations where companies must establish a favorable working climate and where they sometimes have to work with limited technology. But the differences seem far greater. For instance, the cultural characteristics of the two countries are dramatically different. Religious preferences (Catholicism versus Muslim), musical tastes, and cuisine are a few of the differences Cemex managers will have to face. Put yourself in Gonzalez's position. How can he make the adjustment easier for other Cemex managers—Mexican and Indonesian—who will be working with him?

What Would You Do?

Before you begin reading this chapter, try a short warm-up activity.

click here to explore now

objectives

Take a moment to familiarize yourself with the key objectives of this chapter.

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

The Cemex example demonstrates that the challenges of managing in the global environment don't go away even for a large global corporation. The global marketplace is a whole new ball game for managers. With the entire world as a market and national borders becoming increasingly irrelevant, the potential for organizations to grow expands dramatically. For example, a study of 1,250 highly diverse U.S. manufacturing firms found that companies that operated in multiple countries had twice the sales growth and significantly higher profitability than strictly domestic firms.[2]

However, as the opening dilemma also implies, the opening of global borders can work both ways! There are considerable challenges in managing a global business as well. Managers must deal with economic, political, and cultural differences. And new competitors can suddenly appear at any time from any place on the globe. Managers who don't closely monitor changes in their global environment or who don't take the specific characteristics of their location into consideration as they plan, organize, lead, and control are likely to find limited global success. In this chapter, we're going to discuss the issues managers have to face in managing in a global environment.

> Who Owns What

To further emphasize our point about the international aspects of business today, take a look at Exhibit 4.1. This is a partial list of U.S. companies that derive more than half of their revenues from foreign operations. As you can see, these companies represent a broad cross section of products, markets, and industries.

Company	Non-U.S. Revenues as % of Total
Manpower	77.0%
ExxonMobil	71.8
Colgate-Palmolive	71.6
Texas Instruments	67.8
Avon	65.8
McDonald's	61.6
Coca-Cola	61.2

Gillette	60.1

Exhibit 4.1	Selected Companies with Significant Revenues from Non-U.S. Operations

Source: B. Zajac, "Global Giants," *Forbes*, July 24, 2000, pp. 335–38.

> What's Your Global Perspective?

It's not unusual for Germans, Italians, or Indonesians to speak three or four languages. Most Japanese schoolchildren begin studying English in the early elementary grades. On the other hand, most U.S. children study only English in school. Americans tend to think of English as the only international business language and don't see a need to study other languages.

Monolingualism is just one of the signs that a nation suffers from parochialism. That is, it views the world solely through its own eyes and perspectives.[3] People with a parochial attitude do not recognize that other people have different ways of living and working. Parochialism is a significant obstacle for many managers working in a global business world. If managers fall into the trap of ignoring foreign values and customs and rigidly apply an attitude of "ours is better than theirs" to foreign cultures, they will find it difficult to compete with other managers and organizations around the world that *are* seeking to understand foreign customs and market differences. But this type of selfish, parochialistic attitude isn't the only approach that managers might take toward managing in a global environment. Managers might have one of three attitudes toward international business: ethnocentric (home country-oriented), polycentric (host country-oriented), or geocentric (world-oriented).[4] Exhibit 4.2 summarizes the key points about each of these global attitudes. Let's look at each more closely.

	Ethnocentric	**Polycentric**	**Geocentric**
Orientation	**Home Country**	**Host Country**	**World**
Advantages	• Simpler structure • More tightly controlled	• Extensive knowledge of foreign market and workplace • More support from host government • Committed local managers with high morale	• Forces understanding of global issues • Balanced local and global objectives • Best people and work approaches used regardless of origin

Drawbacks	• More ineffective management • Inflexibility • Social and political backlash	• Duplication of work • Reduced efficiency • Difficult to maintain global objectives because of intense focus on local traditions	• Difficult to achieve • Managers must have both local and global knowledge

Exhibit 4.2 **Key Information about Three Global Attitudes**

An ethnocentric attitude is the parochialistic belief that the best work approaches and practices are those of the home country (the country in which the company's headquarters are located). Managers with an ethnocentric attitude believe that people in foreign countries do not have the needed skills, expertise, knowledge, or experience to make the best business decisions as people in the home country do. They wouldn't trust foreign employees with key decisions or technology.

The polycentric attitude is the view that the managers 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 a polycentric attitude view every foreign operation as different and hard to understand. Thus, these managers are likely to leave their foreign facilities alone and let foreign employees figure out how best to do things.

The last type of global attitude that managers might have is the geocentric attitude, which is a world-oriented view that focuses on using the best approaches and people from around the globe. Managers with this type of attitude believe that it's important to have a global view both at the organization's headquarters in the home country *and* in the various foreign work facilities. Major issues and decisions are viewed globally by looking for the best approaches and people regardless of origin.

Successful global management requires enhanced sensitivity to differences in national customs and practices. Management practices that work in Chicago might not be appropriate in Bangkok or Berlin. Read the examples in Exhibit 4.3 of the cultural blunders that can happen when managers ignore foreign values and customs and rigidly apply their own. Later in this chapter and throughout the rest of the book, you'll see how a geocentric attitude toward managing requires eliminating parochial attitudes and carefully developing an understanding of cultural differences between countries.

- You're in Shanghai on business. Walking down the street one day, you pass a Chinese colleague. He asks you, "Have you eaten yet?" You answer, "No, not yet." He rushes off, looking embarrassed and uncomfortable. The phrase, "Have you eaten yet?" is a common greeting—just like "Hi, how are you?" in the United States. It's the Chinese way of saying "Is your belly full today?" or "Is life treating you well?"

- A U.S. manager transferred to Saudi Arabia successfully obtained a signature on a million dollar contract from a Saudi manufacturer. The manufacturer's representative had arrived at the meeting several hours late, but the U.S. executive considered this tardiness unimportant. The American was certainly surprised and frustrated to learn later that the Saudi had no intention of abiding by the contract. He had signed it only to be polite after showing up late for the appointment.

- A U.S. executive visiting Germany for the first time was invited to the home of his largest customer. He decided to be a good guest and brought the hostess a bouquet of a dozen red roses. He later learned that in Germany it is bad luck to present an even number of flowers and that red roses are symbolic of a strong romantic interest.

- A U.S. executive based in Peru was viewed by Peruvian managers as cold and unworthy of trust because, in face-to-face discussions, he kept backing away. He didn't understand that in Peru and other Latin countries, the custom is to stand quite close to the person with whom you are speaking.

- The "thumbs up" gesture is considered offensive in Middle East, rude in Australia, and a sign of "OK" in France.

- It's rude to cross your arms while facing someone in Turkey.

Exhibit 4.3 **Examples of Cross-Cultural Blunders**

Source: See D.A. Ricks, M.Y.C. Fu, and J.S. Arpas, *International Business Blunders* (Columbus, OH: Grid, 1974); A. Bennett, "American Culture Is Often a Puzzle for Foreign Managers in the U.S." *Wall Street Journal*, February 12, 1986, p. 29; C.F. Valentine, "Blunders Abroad," *Nation's Business*, March 1989, p. 54; R.E. Axtell (ed.), *Do's and Taboos around the World*, 3rd ed. (New York: John Wiley & Sons, 1993); B. Pachter, "When in Japan, Don't Cross Your Legs," *Business Ethics*, March–April 1996, p. 50; and V. Frazee, "Keeping Up on Chinese Culture," *Global Workforce*, October 1996, pp. 16–17.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter 4

go to page: 4

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Understanding the Global Environment

As we mentioned in Chapter 2, management is no longer constrained by national borders. Managers in all sizes and types of organizations are faced with the opportunities and challenges of managing in a global environment. What is the global environment like? Two important features of the global environment that managers must understand are regional trading alliances and the different types of global organizations.

Regional Trading Alliances

Just a few years ago, international competition was best described in terms of country against country—the United States versus Japan, France versus Germany, Mexico versus Canada. Now, global competition has been reshaped by the creation of regional trading and cooperation agreements including the European Union (EU), North American Free Trade Agreement (NAFTA) , and the Association of Southeast Asian Nations (ASEAN).

The European Union

The signing of the Maastricht Treaty (named for the Dutch town where the treaty was signed) in February 1992 created the formation of the European Union (EU). This treaty united 12 countries—Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, and Germany—as a unified economic and trade entity. Three other countries—Austria, Finland, and Sweden—joined the group in 1995. (See Exhibit 4.4.) Six countries (Poland, Hungary, the Czech Republic, Cyprus, Slovenia, and Estonia) are in membership negotiations to join the EU but won't be admitted before 2003.[5] Seven other countries (Turkey, Romania, Slovakia, Bulgaria, Latvia, Lithuania, and Malta) are considering starting membership negotiations. The current EU membership covers a population base of over 374 million people. Adding the seven countries in membership negotiations brings the total population base covered by the EU to over 437 million—a significant source of economic power.

Exhibit 4.4	European Union Countries

Before the creation of the EU, each of these nations had border controls, taxes, and subsidies; nationalistic policies; and protected industries. Now, as a single market, there are no national barriers to travel, employment, investment, and trade. The EU took an enormous step toward full unification in 1999 when 11 of the 15 countries became part of the EMU—the economic and monetary union, the formal name for the system in which participating countries share the same currency, the euro.[6] After 2002, the mark, the lira, and other currencies of participating countries will no longer be used. (The four countries currently not in the EMU are Greece, Sweden, United Kingdom, and Denmark.)

The primary motivation for the joining of these European nations was to allow them to reassert their economic position against the strength of the United States and Japan. Working in separate countries with barriers against one another, European industries couldn't develop the efficiency of American and Japanese businesses. As the EU continues to evolve, it continues to assert its economic power in one of the world's richest markets. European businesses will continue to play an important role in the global economy. For instance, Unilever PLC of the United Kingdom is a powerful force in consumer products (look back at the "Who Owns What" quiz), DaimlerChrysler AG of Germany is a solid competitor in automobiles, and Nokia of Finland is a dominant player in wireless technology.

North American Free Trade Agreement (NAFTA)

When agreements in key issues covered by the North American Free Trade Agreement (NAFTA) were reached by the Mexican, Canadian, and U.S. governments on August 12, 1992, a vast economic bloc was created. Since 1994, when NAFTA went into effect, and 1998 (the most recent year for complete statistics), U.S. trade with Canada increased 56 percent to $329.9 billion (almost $1 billion per day), and U.S. trade with Mexico increased 113 percent to $173.4 billion.[7] Eliminating the barriers to free trade (tariffs, import licensing requirements, customs user fees) has resulted in a strengthening of the economic power of all three countries.

Consumers such as these Mexican shoppers as well as their counterparts in Canada and the United States have benefited from trade increases among the three countries that resulted from the implementation of NAFTA in 1994, which created a huge economic trading bloc.

Other Latin American nations are moving to become part of free-trade blocs. Colombia, Mexico, and Venezuela led the way when, in 1994, all three governments signed an economic pact eliminating import duties and tariffs. Now 36 countries in the Caribbean region, South America, and Central America are negotiating a Free Trade Area of the Americas (FTAA) trade agreement.[8] Already in existence is another free-trade bloc known as the Southern Cone Common Market, or Mercosur.[9] (See Exhibit 4.5.) As new trading blocs are created in this part of the globe, we're likely to see changes in how organizations are managed, particularly those with significant business interests in these regions.

Exhibit 4.5 **Mercosur Members**

Source: Based on C. Sims, "Chile Will Enter a Big South American Free-Trade Bloc," *New York Times*, June 26, 1996, p. C2.

Association of Southeast Asian Nations (ASEAN)

The ASEAN is a trading alliance of 10 Southeast Asian nations. (See Exhibit 4.6.) During the years ahead, Asia, and particularly the Southeast Asian region, promises to be one of the fastest-growing economic regions of the world. It will be an increasingly important regional economic and political alliance whose impact eventually could rival that of both NAFTA and the EU.

Exhibit 4.6	**ASEAN Members**

Source: Based on J. McClenahen and T. Clark, "ASEAN at Work," *IW*, May 19, 1997, p. 42.

Other regions around the world continue to look at the creation of regional trading alliances. For instance, nine African nations (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, and Zimbabwe) have combined into a free trade area that encompasses 170 million people. In addition, these nine countries are members of the 21-nation Common Market for Eastern and Southern Africa (COMESA). These countries have pledged to permit the free flow of skilled labor by 2004, to allow the free movement of citizens by 2014, and to establish a common currency by 2025.[10]

Different Types of Global Organizations

Companies doing business globally aren't anything new. Siemens, Remington, and Singer, for instance, were selling their products in many countries in the late 1800s. 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 multinational. But it wasn't until the mid-1960s that multinational corporations (MNCs) became commonplace. These organizations—which maintain significant operations in multiple countries but are managed from a base in the home country—inaugurated the rapid growth in international trade. With its focus on control from the home country, the MNC is characteristic of the ethnocentric attitude. Some examples of companies that can be considered MNCs include Sony, Deutsche Bank AG, ExxonMobil, and Merrill Lynch. Although these companies have considerable global holdings, management decisions with company-wide implications are made from headquarters in the home country.

Another type of global organization is called the transnational corporation (TNC)—a company that maintains significant operations in more than one country but decentralizes management to the local country. This type of organization doesn't attempt to replicate its domestic successes by managing foreign operations from its home country. Instead, nationals typically are hired to run operations in each country, and marketing strategies for each country are tailored to that country's unique characteristics. This type of global organization reflects the polycentric attitude. For example, Switzerland-based Nestlé, the world's largest food company, can be described as a transnational. 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 of a transnational 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 U.S. and Canadian version. Many consumer companies manage their global businesses as TNCs because they must adapt their products and services to meet the needs of the local markets.

Because of the increasingly global environment, many large, well-known companies are moving to more effectively globalize their management structure by eliminating structural divisions that impose artificial geographical barriers. This type of global organization is called a borderless organization. The borderless organization approaches global business from a geocentric attitude. For example, IBM dropped its organizational structure based on country and reorganized into 14 industry groups. Bristol-Myers Squibb changed its consumer business to become more aggressive in international sales and created a management position responsible for worldwide consumer medicines such as Bufferin and Excedrin. And Spain's Telefonica eliminated the geographic divisions between its headquarters in Madrid and its widespread phone companies. The company will be organized, instead, along business lines such as Internet services, cellular phones, and media operations. Borderless management is an attempt by organizations to increase efficiency and effectiveness in a competitive global marketplace.[11]

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> How Organizations Go Global

How does an organization do business globally? Most proceed through three stages as shown in Exhibit 4.7. Each successive stage requires more investment globally and, thus, entails more risk.

Exhibit 4.7 **How Organizations Go Global**

In Stage I, managers make the first push toward going international merely by exporting the organization's products to other countries—that is, by making products at home and selling them overseas. In addition, an organization might choose initially to go global by importing products, that is, selling products at home that are made overseas. Both exporting and importing are nominal steps toward being a global business involving minimal investment and minimal risk. Most organizations start doing business globally this way. Many of these organizations, especially small businesses, continue with exporting and importing as their approaches to global involvement. For instance, Haribhai's Spice Emporium, a small business in Durban, South Africa, exports spices and rice to customers all over Africa, Europe, and the United States. However, some organizations have built multimillion dollar businesses by importing or exporting. For instance, that's what specialty retailer Pier 1 has done. It imports exotic products for sale in its stores around the world.

In Stage II, managers make more of an investment by committing to sell products in foreign countries or to have them made in foreign factories, but there is still no physical presence of company employees outside the company's home country. Instead, what is typically done on the sales side is sending domestic employees on regular business trips to meet foreign customers or hiring foreign agents or brokers to represent the organization's product line. On the manufacturing side, managers will contract with a foreign firm to produce the organization's products.

Stage III represents the most serious commitment by managers to pursue global markets. As shown in Exhibit 4.7, managers can do this in different ways. Licensing and franchising are similar approaches since both involve an organization's 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 and franchising is used by service organizations. For example, Thai consumers can enjoy Bob's Big Boy hamburgers, Filipinos can dine on Shakey's Pizza, and Malaysians can consume Schlotzky's deli sandwiches—all because of franchises in these countries. And Anheuser-Busch chose to license the right to brew and market Budweiser beer to other brewers, such as Labatt in Canada, Modelo in Mexico, and Kirin in Japan. Strategic alliances are partnerships between an organization and a foreign company in which both share resources and knowledge in developing new products or building production facilities. The partners also share the risks and rewards of this alliance. For example, IBM of the United States, Toshiba of Japan, and Siemens of Germany formed a partnership to develop new generations of computer chips. A specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose is called a joint venture. For example, Hewlett-Packard has had numerous joint ventures with various suppliers around the globe to develop different components for its computer equipment. These partnerships provide a fast and less expensive way for companies to compete globally than would doing it on their own. Finally, in Stage III, managers can make a direct investment in a foreign country by setting up a foreign subsidiary, a separate and independent production facility or office. This subsidiary can be managed as an MNC (domestic control), a TNC (foreign control), or as a borderless organization (global control). As you can probably guess, this arrangement involves the greatest commitment of resources and poses the greatest amount of risk. For instance, Motorola invested $2 billion in a semiconductor-manufacturing facility in Scotland in an attempt to bolster its wireless telecommunications business.

Management (activebook), 7/e

Stephen P. Robbins   Mary Coulter

> Managing in a Global Environment

Assume for a moment that you're an American manager going to work for a branch of a global organization in a foreign country. You know that your environment will differ from the one at home, but how? What should you be looking for?

Any manager who finds himself or herself in a foreign country faces new challenges. In this section, we'll look at some challenges and offer guidelines for responding. Although our discussion is presented through the eyes of a U.S. manager, our analytical framework could be used by any manager regardless of national origin who has to manage in a foreign environment.

click here to explore now

video exercise

Take a moment to apply what you've learned.

The Legal-Political Environment

Managers in the United States are accustomed to stable legal and political systems. Changes are slow, and legal and political procedures are well established. Elections are held at regular intervals. Even changes in political parties after an election do not produce any radical or quick transformations. The stability of laws governing the actions of individuals and institutions allows for accurate predictions. The same can't be said for all nations. Managers in a global organization must stay informed of the specific laws in countries where they do business.

Also, some countries have a history of unstable governments. Some South American and African countries have had six governments in as many years. With new government have come new rules. The goal of one government may be to nationalize the country's key industries whereas the goal of the next may be to encourage free enterprise. Managers of businesses in these countries face dramatically greater uncertainty as a result of political instability. Political interference is also a fact of life in many Asian countries. For instance, many large businesses have postponed doing business in China because the Chinese government still has too much control over what these organizations do and how they do it. As Chinese consumers gain more power, that governmental attitude is likely to change.

The legal-political environment doesn't have to be unstable or revolutionary to be a concern to managers. Just the fact that a country's laws and political system differ from that of the United States is important. Managers must recognize these differences if they hope to understand the constraints under which they operate and the opportunities that exist.

The Economic Environment

The global manager has economic concerns that the manager who operates in a single country doesn't have. Three of the most obvious are fluctuating currency exchange rates, inflation rates, and diverse tax policies.

A global firm's profits can vary dramatically depending on the strength of its home currency and the currencies of the countries in which it operates. Any devaluation of a nation's currency significantly affects the level of a company's profits. The strength of a foreign nation's currency can also affect managers' decisions.

Economic inflation rates can vary widely in different regions of the world. For example, in late 1999, the annual inflation rate in Turkey had decreased to 100 percent. Between September 1999 and April 2000, the exchange rate for Turkish lira went from 462,000 per U.S. dollar to 611,000! Even larger and more industrialized countries such as Brazil and Russia have suffered from high inflation rates. For instance, it has sometimes reached 2,700 percent in Brazil. The inflation rate influences prices paid for raw materials, labor, and other supplies. In addition, it affects the price that a company can charge for its goods and services.

Finally, diverse tax policies are a major worry for a global manager. Some host countries are more restrictive than the organization's home country. Others are far more lenient. About the only certainty is that tax rules differ from country to country. Managers need exact information on the various tax rules in countries in which they operate to minimize their business's overall tax obligation. But tax rules aren't the only economic information managers want to monitor. They also want to stay on top of the other economic factors we described—currency exchange rates and inflation rates.

The Cultural Environment

The final global area of concern to managers is the cultural differences between nations. As we know from Chapter 3, organizations have different cultures. Countries have cultures too, as anthropologists have long been telling us. Like organizational culture, national culture is the values and attitudes shared by individuals from a specific country that shape their behavior and their beliefs about what is important.[12]

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 does their organization's culture.[13] German employees at an IBM facility in Munich will be influenced more by German culture than by IBM's culture. This means that as influential as organizational culture may be on managerial practice, national culture is even more influential.

Legal, political, and economic differences among countries are fairly obvious. The Japanese manager who works in the United States or his or her American counterpart in Japan can get information about a country's laws or tax policies without too much difficulty. Getting information about a country's cultural differences isn't quite that easy! The primary reason is that it's hard for natives to explain their country's unique cultural characteristics to someone else. If you're an American raised in the United Sates, how would you characterize U.S. culture? In other words, what are Americans like? Think about it for a moment and then see how many of the points in Exhibit 4.8 you identified.

Americans are very *informal*. They tend to treat people alike even when there are great differences in age or social standing.

Americans are *direct*. They don't talk around things. To some foreigners, this may appear as abrupt or even rude behavior.

Americans are *competitive*. Some foreigners may find Americans assertive or overbearing.

Americans are *achievers*. They like to keep score, whether at work or at play. They emphasize accomplishments.

Americans are *independent* and *individualistic*. They place a high value on freedom and believe that individuals can shape and control their own destiny.

Americans are *questioners*. They ask a lot of questions, even of someone they have just met. Many of these questions may seem pointless ("How ya' doin'?") or personal ("What kind of work do you do?").

Americans *dislike silence*. They would rather talk about the weather than deal with silence in a conversation.

Americans *value punctuality*. They keep appointment calendars and live according to schedules and clocks.

Americans *value cleanliness*. They often seem obsessed with bathing, eliminating body odors, and wearing clean clothes.

Exhibit 4.8 **What Are Americans Like?**

Source: Based on M. Ernest (ed.), *Predeparture Orientation Handbook: For Foreign Students and Scholars Planning to Study in the United States* (Washington, DC: U.S. Information Agency, Bureau of Cultural Affairs, 1984), pp. 103–05; A. Bennett, "American Culture Is Often a Puzzle for Foreign Managers in the U.S.," *Wall Street Journal*, February 12, 1986, p. 29; "Don't Think Our Way's the Only Way," *The Pryor Report*, February 1988, p. 9; and B.J. Wattenberg, "The Attitudes behind American Exceptionalism," *U.S. News & World Report*, August 7, 1989, p. 25.

The most valuable framework to help managers better understand differences between national cultures was developed by Geert Hofstede. His research showed that national culture had a major impact on employees' work-related values and attitudes. In fact, it explained more of the differences than did age, sex, profession, or organizational position. More important, Hofstede identified four dimensions of national culture: (1) individualism versus collectivism, (2) power distance, (3) uncertainty avoidance, and (4) quantity versus quality of life.[14] We don't have the space to review Hofstede's entire results for the 40 countries studied, although we provide 12 examples in Exhibit 4.9.

Country	Individualism/ Collectivism	Power Distance	Uncertainty Avoidance	Quantity of Life[a]
Australia	Individual	Small	Moderate	Strong
Canada	Individual	Moderate	Low	Moderate
England	Individual	Small	Moderate	Strong
France	Individual	Large	High	Weak
Greece	Collective	Large	High	Moderate
Italy	Individual	Moderate	High	Strong
Japan	Collective	Moderate	High	Strong
Mexico	Collective	Large	High	Strong
Singapore	Collective	Large	Low	Moderate
Sweden	Individual	Small	Low	Weak
United States	Individual	Small	Low	Strong
Venezuela	Collective	Large	High	Strong

Exhibit 4.9 **Examples of Hofstede's Cultural Dimensions**

Source: Based on G. Hofstede, "Motivation, Leadership, and Organization: Do American Theories Apply Abroad?" *Organizational Dynamics*, Summer 1980, pp. 42–63.

Individualism versus Collectivism

Individualism refers to a loosely knit social framework in which people are supposed to look after their own interests and those of their immediate family. They can do so because of the large amount of freedom that an individualistic society allows its citizens. The opposite is collectivism, which is characterized by a tight social framework in which people expect others in groups of which they are a part (such as a family or an organization) to look after them and to protect them when they are in trouble. In exchange, they feel they owe absolute loyalty to the group.

Hofstede found that the degree of individualism in a country was closely related to that country's wealth. Wealthier countries such as the United States, Great Britain, and the Netherlands are very individualistic. Poorer countries such as Colombia and Pakistan are very collectivistic.

Power Distance

People naturally vary in terms of physical and intellectual abilities. This variation, in turn, creates differences in wealth and power. How does a society deal with those inequalities? Hofstede used the term power distance as a measure of the extent to which a society accepts the fact that power in institutions and organizations is distributed unequally. A large power distance society accepts wide differences in power in organizations. Employees show a great deal of respect for those in authority. Titles, rank, and status carry a lot of weight. When negotiating in large power distance countries, companies find that it helps to send representatives with titles at least as impressive as those with whom they are bargaining. In contrast, a low power distance society plays down inequalities as much as possible. Superiors still have authority, but employees are not afraid of or in awe of the boss.

Uncertainty Avoidance

Uncertainty avoidance is a cultural measure of the degree to which people tolerate risk and unconventional behavior. We live in a world of uncertainty. The future is largely unknown and always will be. Societies respond to this uncertainty in different ways. Some socialize their members into accepting it. People in such societies are relatively comfortable with risks. They're also relatively tolerant of behavior and opinions that differ from their own because they don't feel threatened by them. Hofstede describes such societies as having low uncertainty avoidance.

A society that's high in uncertainty avoidance is characterized by a high level of anxiety among its people, which manifests itself in nervousness, high stress, and aggressiveness. Because people in these cultures feel threatened by uncertainty and ambiguity, political and social mechanisms are created to provide security and to reduce risk. Organizations in these cultures are likely to have formal rules and little tolerance for unusual ideas and behaviors.

Quantity versus Quality of Life

The fourth cultural dimension, like individualism and collectivism, is a dichotomy. Some cultures emphasize the quantity of life and value things such as assertiveness and the acquisition of money and material goods. Other cultures that emphasize quality of life value relationships and show sensitivity and concern for the welfare of others.

A Guide for U.S. Managers

We used the United States as a point of reference, so we'll conclude this section by reviewing how the United States ranked on Hofstede's four dimensions and considering how a U.S. manager working in another country might be able to use Hofstede's research findings. Comparing 40 countries on these four dimensions, Hofstede found U.S. culture to be highest among all countries on individualism, below average on power distance, well below average on uncertainty avoidance, and well above average on quantity of life. These conclusions are consistent with how the world views the United States. That is, the United States is seen as stressing the individualistic ethic, having a representative government with democratic ideals, being relatively free from threats of uncertainty, and having a capitalistic economy that values and rewards aggressiveness and materialism. In which countries are U.S. managers likely to fit best? Which are likely to create the biggest adjustment problems? All we have to do is identify those countries that are most and least like the United States on the four dimensions. For instance, the United States is strongly individualistic but low on power distance. This same pattern was exhibited by Great Britain, Australia, Canada, the Netherlands, and New Zealand. Those least similar to the United States on those dimensions were Venezuela, Colombia, Pakistan, Singapore, and the Philippines. The United States scored low on uncertainty avoidance and high on quantity of life. This same pattern was shown by Ireland, Great Britain, the Philippines, Canada, New Zealand, Australia, India, and South Africa. Those least similar to the United States on these dimensions were Chile and Portugal. These results empirically support what many of us suspected—that the U.S. manager transferred to London, Toronto, Melbourne, or a similar Anglo city would have to make the fewest adjustments. In addition, the results further identify the countries in which culture shock (the feelings of confusion, disorientation, and emotional upheaval caused by being immersed in a new culture) is likely to be greatest and the need to modify one's managerial style to be the most critical.

click here to explore now

video example

Why is a framework like Hofstede's cultural dimensions helpful to managers?

click here to explore now

active example

Prism: Scenario 6 - Assessing Cross-Cultural Differences

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 8 << previous | next >>

> Is a Global Assignment for You?

How do organizations decide who will be sent on global assignments? Typically the decision is based on employee selection criteria that are influenced by the company's experience and commitment to global operations. Exhibit 4.10 lists several specific criteria that have been used by global organizations from Australia, the United States, Great Britain, Canada, France, New Zealand, and Asia in global employee selection decisions. Obviously, technical skills are important for success in global assignments, but other skills such as language fluency, flexibility, and family adaptability are needed as well. You can see by the list that both technical and human factors are usually considered. Organizations that don't consider both are likely to experience a failure rate in sending employees on global assignment.[15]

	Australian Managers *N* = 47	**Expatriate Managers**[a] *N* = 52	**Asian Managers** *N* = 15
1. Ability to adapt	1	1	2
2. Technical competence	2	3	1
3. Spouse and family adaptability	3	2	4
4. Human relations skills	4	4	3
5. Desire to serve overseas	5	5	5
6. Previous overseas experience	6	7	7
7. Understanding of host country culture	7	6	6
8. Academic qualifications	8	8	8
9. Knowledge of language of country	9	9	9
10. Understanding of home country culture	10	10	10

Exhibit 4.10 **Criteria for Making Global Employee Selection Decisions Ranked in Order of Importance**

Source: R.J. Stone, "Expatriate Selection and Failure," *Human Resource Planning* 14, No. 1 (1991), p. 10. Used with permission.

1 = most important

10 = least important

Once an employee has been selected as a good candidate for a global manage-rial position, there are several individual and organizational factors that determine whether he or she can effectively adjust to a global assignment. (See Exhibit 4.11.)

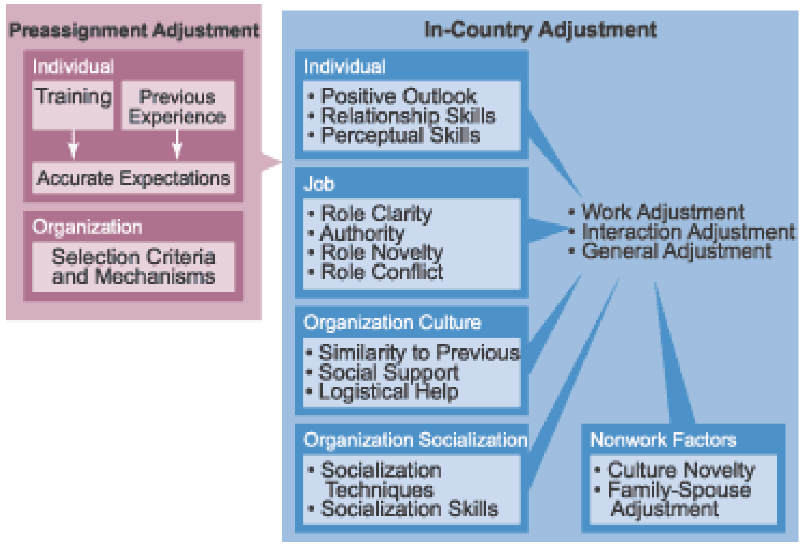


Exhibit 4.11 **Factors That Affect Global Adjustment**

Source: Adapted from J.S. Black, M. Mendenhall, and G. Oddou, "Toward a Comprehensive Model of International Adjustment: An Integration of Multiple Theoretical Perspectives," *Academy of Management Review*, April 1991, p. 303.

As the figure shows, there are two major types of adjustments individuals make when they go to another country: preassignment adjustment and in-country adjustment. The preassignment adjustment period is affected by a number of factors. For one thing, it's important that an individual has accurate expectations of the realities of the job and of the country before taking a global assignment. A person's expectations are affected by the level of predeparture training and previous experience with the assigned country or similar cultures. Predeparture training including cross-cultural seminars or workshops that provide information about the culture and work life can help make the transition easier. Also, the adjustment will be easier for a person who has had previous experience with the culture of the assigned country (or one like it) than it will be for a person who has not.

There also are certain things that an organization can do to make the preassignment adjustment easier. For instance, the organization should have appropriate selection criteria and processes in place for choosing individuals for global assignments. By carefully selecting individuals for global assignments, an organization can alleviate many of the transition problems.

Once a person has been relocated, there's a period of in-country adjustment that also involves individual and organizational factors. Individual factors include the person's abilities to (1) remain upbeat, positive, and productive even in new situations that may be stressful, (2) interact effectively with host country co-workers, and (3) accurately perceive and adapt to the country's cultural values and norms.

Organizational factors easing the transition include the job that the person will be doing, the organization's culture, and the level of organizational socialization. The important job factors for successful adjustment to a new country are related to the clarity of job expectations, the authority the individual has to make decisions, familiarity with the work activities, and the amount of role conflict that exists. If these job factors are not properly considered, a person faces a long period of adjustment or maybe never adjusting.

Organizational culture factors that should be considered for successful transition include how similar the organizational culture is to what the individual has experienced, the social support provided by the current organizational culture, and the amount of help provided by the organization to make the adjustment easier. Again, if these factors aren't properly addressed, a transferred person may not adjust as quickly or effectively to being a productive employee.

Another factor that determines the success of an individual's adjustment to a global assignment is his or her skills of organizational socialization, the process that employees go through to adapt to an organization's culture. The cultural transition will be easier if socialization processes are in place and the individual can quickly learn "the way things are done around here."

Finally, it's important to note that nonwork considerations also influence how effectively an individual adjusts to a global assignment. These include how an individual personally adjusts to the unfamiliar culture and how the individual's family and spouse adjust. The family-spouse adjustment can be a major source of problems. The realities of living in a different culture, where simple tasks such as shopping for groceries, driving a car, or going to a movie can be logistical challenges, create stresses for individuals and their families. Culture shock is a real and normal reaction. If transferred individuals can make it through that initial period of adjustment, studies have shown that most people effectively and comfortably adjust to a new culture after about four to six months.[16]

click here to explore now

active example

Am I well-suited for a career as a global manager?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> Chapter Wrap-Up

You had a chance to voice your opinion about Raymundo Gonzalez's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Douglas Heatherly
Global Operations Planning Director
DuPont, Wilmington, Delaware

Not working? Get Quicktime

The first thing a manager should do is to work on his or her own perspective. Meet with colleagues who have worked in Asia (and specifically Indonesia) to gain their perspectives of work and social customs. Visit Indonesia and take some time to learn something of its country and people. Attend cross-cultural workshops to explore the similarities and differences of the cultures. Most importantly, focus on a common understanding of business goals so that everyone can

Photo not available

Kenneth Toh Eng Kian
Senior Manager, Program Promotions/Creative Services
Singapore Cable Vision, Singapore

Not working? Get Quicktime

It's of foremost importance for someone in Gonzalez's position to keep an open mind. His main goals should be to gain acceptance among his colleagues as well as to set the stage for conveying key business goals.

In order to gain acceptance by others, he must first be cognizant of his personal prejudices and learn to put them

find a winning position. Find things you like in the other culture so you can focus on this instead of on the things that are different. Find ways each culture celebrates success and do this in your joint meeting. Learn some of each other's language so that you can acknowledge each other, order from a menu, or make a phone call through an operator. Above all else, it's important to remember you are not trying to convert the Asians to Mexico's culture, nor are you adopting the Asian culture, but rather you are seeking a working relationship and a way your company can earn a profit from the venture.	aside when dealing with individuals of other cultures. Rather than focusing on the differences, he is better off highlighting the similarities in both cultures—their love of music, dance, and spicy food, for example—and their shared professional goals. In addition, by keeping an open mind in this exchange, he will be able to gain invaluable cross-cultural insights, helping him better understand the subtleties inherent to the decision-making process in international trading. Differences in opinion are certain to arise. However, if he has been able to successfully build a foundation of shared interests and goals by downplaying the differences, he is more likely to be able to rally people around him to achieve the tasks at hand.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log On: Internet-Based Exercise
- Working Together: A Team-Based Exercise
- Case Application

go to page: 1 2 3 4 5 6 7 8 << previous

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 5: Social Responsibility and Managerial Ethics

Chapter Outline

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	How Harvard Business Review Failed to Respond to a Crisis (07/17/02)
	How Corporate Social Responsibility Evolves Around the World ft.com (07/10/02)
	Unaccountable Consequences for Andersen ft.com (05/08/02)
	A Failure of the Shareholders' Representatives? (02/06/02)
	Are Corporations Becoming Less Generous? e (02/08/01)
	Corporate Charity: Why It's Slowing (01/11/01)
	Why You're Sick of the Office (12/05/00)
	The End of the Line for Scotchguard (10/05/00)
	Too Much Corporate Power? (10/04/00)
	Business Ethics Becoming an Endangered Species (08/16/00)
	Paying for a bad policy Insurer settles charges. (07/10/00)
	The Loneliest Job: Corporate Ethics Officer (08/09/99)

Anatomy of a Recall: How Coke's Control Fizzled Out in Europe (08/04/99)

Your Employees Know Better (07/21/99)

Cupid's Cubicles (03/09/99)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Ethical Agency (12/03/01)

Keeping an Ethical Perspective While Checking Out the Competition (04/11/01)

Giving Until it Helps (03/02/01)

Wondering about Warming (10/02/00)

Internet Ethics (08/28/00)

Building a Better Tomato (04/17/00)

Governance Standards for Business and Nonprofit Boards of Directors (01/27/00)

Complete Guide to Ethics Management: An Ethics Toolkit for Managers (08/25/99)

Applying Ethics: The Case of the Sole Remaining Supplier (07/13/99)

Information About Sexual Harassment (04/01/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap05.doc

Lecture Presentation - chap05.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

Modules - modules.doc

Preface - preface.doc

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Add to...

Just for Students

Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 5

go to page: 1

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> What's Ahead

A Manager's Dilemma

With a name like Digital Mafia Entertainment, you might question a company's commitment to social responsibility. Yet, the name of Darien Dash's company, DME (Digital Mafia Entertainment) Interactive Holdings, Inc., in no way reflects his strong commitment to social responsibility.[1]

Dash started DME in 1994 when he realized that large cable companies weren't committed to bringing digital services to urban communities. In his job as vice president of sales for Digital Music Xpress, which provided CD-quality music through a regular cable box, Dash was repeatedly rejected by upper-level managers when he suggested bringing the service to inner cities. So he left the company and formed DME. His mission is to expand the hardware and software infrastructure of minority communities. Today DME is a total Internet services company based in Englewood Cliffs, New Jersey. Its employees provide network design, e-commerce, Web site maintenance, and advertising for a variety of clients including HBO Home Video, the New York Knicks, Lugz, and MSBET. As the company has evolved into a well-rounded information technology company, Dash's vision has remained the same: "expanding the hardware and software infrastructure within minority communities." Doing that, however, hasn't been easy.

Although wiring inner cities is an admirable social goal and one to which Dash is steadfastly committed, it's not been the quickest way to generate revenues. Like many new businesses, DME initially didn't have sufficient cash flow to pay employees and to develop important business relationships. To pay the bills, Dash began consulting with other companies on how best to leverage multimedia and Internet technology. Soon the Web development side of the business was bringing in much-needed cash flow. Now that Dash has resolved this particular managerial worry, he would like to build a values-based organization. Put yourself in his position. What would you do to develop values that all DME employees could share?

What Would You Do?

Take a moment to familiarize yourself with the key objectives of this chapter.

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Helping your organization develop shared values that can act as guides for managerial action is just one example of the types of ethical and social responsibility issues with which managers may have to cope as they plan, organize, lead, and control. As managers go about their business, social factors can and do influence their actions. In this chapter, we'll introduce you to the often complicated issues involved with social responsibility and managerial ethics. The discussion of these topics is placed at this point in the text to link them to the preceding and following subjects. That is, we'll discover that both social responsibility and ethics are responses to a changing environment and are influenced by organizational culture (Chapter 3). Also, both social responsibility and ethics are important considerations when making decisions (Chapter 6).

> What Is Social Responsibility?

Empowered by Internet technology from digital formats such as MP3 and music-swapping Internet services such as Napster, music lovers all over the world obtain and share their favorite recordings for minimal costs. Large global corporations look to lower their costs and be more competitive by locating in countries where human rights are not a high priority and justify it by saying that they're bringing in jobs and helping strengthen the local economies. Automobile manufacturers build enormous, gas-guzzling sport utility vehicles that have the potential to seriously injure people in smaller, more fuel-efficient vehicles because customers want them and are willing to pay the high prices for them. Are these companies being socially responsible? What factors influenced managers' decisions in these situations? Managers now regularly face decisions that have a dimension of social responsibility: Employee relations, philanthropy, pricing, resource conservation, product quality and safety, and doing business in countries that violate human rights are some of the more obvious. How do managers make such decisions? Let's begin by looking at two different perspectives on what it means to be socially responsible.

Two Opposing Views of Social Responsibility

Few terms have been defined in as many different ways as *social responsibility*. For instance, it's been called "profit making only," "going beyond profit making," "voluntary activities," "concern for the broader social system," and "social responsiveness."[2] A great deal of attention has been focused on the extremes. On one side, there's the classical—or purely economic—view that management's only social 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 classical view holds that management's only social responsibility is to maximize profits. The most outspoken advocate of this approach is economist and Nobel laureate Milton Friedman.[3] He argues that managers' primary responsibility is to operate the business in the best interests of the stockholders (the true owners of a corporation). What are those interests? Friedman contends that stockholders have a single concern: financial return. He also argues that anytime managers decide on their own to spend their organization's resources for the "social good," they are adding to the costs of doing business. These costs have to be passed on to consumers either through higher prices or absorbed by stockholders through a smaller profit returned as dividends. Do note that Friedman is not saying that organizations should *not* be socially responsible; he thinks they should. But the extent of that responsibility is to maximize organizational profits for stockholders.

The Socioeconomic View

The socioeconomic view is the view that management's social responsibility goes beyond making profits to include protecting and improving society's welfare. This position is based on the belief that society's expectations of business have changed. Corporations are *not* independent entities responsible only to stockholders. They also have a responsibility to the larger society that endorses their creation through various laws and regulations and supports them by purchasing their products and services. In addition, proponents of the socioeconomic view believe that business organizations are not just merely economic institutions. Society accepts and even encourages businesses to become involved in social, political, and legal issues. For instance, proponents of the socioeconomic view would say that Avon Products Inc. was being socially responsible when it initiated its Breast Cancer Awareness Crusade to provide women, particularly those who had limited access to medical care and treatment, with breast cancer education and early detection screening services.[4] And they would say that the educational programs implemented by Brazilian cosmetics manufacturer Natura Cosméticos SA in public primary schools in São Paulo to improve children's literacy and decision-making skills were socially responsible.[5] Why? Through these programs, the managers were protecting and improving society's welfare. More and more organizations around the world are taking their social responsibilities seriously. In fact, a survey of business owners reported that 68 percent would continue socially responsible practices even if they found that the activities were cutting into profits.[6]

Arguments For and Against Social Responsibility

Another way to understand the role that social responsibility plays in influencing how managers make decisions as they plan, organize, lead, and control is by looking at the arguments for and against social responsibility. What are the specific arguments for and against business's assuming social responsibilities? Exhibit 5.1 outlines the major points that have been presented.[7]

For	**Against**
Public expectations	*Violation of profit maximization*
Public opinion now supports businesses pursuing economic and social goals	Business is being socially responsible only when it pursues its economic interests
Long-run profits	*Dilution of purpose*
Socially responsible companies tend to have more secure long-run profits	Pursuing social goals dilutes business's primary purpose—economic productivity
Ethical obligation	*Costs*
Businesses should be socially responsible because responsible actions are the right thing to do	Many socially responsible actions do not cover their costs and someone must pay those costs
Public image	*Too much power*
Businesses can create a favorable public image by pursuing social goals	Businesses have a lot of power already and if they pursue social goals they will have even more

Better environment	*Lack of skills*
Business involvement can help solve difficult social problems	Business leaders lack the necessary skills to address social issues
Discouragement of further governmental regulation	*Lack of accountability*
By becoming socially responsible, businesses can expect less government regulation	There are no direct lines of accountability for social actions
Balance of responsibility and power	
Businesses have a lot of power and an equally large amount of responsibility is needed to balance against that power	
Stockholder interests	
Social responsibility will improve a business's stock price in the long run	
Possession of resources	
Businesses have the resources to support public and charitable projects that need assistance	
Superiority of prevention over cures	
Businesses should address social problems before they become serious and costly to correct	

Exhibit 5.1 **Arguments For and Against Social Responsibility**

How much and what type of social responsibility businesses should pursue continues to be a topic of interest and heated debate. Now is probably a good time to pinpoint exactly what we mean by the term *social responsibility*.

From Obligations to Responsiveness

We define social responsibility as a business firm's obligation, beyond that required by law and economics, to pursue long-term goals that are good for society.[8] Note that this definition assumes that an organization obeys laws and pursues economic interests. We take as a given that all business firms—those that are considered socially responsible and those that aren't—will obey all relevant laws that society enacts. 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 to two similar concepts: social obligation and social responsiveness.[9] As Exhibit 5.2 illustrates, social obligation is the obligation of a business to meet its economic and legal responsibilities. The organization does the minimum required by law. Following an approach of social obligation, a firm pursues social goals only to the extent that they contribute to its economic goals. This approach is based on the classical view of social responsibility; that is, the business feels its only social duty is to its stockholders. In contrast to social obligation, however, both social responsibility and social responsiveness go beyond merely meeting basic economic and legal standards.

Exhibit 5.2 **Levels of Social Involvement**

Social responsibility adds an ethical imperative to do those things that make society better and not to do those that could make it worse. A socially responsible organization goes beyond what it must do by law or chooses to do only because it makes economic sense to do what it can to help improve society because that's the right, or ethical, thing to do. As Exhibit 5.3 describes, social responsibility requires business to determine what is right or wrong and to make ethical decisions and engage in ethical business activities. A socially responsible organization does what is right because it feels it has a responsibility to act that way. On the other hand, social responsiveness refers to the capacity of a firm to adapt to changing societal conditions. The idea of social responsiveness stresses that managers make practical decisions about the societal actions in which they engage.[10] A socially responsive organization acts the way it does because of its desire to satisfy some popular social need. Social responsiveness is guided by social norms. The value of social norms is that they can provide managers with a meaningful guide for decision making. The following example might help make the distinction between responsibility and responsiveness clearer:

Exhibit 5.3 **Social Responsibility versus Social Responsiveness**

Source: Adapted from S.L. Wartick and P.L. Cochran, "The Evolution of the Corporate Social Performance Model," *Academy of Management Review*, October 1985, p. 766.

> Suppose, for example, that a company makes multiple products and it states its intention to be socially responsible by producing reasonably safe products. Similarly, the same firm is responsive every time it produces an unsafe product: it withdraws the product from the market as soon as the product is found to be unsafe. After say,

ten product recalls because of safety concerns, will the firm be recognized as socially responsible? Will the firm be recognized as socially responsive? The likely answers to these questions are "No" to the first, but "Yes" to the second.[11]

The preceding organization's decision to continue producing unsafe products, even though it espoused a responsibility to produce reasonably safe products, would make it appear socially irresponsible in the eyes of the public; that is, it wasn't doing the right, or ethical, thing. However, the organization's quick action in withdrawing unsafe products from the market would make it socially responsive because it was responding to what the public demanded it do.

In the United States, a company that meets pollution control standards established by the federal government or does not discriminate against employees over the age of 40 in promotion decisions is meeting its social obligation and nothing more because there are laws mandating these actions. However, when it provides on-site child care facilities for employees, packages products in 100 percent recycled paper, or announces that it will not purchase, process, or sell any tuna caught in association with dolphins, it is being socially responsive. Why? Working parents, environmentalists, and consumers have demanded such actions.

Advocates of social responsiveness believe that the concept replaces philosophical talk with practical action. They see it as a more tangible and achievable objective than social responsibility.[12] Rather than assessing what's good for society in the long term, managers in a socially responsive organization identify the prevailing social norms and then change their social involvement to respond to changing societal conditions. For instance, environmental stewardship seems to be an important social norm at present and many companies are looking at ways to be environmentally responsible. Alcoa of Australia developed a novel way to recycle the used linings of aluminum smelting pots and Denso generates its own electricity and steam at many of its Japanese manufacturing facilities. Other organizations are addressing other popular social issues. For example, large media companies—such as Prentice Hall, McGraw-Hill, the *New York Times*, and the *Washington Post*—are involved in efforts to increase literacy. And other companies such as Reebok International Ltd., Liz Claiborne Inc., and Mattel Inc. have taken steps to address human rights issues in their overseas factories. These are examples of socially responsive actions for today.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 8 << previous | next >>

> Social Responsibility and Economic Performance

In this section, we want to answer the question: How do socially responsible activities affect a company's economic performance? A number of research studies have looked at this question.[13] What have they found?

The majority showed a positive relationship between social involvement and economic performance. For instance, one study found that firms' corporate social performance was positively associated with both *prior* and *future* financial performance.[14] But we should be cautious about making any compelling assumptions from these findings because of methodological questions associated with trying to measure "social responsibility" and "economic performance."[15] Most of these studies determined a company's social performance by analyzing the content of annual reports, citations of social actions in news articles on the company, or public perception "reputation" indexes. Such criteria certainly have drawbacks as reliable measures of social responsibility. Although measures of economic performance (such as net income, return on equity, or per share stock prices) are more objective, they are generally used to indicate only short-term economic performance. It may well be that the impact of social responsibility on a firm's profits—positive or negative—takes a number of years to manifest itself. If there is a time lag, studies that use short-term financial measures are not likely to show valid results. There is also the issue of causation. If, for example, the evidence showed that social involvement and economic performance were positively related, this wouldn't necessarily mean that social involvement *caused* higher economic performance. It very well could be the opposite. That is, it might mean that high profits afforded companies the luxury of being socially involved.[16] These methodological "cautions" shouldn't be taken lightly. In fact, one study found that if the flawed empirical analyses in these studies were "corrected," social responsibility had a neutral impact on a company's financial performance.[17]

Another way to look at the issue of social responsibility and economic performance is by evaluating socially conscious mutual stock funds. Typically, these funds use some type of social screening, that is, apply social criteria to investment decisions. For instance, these funds usually will not invest in companies that are involved in liquor, gambling, tobacco, nuclear power, weapons, price fixing, or fraud. These mutual funds provide a way for individual investors to support socially responsible companies. Many of these funds (equity, bond, and money market) have outperformed the market average over the last five years.[18] However, because many of these funds invest in technology companies (these types of companies tend to meet the social screens employed), they've certainly been vulnerable to the ups and downs in the stock market.

What conclusion can we draw from all of this? The most meaningful conclusion we can make is that there is little evidence to say that a company's socially responsible actions significantly hurt its long-term economic performance. Given political and societal pressures on business to be socially responsible, this means that managers should take social goals into consideration as they plan, organize, lead, and control.

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 5

go to page: 4

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Values-Based Management

Values-based management is an approach to managing in which managers establish, promote, and practice an organization's shared values. An organization's values reflect what it stands for and what it believes in. As we discussed in Chapter 3, the shared organizational values form the organization's culture and influence the way the organization operates and how employees behave.[19] For instance, Patagonia, a maker of outdoor sports clothing and gear, passionately pursues environmental preservation. Its strong environmental commitment influences employees' work actions and decisions in areas from product design to marketing to shipping. In addition, Patagonia gives 10 percent of its profits to support environmental causes and actively seeks to educate its customers and suppliers about environmental issues. The company lives and practices its values. For any company that believes in and practices values-based management, the shared corporate values serve many purposes.

Purposes of Shared Values

The values that organizational members share serve at least four main purposes. (See Exhibit 5.4.) The first purpose of shared values is that they act as guideposts for managerial decisions and actions.[20] For instance, at Tom's of Maine, a maker of all-natural personal care products, the Statement of Beliefs guides managers as they plan, organize, lead, and control organizational activities. One of the company's eight beliefs states that "We believe that different people bring different gifts and perspectives to the team and that a strong team is founded on a variety of gifts."[21] This statement expresses to managers the value of diversity—diversity of opinions, diversity of abilities—and serves as a guide for managing teams of people. Another of the company's beliefs states that "We believe in products that are safe, effective, and made of natural ingredients." Again, think about how this statement would influence and guide company managers as they do their jobs.

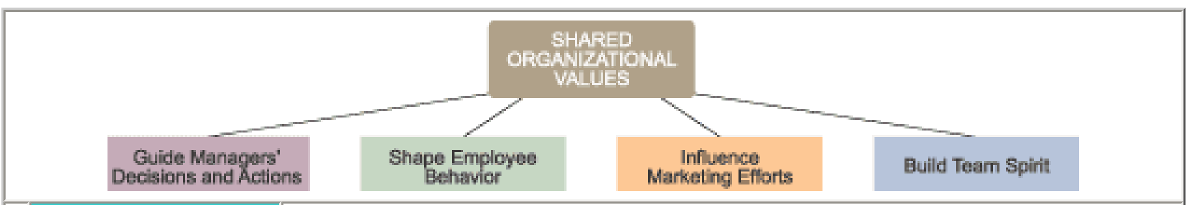


Exhibit 5.4 **Purposes of Shared Values**

Another purpose of shared values is the impact they have on shaping employee behavior and communicating what the organization expects of its members. For example, employees at Herman Miller, which manufactures office, residential, and health care furniture, practice company values as they design, manufacture, and ship furniture around the world. What are those company values? A commitment to innovation and uncompromising quality, participative management, and environmental stewardship.[22]

Shared corporate values also influence marketing efforts. For example, we previously mentioned

Avon Products Inc.'s commitment to educating women about breast cancer. Its support for this program came about after the company asked women what their number one health concern was and breast cancer was the answer. How does Avon's commitment to women's health influence its marketing efforts? The company's global sales force of more than half a million individuals educates women about the disease by bringing brochures on their sales visits. The director of the Breast Cancer Awareness Crusade says, "All of the interaction that happens with an Avon rep on something as important as breast cancer should improve customer relations and make for easier sales." Avon has found a way to link its business to an important social concern and to improve its marketing efforts all at the same time.

Finally, shared values are a way to build team spirit in organizations.[23] When employees embrace the stated corporate values, they develop a deeper personal commitment to their work and feel obligated to take responsibility for their actions. Because the shared values influence the way work is done, employees become more enthusiastic about working together as a team to support values they believe in. At companies such as Tom's of Maine, Avon, Herman Miller, and numerous others, employees know what is expected of them on the job. They use the shared corporate values to shape the way they work. But how do organizations develop a set of shared values?

Developing Shared Values

As any company that uses values-based management will tell you, it's not easy to establish the shared corporate values. At Tom's of Maine, the process involved everyone in the company. All the employees, working in groups of four to six, took a hard look at defining "who are we" and "what are we about." But the commitment by Tom's employees to developing shared corporate values didn't stop there. They realized that they were to actually *use* the values they helped define and develop. They realized that those shared values really mattered. They began to understand that they were part of a unique corporate culture in which values shaped the business strategy.[24]

A survey of Fortune 1000 companies found that 95 percent of the respondents were convinced they would have to adopt more socially responsible business practices in coming years to preserve their competitive edge.[25] Getting employees to buy into a set of core values that emphasize a commitment to doing good requires strong corporate leadership. Managers are responsible for shaping the organization so that its values, norms, and ideals appeal strongly to employees. Some specific suggestions for developing a good corporate values statement are listed in Exhibit 5.5.

1. Involve everyone in the company.
2. Allow customizing of the values by individual departments or units.
3. Expect and accept employee resistance.
4. Keep the statement short.
5. Avoid trivial statements.
6. Leave out religious references.
7. Challenge it.
8. Live it.

Exhibit 5.5	**Suggestions for Creating a Good Corporate Values Statement**

Source: Based on A. Farnham, "State Your Values: Hold the Hot Air," *Fortune*, April 19, 1993, pp. 117-24.

Companies that live and practice values-based management have accepted a broad perspective regarding their commitment to being socially responsible and socially responsive. One value in particular that many managers are beginning to recognize as important has to do with the environmental responsibility of the organization and of individuals. This "greening" of management is what we're going to look at next.

click here to explore now

video example

How can an organization's culture shape employee ethics and attitudes toward social responsibility?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> The "Greening" of Management

Until the late 1960s, few people (and organizations) paid attention to the environmental consequences of their decisions and actions.[26] Although there were some groups—mainly the Sierra Club and other smaller environmental activist groups—that were concerned with conserving the land and its natural resources, about the only popular reference to saving the environment you would have seen at that time was the ubiquitous printed request "Please Do Not Litter." A number of highly visible ecological problems and environmental disasters (Exxon *Valdez* oil spill, mercury poisoning in Japan, and Three Mile Island and Chernobyl nuclear power plant accidents) brought about a new spirit of environmentalism among individuals, groups, and organizations. Increasingly, managers began to confront questions about an organization's impact on the natural environment. This recognition of the close link between an organization's decisions and activities and its impact on the natural environment is referred to as the greening of management. Let's look at some issues managers may have to address as they "go green."

Global Environmental Problems

One "green" issue managers must deal with as they become more involved in preserving the natural environment is recognizing the key global environmental problems and how these problems are changing. The list of global environmental problems is long. Some of the more serious ones include natural resource depletion, global warming, pollution (air, water, and soil), industrial accidents, and toxic wastes. How did these problems occur? Much of the blame can be placed on industrial activities in developed (economically affluent) countries over the last half century.[27] Various reports have shown that affluent societies account for more than 75 percent of the world's energy and resource consumption and create most of the industrial, toxic, and consumer waste.[28] An equally disturbing picture is that as the world population continues to grow and as emerging countries become more market oriented and affluent, global environmental problems can be expected to worsen.[29] However, many organizations around the world, large and small, have embraced their responsibility to respect and protect the natural environment. What role *can* organizations play in addressing global environmental problems? In other words, how can they "go green"?

How Organizations Go Green

There are many things that managers and organizations can do to protect and preserve the natural environment.[30] Some organizations do no more than what is required by law (that is, they fulfill their social obligation); others have made radical changes in the way they do their business. Products and production processes have become cleaner. For instance, the 3M Corporation has been a leader in waste-reduction efforts with its 3 Ps Program (Pollution Prevention Pays). Hangers Cleaners uses a pollution-free process to clean clothes. Whirlpool won an appliance industry competition and a $30 million prize for developing a CFC-free high-efficiency refrigerator. (CFCs, short for chlorofluorocarbons, have been linked to the degradation of the ozone layer surrounding the earth.) And DuPont, Xerox, and IBM have focused their environmental programs on preventing pollution, not just on cleaning it up. There are numerous other examples of environmentally friendly actions taken by global organizations. Although these examples are interesting, they really don't tell us much about how organizations go green. One approach to organizational roles in environmental responsibility uses the terms *shades of green* to describe different approaches that organizations may take.[31] What are these shades of green?

Exhibit 5.6 illustrates four approaches organizations can take with respect to environmental issues. The first approach simply is doing what is required legally: the *legal approach*. Under this approach, organizations exhibit little environmental sensitivity. They obey laws, rules, and regulations willingly and without legal challenge, and they may even try to use the law to their own advantage, but that's the extent of their being green. For example, many durable product manufacturers and oil refiners have taken the legal approach and comply with the relevant environmental laws and regulations, but they go no further. This approach is a good illustration of social obligation: These organizations simply are following their legal obligations of pollution prevention and environmental protection. As an organization becomes more aware of and sensitive to environmental issues, it may adopt the *market approach*. In this approach, organizations respond to the environmental preferences of their customers. Whatever customers demand in terms of environmentally friendly products will be what the organization provides. For example, the DuPont company developed a new type of herbicide that has helped farmers around the world reduce their annual use of chemicals by more than 45 million pounds. By developing this product, DuPont was responding to the demands of its customers (farmers) who wanted to minimize the use of chemicals on their crops. Under the next approach, the *stakeholder approach*, the organization chooses to respond to multiple demands made by stakeholders. We know from an earlier chapter that stakeholders are any constituencies in the organization's external environment that are affected by the organization's decisions and actions. Under the stakeholder approach, the green organization will work to meet the environmental demands of groups such as employees, suppliers, or the community. For example, Compaq Computer Corporation developed corporate programs to minimize harmful emissions, to recycle, and to reduce both waste and energy consumption in response to demands by its various stakeholders. Both the market approach and the stakeholder approach are good illustrations of social responsiveness. Finally, if an organization pursues an *activist* (also called a dark green) *approach*, it looks for ways to respect and preserve the earth and its natural resources. For example, Ecover, a Belgian company that produces cleaning products from natural soaps and renewable raw materials, operates a near-zero-emissions factory. This green factory is an environmentally sound engineering marvel. The activist approach exhibits the highest degree of environmental sensitivity and is a good illustration of social responsibility.

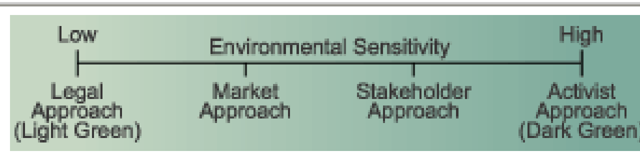


Exhibit 5.6 **Approaches to Being Green**

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).

Summing Up Social Responsibility

The key issues in social responsibility are easier to understand if we think in terms of the people to whom managers are responsible. Classicists would say that stockholders or owners are an organization's only legitimate concern. Progressives would respond that managers are responsible to any group affected by the organization's decisions and actions: that is, the stakeholders.[32]

Exhibit 5.7 illustrates a four-stage model of the progression of an organization's social responsibility.[33] What you do as a manager in terms of pursuing social goals depends on the person or persons to whom you believe you're responsible—that is, the stakeholders. A Stage 1 manager will promote stockholders' interests by seeking to minimize costs and maximize profits. Although all laws and regulations will be followed, Stage 1 managers do not feel obligated to satisfy other societal needs. This is consistent with Friedman's classical view of social responsibility. At Stage 2, managers will accept their responsibility to employees and focus on human resource concerns. Because they'll want to recruit, keep, and motivate good employees, Stage 2 managers will improve working conditions, expand employee rights, increase job security, and the like.

Exhibit 5.7 **To Whom Is Management Responsible?**

At Stage 3, managers expand their responsibilities to other stakeholders in the specific environment—that is, customers and suppliers. Social responsibility goals of Stage 3 managers include fair prices, high-quality products and services, safe products, good supplier relations, and similar actions. Their philosophy is that they can meet their responsibilities to stockholders only by meeting the needs of their other constituents.

Finally, Stage 4 characterizes the extreme socioeconomic definition of social responsibility. At this stage, managers feel a responsibility to society as a whole. Their business is seen as a public entity, and they feel a responsibility for advancing the public good. The acceptance of such responsibility means that managers actively promote social justice, preserve the environment, and support social and cultural activities. They take these stances even if such actions negatively affect profits. For instance, Tom Chappell of Tom's of Maine, described earlier, would be described as a Stage 4 manager.

Each stage implies an increasing level of managerial discretion. As managers move to the right along the continuum shown in Exhibit 5.7, they have to make more judgment calls. For example, when is a product dangerous to society? Is Philip Morris Company doing "right" for society when it sells Kraft cheese but "wrong" when it sells cigarettes? Or is producing a product with high fat and sodium content also wrong? Is a public utility company that operates nuclear power plants behaving irresponsibly toward society? Is it wrong for a company to market bioengineered produce even though the produce is more disease resistant? These are the types of social responsibility judgment calls managers must make.

There is no simple right-wrong dichotomy to help managers make socially responsible decisions. Clearly, managers have a basic responsibility to obey the laws in the communities and countries in which they operate and to make a profit. Failure to achieve either of these goals threatens the organization's survival. Beyond that, however, managers need to identify the people to whom they believe they're responsible. By focusing on stakeholders and their expectations of the organization, managers can reduce the likelihood that they will ignore their responsibilities to critical issues and make more responsible choices.

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Managerial Ethics

Is it ethical for a salesperson to offer a bribe to a purchasing agent as an inducement to buy? Would it make any difference if the bribe came out of the salesperson's commission? Is it ethical for someone to use a company car for private use? How about using company e-mail for personal correspondence?

The term ethics refers to rules and principles that define right and wrong conduct.[34] In this section, we examine the ethical dimension of managerial decisions. Many decisions that managers make require them to consider who may be affected—in terms of the result as well as the process.[35] To better understand the complicated issues involved in managerial ethics, we'll look at four different views of ethics, look at the factors that influence a manager's ethics, and offer some suggestions for what organizations can do to improve the ethical behavior of employees.

Four Views of Ethics

The four perspectives on business ethics include utilitarian view, rights view, theory of justice view, and integrative social contracts theory.[36] The utilitarian view of ethics says that ethical decisions are made solely on the basis of their outcomes or consequences. Utilitarian theory uses a quantitative method for making ethical decisions by looking at how to provide the greatest good for the greatest number. Following the utilitarian view, a manager might conclude that laying off 20 percent of a plant's workforce is justified because it will increase the plant's profitability, improve job security for the remaining 80 percent, and be in the best interests of stockholders. Utilitarianism encourages efficiency and productivity and is consistent with the goal of profit maximization. However, it can result in biased allocations of resources, especially when some of those affected by the decision lack representation or a voice in the decision. Utilitarianism can also result in the rights of some stakeholders being ignored.

Another ethical perspective is the rights view of ethics, which is concerned with respecting and protecting individual liberties and privileges such as the rights to privacy, freedom of conscience, free speech, life and safety, and due process. This would include, for example, protecting the free speech rights of employees who report legal violations by their employers. The positive side of the rights perspective is that it protects individuals' basic rights, but it has a negative side for organizations. It can present obstacles to high productivity and efficiency by creating a work climate that is more concerned with protecting individuals' rights than with getting the job done.

In an effort to overcome past problems, many firms are turning to the rights view of ethics and allowing independent factory audits of their overseas locations to be performed by human rights groups. Reebok International Ltd. is among the firms that released their audit reports to the public. The firm seems committed to protecting the human rights of its workers and may succeed in leading other firms to follow its example. "We have raised the ante with external monitoring," says Reebok CEO Paul B. Fireman.

The next view is the theory of justice view of ethics. Under this approach, managers are to impose and enforce rules fairly and impartially and do so by following all legal rules and regulations. A manager would be using the theory of justice perspective by deciding to provide the same rate of pay to individuals who are similar in their levels of skills, performance, or responsibility and not basing that decision on arbitrary differences such as gender, personality, race, or personal favorites. Using standards of justice also has pluses and minuses. It protects the interests of those stakeholders who may be underrepresented or lack power, but it can encourage a sense of entitlement that might make employees reduce risk taking, innovation, and productivity.

The final ethics perspective, the integrative social contracts theory, proposes that ethical decisions should be based on empirical (what is) and normative (what should be) factors. This view of ethics is based on the integration of two "contracts": the general social contract that allows businesses to operate and defines the acceptable ground rules, and a more specific contract among members of a community that addresses acceptable ways of behaving. For instance, in deciding what wage to pay workers in a new factory in Ciudad Juarez, Mexico, managers following the integrative social contracts theory would base the decision on existing wage levels in the community. This view of business ethics differs from the other three in that it suggests that managers need to look at existing ethical norms in industries and companies in order to determine what constitutes right and wrong decisions and actions.

Which approach to ethics do most businesspeople follow? It probably isn't a surprise that most businesspeople follow the utilitarian approach.[37] Why? It's consistent with such business goals as efficiency, productivity, and profits. However, that perspective needs to change because of the changing world facing managers. Trends toward individual rights, social justice, and community standards mean that managers need ethical standards based on nonutilitarian criteria. This is an obvious challenge for managers because making decisions on such criteria involves far more ambiguities than using utilitarian criteria such as efficiency and profits. The result, of course, is that managers increasingly find themselves struggling with ethical dilemmas.

Factors That Affect Managerial Ethics

Whether a manager acts ethically or unethically is the result of complex interactions between the manager's stage of moral development and several moderating variables including individual characteristics, the organization's structural design, the organization's culture, and the intensity of the ethical issue. (See Exhibit 5.8.) People who lack a strong moral sense are much less likely to do the wrong things if they're constrained by rules, policies, job descriptions, or strong cultural norms that disapprove of such behaviors. Conversely, intensely moral individuals can be corrupted by an organizational structure and culture that permits or encourages unethical practices. Moreover, managers are more likely to make ethical decisions when high moral intensity is involved. Let's look more closely at the various factors that influence whether managers behave ethically or unethically.

Exhibit 5.8 **Factors That Affect Ethical and Unethical Behavior**

Stage of Moral Development

Research confirms the existence of three levels of moral development, each composed of two stages.[38] At each successive stage, an individual's moral judgment becomes less and less dependent on outside influences. The three levels and six stages are described in Exhibit 5.9.

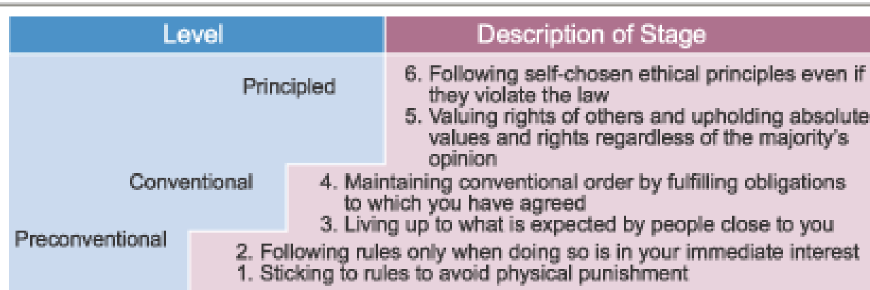


Exhibit 5.9 **Stages of Moral Development**

Source: Based on L. Kohlberg, "Moral Stages and Moralization: The Cognitive-Development Approach," in T. Lickona (ed.), *Moral Development and Behavior: Theory, Research, and Social Issues* (New York: Holt, Rinehart & Winston, 1976), pp. 34–35.

The first level is labeled *preconventional*. At this level, a person's choice between right or wrong is based on personal consequences involved, such as physical punishment, reward, or exchange of favors. Ethical reasoning at the *conventional* level indicates that moral values reside in maintaining expected standards and living up to the expectations of others. At 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.

We can draw some conclusions from research on the levels and stages of moral development.[39] First, people proceed through the six stages sequentially. They move up the moral ladder, stage by stage. Second, there is no guarantee of continued moral development. An individual's moral development can stop at any stage. Third, the majority of adults are at Stage 4. They are limited to obeying the rules and will be inclined to behave ethically. For instance, a manager at Stage 3 is likely to make decisions that will receive peer approval; a manager at Stage 4 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 he or she believes to be wrong. Efforts by colleges to raise students' ethical awareness and standards are focused on helping them move to the principled level—the highest level of moral development.

From their first days as ice cream entrepreneurs, Ben Cohen and Jerry Greenfield (*left to right*), the founders of Ben & Jerry's Homemade, emphasized social responsibility as a key component of the firm's corporate mission. As Greenfield says, "Working on combining social issues with profit opportunities is the field in which we labor." Even though the firm has been sold (to the European conglomerate Unilever), the two hope to retain its strong commitment to ethical business practices, such as its generous donations to various charities, through the establishment of an independent board on which Cohen and Greenfield will serve.

Individual Characteristics

Every person joins an organization with a relatively entrenched set of values. Our values—developed in our early years from parents, teachers, friends, and others—represent basic convictions about what is right and wrong. Thus, managers in the same organization often possess very different personal values.[40] Although *values* and *stage of moral development* may seem similar, they are not the same. Values are broad and cover a wide range of issues; the stage of moral development specifically is a measure of independence from outside influences.

Two personality variables also have been found to influence an individual's actions according to his or her beliefs about what is right or wrong: ego strength and locus of control. Ego strength is a personality measure of the strength of a person's convictions. People who score high on 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 be more consistent in their moral judgments and moral actions 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 that they control their own destinies; those with an *external* locus believe that what happens to them is due to luck or chance. How does this influence a person's decision to act ethically or unethically? Externals are less likely to take personal responsibility for the consequences of their behavior and are more likely to rely on external forces. Internals, on the other hand, are more likely to take responsibility for consequences and rely on their own internal standards of right and wrong to guide their behavior.[41] Managers with an internal locus of control are likely to be more consistent in their moral judgments and moral actions than will those with an external locus of control.

Structural Variables

An organization's structural design helps shape whether managers behave ethically. Some structures provide strong guidance, whereas others only create ambiguity and uncertainty for managers. Structural designs that minimize ambiguity and uncertainty and continuously remind managers 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 can promote consistent behavior. Research continues to show, though, that the behavior of superiors is the strongest single influence on an individual's own choice to act ethically or unethically.[42] People check to see what those in authority are doing and use that as a benchmark for acceptable practices and expectations. Some organizational performance appraisal systems focus exclusively on outcomes. Others evaluate means as well as ends. When managers are evaluated only on outcomes, they may be pressured to do "whatever is necessary" to look good on the outcome variables and not be concerned with how they got those results. Closely associated with the appraisal system is the way rewards are allocated. The more reward or punishment depends on specific goal outcomes, the more pressure there is on managers to do whatever they must to reach those goals and perhaps compromise their ethical standards. Structures also differ in the amount of time, competition, cost, and similar pressures placed on employees. The greater the pressure, the more likely it is that managers will compromise their ethical standards.

click here to explore now
active concept check
Testing...Testing...1, 2, 3

Organization's Culture

The content and strength of an organization's culture also influence ethical behavior.[43] An organizational culture most likely to encourage high ethical standards is one that is high in risk tolerance, control, and conflict tolerance. Managers in such a culture are encouraged to be aggressive and innovative, are aware that unethical practices will be discovered, and feel free to openly challenge expectations they consider to be unrealistic or personally undesirable.

A strong culture will exert more influence on managers than a weak one. If the culture is strong and supports high ethical standards, it should have a very powerful and positive influence on managers' decision to act ethically or unethically. The Boeing Company, for example, has a strong culture that has long stressed ethical corporate dealings with customers, employees, the community, and stockholders. To reinforce the importance of ethics, the company developed a series of serious and thought-provoking posters designed to get employees to recognize that their individual decisions and actions are important in the way the organization is viewed. In a weak organizational culture, however, managers are more likely to rely on work group and departmental norms as a behavioral guide.

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 accounting course from the same instructor last semester what questions were on the exam. Similarly, a manager might think nothing about taking home a few office supplies yet be highly concerned about the possible embezzlement of company funds.

These examples illustrate the final factor that affects a manager's ethical behavior: the intensity of the ethical issue itself.[44] As Exhibit 5.10 shows, six characteristics have been identified as relevant in determining issue intensity: greatness of harm, consensus of wrong, probability of harm, immediacy of consequences, proximity to victim(s), and concentration of effect.[45] These six factors determine how important an ethical issue is to an individual. According to these guidelines, the larger the number of people harmed, the more agreement that the action is wrong, the greater the likelihood that the action will cause harm, the more immediately that the consequences of the action will be felt, the closer the person feels to the victim(s), and the more concentrated the effect of the action on the victim(s), the greater the issue intensity. When an ethical issue is important—that is, the more intense it is—the more we should expect managers to behave ethically.

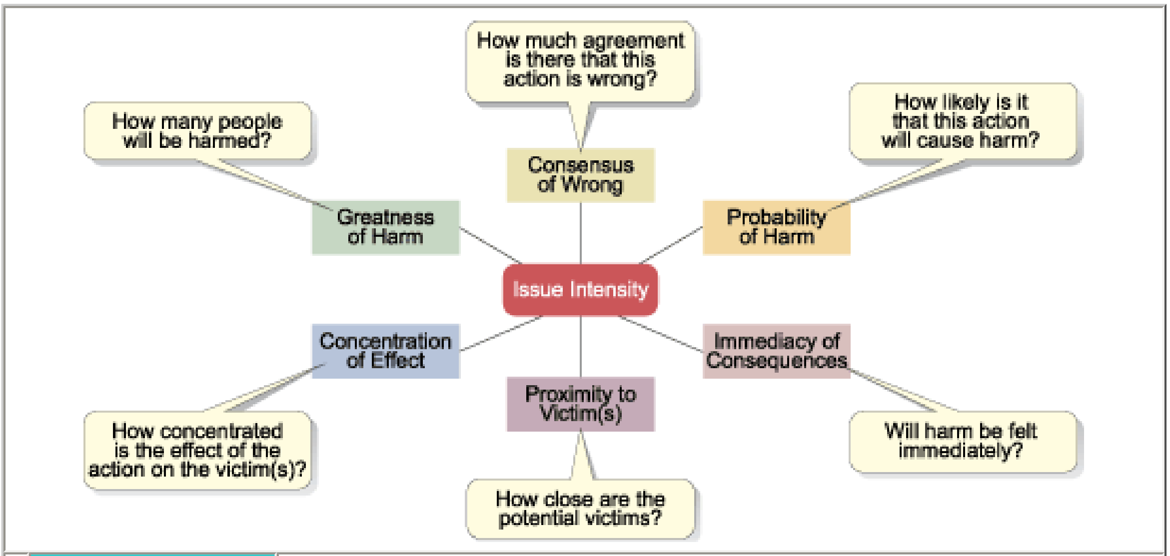


Exhibit 5.10 **Determinants of Issue Intensity**

Ethics in an International Context

Are ethical standards universal? Hardly! Social and cultural differences between countries are important environmental factors that determine ethical and unethical behavior. For example, the manager of a Mexican firm bribes several high-ranking government officials in Mexico City to secure a profitable government contract. Such a practice would be seen as unethical, if not illegal, in the United States. But it is a standard business practice in Mexico.

Should Coca-Cola employees in Saudi Arabia adhere to U.S. ethical standards, or should they follow local standards of acceptable behavior? If Airbus (a European company) pays a $10 million "broker's fee" to an intermediary to get a major contract with a Middle Eastern airline, should the Boeing Company 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, there is a law to guide U.S. managers. The Foreign Corrupt Practices Act makes it illegal for U.S. firms to knowingly corrupt a foreign official. However, even this law doesn't always reduce ethical dilemmas to black and white.

In some Latin American countries, for example, government bureaucrats are paid ridiculously low salaries because custom dictates that they receive small payments from those they serve. Payoffs to these bureaucrats "grease the machinery" of government and ensure that things get done. The Foreign Corrupt Practices Act 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.

Although it is important for individual managers working in foreign cultures to recognize the various social, cultural, and political and legal influences on what is appropriate and acceptable behavior, global organizations must also clarify their ethical guidelines so that employees know what is expected of them while working in a foreign location. This adds another dimension to making ethical judgments.

At the World Economic Forum in January 1999, the United Nations Secretary-General challenged world business leaders to "embrace and enact" the Global Compact, a document outlining nine principles for doing business globally in the areas of human rights, labor, and environment.[46] These nine principles are listed in Exhibit 5.11. Global businesses have been asked to incorporate these guidelines into their business activities. Companies making this commitment are doing so because they believe that the world business community plays a significant role in improving economic and social conditions.

Human Rights	
Principle 1:	Support and respect the protection of international human rights within their sphere of influence
Principle 2:	Make sure business corporations are not complicit in human rights abuses
Labor Standards	
Principle 3:	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
Principle 6:	The elimination of discrimination in respect of employment and occupation
Environment	
Principle 7:	Support a precautionary approach to environmental challenges
Principle 8:	Undertake initiatives to promote greater environmental responsibility
Principle 9:	Encourage the development and diffusion of environmentally friendly technologies

Exhibit 5.11 **The Global Compact**

Source: The Global Compact Web site, August 14, 2000.

click here to explore now
video example
How might a manager's ethical behavior change from one country to another?

click here to explore now
active concept check
Testing...Testing...1, 2, 3

Toward Improving Ethical Behavior

Managers can do a number of things if they're serious about reducing unethical behaviors in their organization. They can seek to hire individuals with high ethical standards, establish codes of ethics and decision rules, lead by example, delineate job goals and performance appraisal mechanisms, provide ethics training, conduct social audits, and provide support to individuals facing ethical dilemmas. Taken individually, these actions will probably not have much impact. But when all or most of them are implemented as part of a comprehensive ethics program, they have the potential to significantly improve an organization's ethical climate. The key term here, however, is *potential*. There are no guarantees that a well-designed ethics program will lead to the desired outcome. For instance, retailing giant Sears has a long history of encouraging ethical business practices and, in fact, has a corporate Office of Ethics and Business Practices. However, the company's ethics programs didn't stop managers from illegally trying to collect payments from bankrupt charge account holders or from routinely deceiving automotive service center customers into thinking they needed unnecessary repairs.[47]

Employee Selection

Given that individuals are at different stages of moral development and possess different personal value systems and personalities, an organization's employee selection process—interviews, tests, background checks, and so forth—should be used to eliminate ethically questionable applicants. The selection process should be viewed as an opportunity to learn about an individual's level of moral development, personal values, ego strength, and locus of control.[48] But this isn't an easy task! Even under the best of circumstances, individuals with questionable standards of right and wrong will be hired. However, this shouldn't pose a problem if other types of ethics controls are in place.

Codes of Ethics and Decision Rules

Ambiguity about what is and is not ethical can be a problem for employees. A code of ethics, a formal statement of an organization's primary values and the ethical rules it expects its employees to follow, is a popular choice for reducing that ambiguity. For instance, nearly 95 percent of Fortune 500 companies now have codes of conduct. And codes of ethics are becoming more popular globally. A survey of business organizations in 22 countries found that 78 percent have formally stated ethics standards and codes of ethics.[49]

What should a code of ethics look like? It has been suggested that codes should be specific enough to show employees the spirit in which they are supposed to do things yet loose enough to allow for freedom of judgment.[50] A survey of various codes of ethics found that their content tended to fall into three categories: (1) Be a dependable organizational citizen; (2) do not do anything unlawful or improper that will harm the organization; and (3) be good to customers.[51] Exhibit 5.12 lists the variables included in each of these clusters.

Cluster 1. Be a Dependable Organizational Citizen

1. Comply with safety, health, and security regulations.
2. Demonstrate courtesy, respect, honesty, and fairness.
3. Illegal drugs and alcohol at work are prohibited.
4. Manage personal finances well.
5. Exhibit good attendance and punctuality.
6. Follow directives of supervisors.
7. Do not use abusive language.
8. Dress in business attire.
9. Firearms at work are prohibited.

Cluster 2. Do Not Do Anything Unlawful or Improper That Will Harm the Organization

1. Conduct business in compliance with all laws.
2. Payments for unlawful purposes are prohibited.
3. Bribes are prohibited.
4. Avoid outside activities that impair duties.
5. Maintain confidentiality of records.
6. Comply with all antitrust and trade regulations.
7. Comply with all accounting rules and controls.
8. Do not use company property for personal benefit.
9. Employees are personally accountable for company funds.
10. Do not propagate false or misleading information.
11. Make decisions without regard for personal gain.

Cluster 3. Be Good to Customers

1. Convey true claims in product advertisements.
2. Perform assigned duties to the best of your ability.
3. Provide products and services of the highest quality.

Exhibit 5.12 **Clusters of Variables Found in 83 Corporate Codes of Business Ethics**

Source: F.R. David, "An Empirical Study of Codes of Business Ethics: A Strategic Perspective," paper presented at the 48th Annual Academy of Management Conference, Anaheim, CA, August 1988.

But how well do codes of ethics work? The reality is that they're not always effective in encouraging ethical behavior in organizations. A survey of employees in U.S. businesses with ethics codes found that 75 percent of those surveyed had observed ethical or legal violations in the previous 12 months including such things as deceptive sales practices, unsafe working conditions, sexual harassment, conflicts of interest, and environmental violations.[52] Does this mean that codes of ethics shouldn't be developed? No. But there are some suggestions that managers can follow. First, ethical codes shouldn't be developed and applied in isolation. Information about ethical expectations and reminders about the organization's commitment to ethics should be continually relayed to employees. Second, all levels of management should support and continually reaffirm the importance of the code of ethics and consistently discipline those who break the code. When managers consider the code of ethics to be important, regularly affirm its content, and publicly reprimand rule breakers, ethics codes can supply a strong foundation for an effective corporate ethics program.[53] Finally, an organization's code of ethics might be designed around the 12 questions listed in that can be used as decision rules in guiding managers as they handle ethical dilemmas in decision making.[54]

1. Have you defined the problem accurately?
2. How would you define the problem if you stood on the other side of the fence?
3. How did this situation occur in the first place?
4. To whom and to what do you give your loyalty as a person and as a member of the corporation?
5. What is your intention in making this decision?
6. How does this intention compare with the probable results?
7. Whom could your decision or action injure?
8. Can you discuss the problem with the affected parties before you make the decision?
9. Are you confident that your position will be as valid over a long period of time as it seems now?
10. Could you disclose without qualm your decision or action to your boss, your chief executive officer, the board of directors, your family, society as a whole?
11. What is the symbolic potential of your action if understood? If misunderstood?
12. Under what conditions would you allow exceptions to your stand?

Exhibit 5.13 **12 Questions for Examining the Ethics of a Business Decision**

Source: Reprinted by permission of *Harvard Business Review*. An exhibit from "Ethics without the Sermon" by L.L. Nash, November-December 1981, p. 81. Copyright © 1981 by the President and Fellows of Harvard College; all rights reserved.

Top Management's Leadership

Doing business ethically requires a commitment from top managers. Why? Because it's the top managers who set the cultural tone. They are 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, use 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.

Top managers also set the cultural tone by their reward and punishment practices. The choice of whom and what are rewarded with pay increases and promotions sends a strong signal to employees. The promotion of a manager for achieving impressive results in an ethically questionable manner indicates to others that those questionable ways are acceptable. When wrongdoing is uncovered, managers who want to emphasize their commitment to doing business ethically must punish the offender and publicize the fact by making the outcome visible to everyone in the organization. This practice sends a message that doing wrong has a price and it's not in employees' best interests to act unethically!

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Job Goals and Performance Appraisal

Employees should have realistic and tangible goals. Explicit goals can create ethical problems if they make unrealistic demands on employees. Under the stress of unrealistic goals, otherwise ethical employees may have the attitude that "anything goes." When goals are clear and realistic, they reduce ambiguity for employees and motivate rather than punish.

Whether an individual achieves his or her job goals is usually a key issue in performance appraisal. Keep in mind, though, that when performance appraisals focus only on economic goals, ends will begin to justify means. If an organization wants its employees to uphold high ethical standards, it must include this dimension in its performance appraisal process. For example, a manager's annual review might include a point-by-point evaluation of how his or her decisions measured up against the company's code of ethics and on how well goals were met.

Ethics Training

More and more organizations are setting up seminars, workshops, and similar ethics training programs to encourage ethical behavior. Ethics researchers estimate that over 40 percent of U.S. companies provide some form of ethics training.[55] But these training programs aren't without controversy. The primary debate is whether you can actually teach ethics. Critics, for instance, stress that the effort is pointless because people establish their individual value systems when they're very young. Proponents, however, note that several studies have found that values can be learned after early childhood. In addition, they cite evidence that shows that teaching ethical problem solving can make an actual difference in ethical behaviors;[56] that training has increased individuals' level of moral development;[57] and that, if it does nothing else, ethics training increases awareness of ethical issues in business.[58]

How do you teach ethics? Let's look at how it's done at the Boeing Company.[59] Its training program, called "Questions of Integrity: The Ethics Challenge," consists of 54 different ethics situations and four possible ways of dealing with each. In work group discussions, supervisors discuss each situation and then ask their employees to choose the best outcome by holding up cards marked A, B, C, or D. For instance, one of the situations asks employees, "When walking through the halls, you constantly hear one of your male co-workers call any female employee 'babe.' What do you do?" Possible answers include "A. Speak to your co-worker in a nonconfrontational manner about the sexist comment. B. Tell his manager that the employee should be fired for sexual harassment. C. Nothing. Calling a woman 'babe' is a form of endearment. D. Tell your supervisor that you feel this is demeaning in the workplace." The "correct" answers are A and D. Other examples of the realistic ethical scenarios used in the training include selling Amway products at work, wearing a prochoice t-shirt, and staying at a supplier's beach house. The Boeing Company's ethics training program was designed to bring ethics to life for employees and make it more relevant to their everyday workplace behaviors.

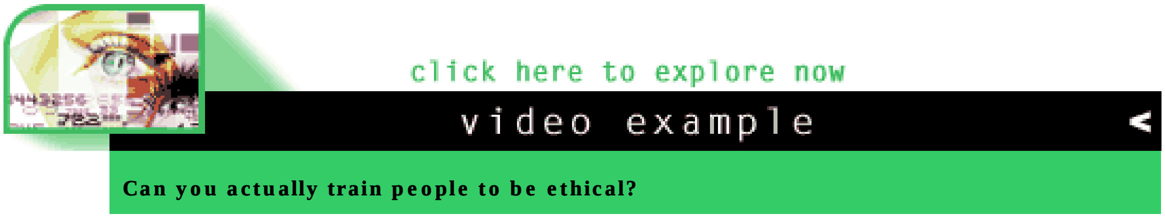
Ethics training sessions can provide a number of benefits.[60] They reinforce the organization's standards of conduct. They're a reminder that top managers want employees to consider ethical issues in making decisions. They clarify what practices are and are not acceptable. Finally, when employees discuss common concerns among themselves, they are reassured that they're not alone in facing ethical dilemmas. This reassurance can strengthen their confidence when they have to take unpopular but ethically correct stances.

Independent Social Audits

An important element of unethical behavior is fear of being caught. Independent social audits, which evaluate decisions and management practices in terms of the organization's code of ethics, increase the likelihood of detection. These audits can be routine evaluations, performed on a regular basis just as financial audits are, or they can occur randomly with no prior announcement. An effective ethical program should probably have both. To maintain integrity, auditors should be responsible to the company's board of directors and present their findings directly to the board. This practice gives the auditors clout and lessens the opportunity for retaliation from those being audited.

Formal Protective Mechanisms

Our last recommendation is for organizations to provide formal mechanisms to protect employees who face ethical dilemmas so that they can do what's right without fear of reprimand. An organization might designate ethical counselors. When employees face an ethics dilemma, they could go to these advisers for guidance. The ethical counselor's role would be a sounding board—a channel to let employees openly verbalize their ethical problem, the problem's cause, and their own options. After the options are clear, the adviser might take on the role of advocate who champions the ethically "right" alternatives. Other organizations have appointed ethics officers who design, direct, and modify the organization's ethics programs as needed. In addition, the organization might create a special appeals process that employees could use without personal or career risk to themselves to raise ethical issues or blow the whistle on violators.[61]



go to page: 1 2 3 4 5 6 7 8 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> A Final Thought

It seems that news headlines abound with stories of unethically questionable practices at large and well-known companies: Pepsico acknowledges its role in putting Coca-Cola under inquiry by the European Commission because it believed Coke was abusing its dominant position in the European market; Warner Music Group is criticized for distributing violent rap lyrics; Prudential Insurance Company is accused of sales fraud and forgery; Columbia/HCA is investigated for inflating the severity of patient illnesses to receive larger Medicare and Medicaid payments; and Bausch and Lomb is accused of using deceptive accounting principles and practices in order to meet strict numbers-oriented performance goals. What's going on? Has ethics taken a back seat in business?

A survey of employees shows that workplace pressures are leading more and more of them to consider acting unethically or illegally on the job.[62] The results indicated that 56 percent of those surveyed felt pressure to act unethically or illegally on the job, with 48 percent saying they have actually committed such activities. What types of unethical business activities were reported? Here is a sampling that respondents admitted to: cut corners on quality control (16 percent); covered up incidents (14 percent); abused or lied about sick days (11 percent); lied to or deceived customers (9 percent); put inappropriate pressure on others (7 percent); falsified numbers or reports (6 percent); lied to or deceived superiors on serious matters (5 percent); withheld important information (5 percent); misused or stole company property (4 percent); took credit for someone's work or idea (4 percent); and engaged in copyright or software infringement (3 percent).

As we well know, unethical behaviors are prevalent across our society. Cheating, for instance, is a common occurrence in education. A range of studies shows that anywhere from 75 percent to 98 percent of students admit to having cheated in high school.[63] And a survey of college students by *U.S. News and World Report* showed some ethically alarming results: 90 percent believe cheaters never pay the price; 90 percent say when they see someone cheating, they don't turn the person in; 84 percent believe they need to cheat to get ahead in the world today; and 63 percent say it's fair for parents to help with their kids' homework.[64] It's not surprising that organizations have difficulty upholding high ethical standards when their future employees—these students—so readily accept unethical behavior.

What are the implications for managers, current and future? Doing the right thing—that is, managing ethically—isn't always easy. However, because society's expectations of its institutions are regularly changing, managers must continually monitor those expectations. What is ethically acceptable today may be a poor guide for the future.

click here to explore now
active concept check <

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> Chapter Wrap-Up

You had a chance to voice your opinion about Darien Dash's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Lois Boyle
Owner, Chief Creative Officer
J. Schmid & Associates, Inc., Shawnee Mission, Kansas

Not working? Get Quicktime

As a marketer, I see this as an incredible market differentiation opportunity. The Internet industry has spawned thousands of "me-too" companies with few organizations owning a clear, defined niche. Creating a values-based organization would enable DME to define a mission statement that includes key points of differentiation.

Dash should educate and empower

Amanda Quebbeman
Pharmaceutical Sales Representative
Eli Lilly and Company, St. Louis, Missouri

Not working? Get Quicktime

There are several things I would recommend Dash do to develop values for his company. First, get all employees to participate in the process. This would ensure that they will "buy into" what organizational values are ultimately agreed upon. This won't be easy, but I think it's critical. Next, I think Dash should form small groups to take a close look at defining these values. The fact that the company

DME's employees by creating a meaningful mission statement and communicating it to all employees. To become part of the everyday business culture, the mission statement must be emphasized at all points of decision making. Visual reminders and managerial encouragement should be used to reiterate these values. Employees should ask themselves "will this decision promote our values as stated in the mission statement?"

In addition, the mission statement should be printed on every internal and external communication. This creates market awareness and ultimately market strength.

Finally, when a milestone has been reached that supports the values expressed in the mission statement, an internal celebration should take place. Recognizing efforts that support the mission statement will help reinforce the values within the minds and actions of employees.

was founded upon a desire to empower minority communities is a great place to start. Once these employee teams have carefully considered the important values, it's time for a company-wide meeting to discuss them. This may not be easy or pleasant, but is critical to getting employee commitment. Then, a written statement of core company values can be developed. It is important for Dash and his employees to understand that these values won't ever be changed. As organizational circumstances change, the values statement should reflect these changes.

Finally, I want to emphasize how important Dash's leadership is to this whole process. Without his continued support of the company's values, employees aren't likely to use them to guide their decisions and actions.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log On: Internet-Based Exercise
- Working Together: Team-Based Exercise
- Case Application
- Managing Enterpreneurial Ventures

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 6: Decision-Making: The Essence of the Manager's Job

Chapter Outline

Go to Student View
Table of Contents
Chapter Contents
Search
Rate the Difficulty
In the News
Internet Exercises
Robbins OnLine Learning System (R.O.L.L.S.)
Faculty Resources
Misc. Resources

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...

The Nurse Staffing Dilemma (06/12/02)

The Business of Being Oprah (06/04/02)

The Boomerangs Return---They Chased Dot-Com Dreams, Now They Are Back, Wounded But Wiser (04/24/02)

Business Schools Expand MBA's for Executive (01/30/02)

The Kinder, Gentler Way To Lay Off Employees (04/11/01)

What Happens When Your Valued Employee Makes A Bad Manager? (02/15/01)

When Work is Frantic, Managers Need Ways to Expand Horizons (04/13/00)

When Capital Gets Antsy (10/01/99)

Decisions, Decisions - Unit of One (01/15/99)

The New Organization Man (03/16/98)

Theory of Creativity (11/17/97)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Strategy at Flextronics (01/16/02)

Small Businesses Can Thrive With Board of Directors (05/31/01)

Government Sponsored Export Assistance Programs: The US Commercial Service (09/19/00)

Streamlining the Internet for Executive Work (08/03/99)

Strategic Planning Tools & Decision-Making (02/05/99)

Evaluating Models of Decision-Making with Groups (01/14/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap06.doc

Lecture Presentation - chap06.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Modules - modules.doc
	Preface - preface.doc
	Self Assessment Library 2.0 - selfas.doc
	Table of contents - toc.doc

Add to...	Just for Students
	Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> What's Ahead

A Manager's Dilemma

Its bicycles are loved by customers and respected by competitors. Cannondale Corporation based in Bethel, Connecticut, is a leading maker of mountain, road racing, multisport, recreational, and specialty bicycles.[1] Not content to stay on a gentle, smooth, and predictable path, Cannondale's managers decided to go in a new direction by introducing a new line of off-road motorcycles in the spring of 2000. Mario Galasso, vice president of product development at the company who also races bikes in his off-hours, helped design the new dirt bike.

It's hoped that the company's new motorcycle will help double sales and give a boost to the stock price that's been languishing around $5 1/2 a share, down from a high of $28 in 1998. However, to accomplish these lofty goals, the company will have to steal market share from some serious competition: Yamaha, Suzuki, Kawasaki, and Honda. Yet, there's some good news as well. Recreational off-road biking is extremely popular now. This boom is being fed by televised motocross competitions. Galasso says, "The whole thing is kind of going crazy." He hopes that the new bike his group has designed will attract wide consumer interest.

The path to the introduction of Cannondale's new motorcycle was about as unpredictable and bumpy as some of the trails that the company's customers love to traverse. Bringing a new product out is a difficult proposition for any company, and Cannondale's product development expertise, although extremely proficient in high-end bicycles, was put to the test. The whole process took a couple of years longer than expected. Galasso relished the challenge, however. He explained, "The point of riding and racing is trying to make your bike lighter, faster, trying to get an edge over a guy. You don't get into this if you don't think you can do it better."

Now that the new bike is out, how could Galasso evaluate the effectiveness of the decision? What decision criteria might he use?

What would you do?

Take a moment to familiarize yourself with the key objectives of this chapter.

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Like managers everywhere, Mario Galasso needs to make good decisions at Cannondale Corporation. Making good decisions is something that every manager strives to do since the overall quality of managerial decisions has a major influence on organizational success or failure. In this chapter, we examine the concept of decision making and how managers make decisions.

> The Decision-Making Process

Individuals at all levels and in all areas of organizations make decisions. That is, they make choices from two or more alternatives. For instance, top-level managers make decisions about their organization's goals, where to locate manufacturing facilities, what new markets to move into, and what products or services to offer. Middle and lower-level managers make decisions about setting weekly or monthly production schedules, handling problems that arise, allocating pay raises, and selecting or disciplining employees. 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. How do they make those decisions?

Although decision making is typically described as "choosing among alternatives," that view is too simplistic. Why? Because decision making is a comprehensive process, not just a simple act of choosing among alternatives. Even for something as straightforward as deciding where to go for lunch, you do more than just choose burgers or pizza. Granted, you may not spend a lot of time contemplating the lunch decision, but you still engage in the steps in the decision-making process. What *does* the decision-making process involve?

Exhibit 6.1 illustrates the decision-making process, a set of eight steps that begins with identifying a problem and decision criteria and allocating weights to those criteria; moves to developing, analyzing, and selecting an alternative that can resolve the problem; implements the alternative; and concludes with evaluating the decision's effectiveness. This process is as relevant to your personal decision about what movie to see on a Friday night as it is to a corporate action such as Cannondale's decision to start manufacturing and marketing motorcycles. The process also can be used to describe both individual and group decisions. Let's take a closer look at the process in order to understand what each step involves.

Exhibit 6.1	The Decision-Making Process

Step 1: Identifying a Problem

The decision-making process begins with the existence of a problem or, more specifically, a discrepancy between an existing and a desired state of affairs.[2] Let's develop an example that illustrates this point and that we can use throughout our discussion of the decision-making process. To keep it simple, let's make the example something most of us can relate to: the decision to buy a new laptop computer. Take the case of Joan, a sales manager whose sales representatives need new laptops because their old ones aren't fast enough and don't have sufficient memory to handle the volume of work. Again, for simplicity's sake, assume that it's not economical to simply add memory to the old ones and that it's corporate policy that managers purchase new computers rather than lease them. Now we have a problem. There's a disparity between the sales representatives' current computers and their need to have larger, faster computers. Joan has a decision to make.

Unfortunately, this example doesn't tell us much about how managers identify problems. In the real world, most problems don't come with neon signs flashing "problem." The sales representatives' complaints about inadequate computing ability to do their jobs effectively might be a clear signal to Joan that she needs to get them new computers, but few problems are that obvious. Is a 5 percent drop in sales a problem? Or are declining sales merely a symptom of other problems, such as unsatisfactory products or poor advertising? Also, keep in mind that what one manager considers a problem might not be considered a problem by another manager. Problem identification is subjective. Furthermore, the manager who mistakenly resolves the wrong problem perfectly is likely to perform just as poorly as the manager who doesn't identify the right problem and does nothing. Problem identification isn't simple or insignificant.[3] Before something can be characterized as a problem, managers have to be aware of the problem, be under pressure to take action, and have the resources needed to take action.[4]

How do managers become aware of a problem? They obviously have to compare their current state of affairs against where they want to be. If they're not where they want to be or if things aren't going as they should, then a problem (or discrepancy) exists. In our computer buying example, the problem is that the current computers aren't sufficient for the sales representatives to do their jobs efficiently and effectively.

A discrepancy without pressure to take action becomes a problem that can be postponed. To initiate the decision process, then, the problem must be such that it exerts some type of pressure on the manager to act. Pressure might come from organizational policies, deadlines, financial crises, competitor actions (think of our chapter-opening manager's dilemma), complaints from customers or subordinates, expectations from the boss, or an upcoming performance evaluation.

Finally, managers aren't likely to characterize something as a problem if they perceive that they don't have the authority, budget, information, or other resources necessary to act on it. When managers become aware of a problem and are under pressure to act but feel they have inadequate resources, they usually describe the situation as one in which unrealistic expectations are being placed on them.

Step 2: Identifying Decision Criteria

Once a manager has identified a problem that needs attention, the decision criteria important to resolving the problem must be identified. That is, managers must determine what's relevant in making a decision. In our computer buying example, Joan has to assess what factors are relevant to her decision. These might include criteria such as price, product model and manufacturer, standard features, optional equipment, service warranties, repair record, and service support after purchase. After careful consideration, Joan decides that price, weight, warranties, screen type, reliability, and screen size are the relevant criteria in her decision.

Whether they are explicitly stated or not, every decision maker has criteria that guide his or her decisions. Note that, in this step in the decision-making process, what *isn't* identified is as important as what *is*. If Joan doesn't consider a service warranty a decision criterion, then it will not influence her final choice of computers.

Step 3: Allocating Weights to the Criteria

The criteria identified in Step 2 aren't all equally important, so the decision maker must weight the items in order to give them the correct priority in the decision. How do you weight criteria? A simple approach is to give the most important criterion a weight of 10 and then assign weights to the rest against that standard. Thus, a criterion with a weight of 10 would be twice as important as one given a 5. Of course, you could use 100 or 1,000 or any number you select as the highest weight. The idea is to use your personal preferences to prioritize the criteria you identified in Step 2 by assigning a weight to each.

Exhibit 6.2 lists the criteria and weights that Joan developed for her computer replacement decision. As you can see, reliability is the most important criterion in her decision, with such factors as price and screen type having low weights.

Criterion	Weight
Reliability	10[a]
Screen size	8
Warranty period	5
Weight	5
Price	4
Screen type	3

Exhibit 6.2 **Criteria and Weights for Computer Replacement Decision**

Step 4: Developing Alternatives

The fourth step requires the decision maker to list the viable alternatives that could resolve the problem. No attempt is made in this step to evaluate the alternatives, only to list them. Our sales manager, Joan, identified eight laptop models as viable choices including Acer TravelMate 734TL, Compaq Presario 1800XL186, Gateway Solo 2550LS, Hewlett-Packard Omnibook 900, Micromedia Computers Millennium 3000, NEC Direct Versa Note VX 14.1, Sony Vaio PCG-X18, and Toshiba Satellite Pro 4280.

Step 5: Analyzing Alternatives

Once the alternatives have been identified, the decision maker must critically analyze each one. Each alternative is evaluated by appraising it against the criteria established in Steps 2 and 3. From this comparison, the strengths and weaknesses of each alternative become evident. Exhibit 6.3 shows the assessed values that Joan gave each of her eight alternatives after she had talked to some computer experts and read the latest information from computer magazines.

Model	Reliability	Screen Size	Warranty	Weight	Price	Screen Type
Acer TravelMate 734TL	8	3	5	10	3	5
Compaq Presario 1800 XL186	8	5	10	5	6	5
Gateway Solo 2550 LS	10	8	5	10	3	10
Hewlett-Packard Omnibook 900	8	5	5	10	3	10
Micromedia Computers Millennium 3000	6	8	5	10	6	10
NEC Direct Versa Note VX 14.1	10	8	5	5	3	10

Sony Vaio PCG-X18	2	10	5	10	10	10
Toshiba Satellite Pro 4280	4	10	5	10	10	5

Exhibit 6.3 **Assessed Values of Notebook Computer Alternatives Against Decision Criteria**

Keep in mind that the ratings (on a 1 to 10 scale) given the eight computer models shown in Exhibit 6.3 are based on the personal assessment made by Joan. Some assessments can be done pretty objectively. For instance, the purchase price represents the best price she can get from local retailers, and performance data and weight were reported in computer magazines. However, the assessment of reliability is often a personal judgment. The point is that most decisions by managers involve judgments—the criteria chosen in Step 2, the weights given to the criteria in Step 3, and the evaluation of alternatives in Step 5. This explains why two computer buyers with the same amount of money may look at two totally different sets of alternatives or even rate the same alternatives differently.

Exhibit 6.3 represents only an assessment of the eight alternatives against the decision criteria. It doesn't reflect the weighting done in Step 3. If one choice had scored 10 on every criterion, you wouldn't need to consider the weights. Similarly, if the weights were all equal, you could evaluate each alternative merely by summing up the appropriate lines in Exhibit 6.3. For instance, the Acer TravelMate 734TL would have a score of 34, and the Sony Vaio PCG-X18 would have a score of 47. However, if you multiply each alternative assessment (Exhibit 6.3) by its weight (Exhibit 6.1), you get Exhibit 6.4. The sum of these scores represents an evaluation of each alternative against both the established criteria and weights. Notice that the weighting of the criteria significantly changes the ranking of alternatives in our example.

Model	Reliability	Screen Size	Warranty	Weight	Price	Screen Type	Total
Acer TravelMate 734TL	80	24	25	50	12	15	206
Compaq Presario 1800 XL186	80	40	50	25	24	15	234
Gateway Solo 2550 LS	100	64	25	50	12	30	281
Hewlett-Packard Omnibook 900	80	40	25	50	12	30	237
Micromedia Computers Millennium 3000	60	64	25	50	24	30	253
NEC Direct Versa Note VX 14.1	100	64	25	25	12	30	256
Sony Vaio PCG-X18	20	80	25	50	40	30	245
Toshiba Satellite Pro 4280	40	80	25	50	40	15	250

Exhibit 6.4 **Evaluation of Laptop Computer Alternatives Against Criteria and Weights**

Step 6: Selecting an Alternative

The sixth step is the important act of choosing the best alternative from among those considered. We have determined all the pertinent criteria in the decision, weighted them, and identified and analyzed viable alternatives. Now we merely have to choose the alternative that generated the highest score in Step 5. In our computer purchase example (Exhibit 6.4), Joan would choose the Gateway Solo 2550 LS computer since it scored highest (281 points) on the basis of the criteria identified, the weights given to the criteria, and Joan's assessment of each computer's ranking on the criteria. It's the "best" alternative and the one she should choose.

Step 7: Implementing the Alternative

Although the choice process is completed in the previous step, the decision may still fail if it isn't implemented properly. Therefore, Step 7 is concerned with putting the decision into action.

Implementation involves conveying the decision to those affected by it and getting their commitment to it. As we'll discuss in Chapter 15, groups or teams can help a manager with commitment. If the people who must carry out a decision participate in the process, they're more likely to enthusiastically support the outcome than if they are just told what to do. For instance, in our decision example, if the sales representatives had participated in the purchase decision, they'd probably enthusiastically support the computer model chosen and any new training necessary. (Parts Three through Five of this book detail how decisions are implemented by effective planning, organizing, and leading.)

Step 8: Evaluating Decision Effectiveness

The last step in the decision-making process involves appraising the outcome of the decision to see if the problem has been resolved. Did the alternative chosen in Step 6 and implemented in Step 7 accomplish the desired result?

What would happen if, as a result of this evaluation, the problem still existed? The manager would then need to carefully assess what went wrong. Was the problem incorrectly defined? Were errors made in the evaluation of the various alternatives? Was the right alternative selected but poorly implemented? Answers to questions such as these might send the manager back to one of the earlier steps. It might even require starting the whole decision process over.

go to page: 1 2 3 4 5 << previous | next >>

> The Pervasiveness of Decision Making

Everyone in an organization makes decisions, but decision making is particularly important in a manager's job. As Exhibit 6.5 shows, decision making is part of all four managerial functions. That is why managers—when they plan, organize, lead, and control—are frequently called *decision makers*. In fact, we can say that *decision making* is synonymous with *managing*.[5]

Planning	**Leading**
• 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?	• How do I handle employees who appear to be low in motivation? • 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?
Organizing	**Controlling**
• How many employees should I have report directly to me? • How much centralization should there be in the organization? • How should jobs be designed? • When should the organization implement a different structure?	• 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 6.5 **Decisions in the Management Functions**

The fact that almost everything a manager does involves making decisions doesn't mean that decisions are always long, complex, or clearly evident to an outside observer. Much of a manager's decision making is routine. Every day of the year you make a decision about the problem of when to eat dinner. 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. Managers make dozens of these routine decisions every day.

Keep in mind that even though a decision seems easy to make or has been faced by a manager a number of times before, it still is a decision.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> The Manager as Decision Maker

Although we've described the steps in the decision-making process, we still don't know much about the manager as a decision maker and how decisions are actually made in organizations. How can we best describe the decision-making situation and the person who makes the decisions? We look at those issues in this section. We'll start by looking at three perspectives on how decisions are made.

Making Decisions: Rationality, Bounded Rationality, and Intuition

Managerial decision making is assumed to be rational. By that we mean that managers make consistent, value-maximizing choices within specified constraints.[6] What are the underlying assumptions of rationality, and how valid are those assumptions?

Assumptions of Rationality

A decision maker who was perfectly rational would be fully objective and logical. He or she would carefully define a problem and would have a clear and specific goal. Moreover, making decisions using rationality would consistently lead toward selecting the alternative that maximizes the likelihood of achieving that goal. Exhibit 6.6 summarizes the assumptions of rationality.

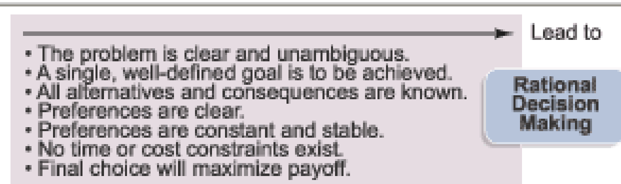


Exhibit 6.6 Assumptions of Rationality

The assumptions of rationality apply to any decision. Because we're concerned with managerial decision making, however, we need to add one further assumption. Rational managerial decision making assumes that decisions are made in the best *economic* interests of the organization. That is, the decision maker is assumed to be maximizing the organization's interests, not his or her own interests.

How realistic are these assumptions about rationality? Managerial decision making can follow rational assumptions if the following conditions are met: The manager is faced with a simple problem in which the goals are clear and the alternatives limited, in which the time pressures are minimal and the cost of seeking out and evaluating alternatives is low, for which the organizational culture supports innovation and risk taking, and in which the outcomes are relatively concrete and measurable.[7] But most decisions that managers face in the real world don't meet all those tests.[8] So how are most decisions in organizations usually made? The concept of bounded rationality can help answer that question.

Bounded Rationality

Despite the limits to perfect rationality, managers are expected to follow a rational process when making decisions.[9] Managers know that "good" decision makers are supposed to do certain things: identify problems, consider alternatives, gather information, and act decisively but prudently. Managers, thus, are expected to exhibit the correct decision-making behaviors. By doing so, managers signal to their superiors, peers, and subordinates that they are competent and that their decisions are the result of intelligent and rational deliberation. However, certain aspects of the decision-making process are not realistic with respect to how managers make decisions. Instead, managers tend to operate under assumptions of bounded rationality; that is, they behave rationally within the parameters of a simplified decision-making process that is limited (or bounded) by an individual's ability to process information.[10] Because they can't possibly analyze all information on all alternatives, managers satisfice rather than maximize. That is, they accept solutions that are "good enough." They are being rational within the limits (bounds) of their information processing ability. Let's look at an example. Suppose that you're a finance major and upon graduation you want a job, preferably as a personal financial planner, with a minimum salary of $32,000 and within a hundred miles of your hometown. You accept a job offer as a business credit analyst—not exactly a personal financial planner but still in the finance field—at a bank 50 miles from home at a starting salary of $33,000. A more comprehensive job search would have revealed a job in personal financial planning at a trust company only 25 miles from your hometown and starting at a salary of $35,000. Because the first job offer was satisfactory (or "good enough"), you behaved in a boundedly rational manner by accepting it, although according to the assumptions of perfect rationality, you didn't maximize your decision by searching all possible alternatives and choosing the best.

Since most decisions that managers make don't fit the assumptions of perfect rationality, they instead make those decisions using a boundedly rational approach. That is, they make decisions based on alternatives that are satisfactory. However, keep in mind that their decision making also may be strongly influenced by the organization's culture, internal politics, power considerations, and by a phenomenon called escalation of commitment, which is an increased commitment to a previous decision despite evidence that it may have been wrong.[11] For example, studies of the events leading up to the *Challenger* space shuttle disaster point to an escalation of commitment by decision makers to launch the shuttle on that fateful day even though the decision was questioned by certain individuals. Why would decision makers want to escalate commitment to a bad decision? Because they don't want to admit that their initial decision may have been flawed. Rather than search for new alternatives, they simply increase their commitment to the original solution.

Role of Intuition

What role does intuition play in managerial decision making? Managers regularly use their intuition and it may actually help improve their decision making.[12] What is intuitive decision making? It's a subconscious process of making decisions on the basis of experience and accumulated judgment. Researchers studying managers' use of intuitive decision making identified five different aspects of intuition, which are described in Exhibit 6.7.

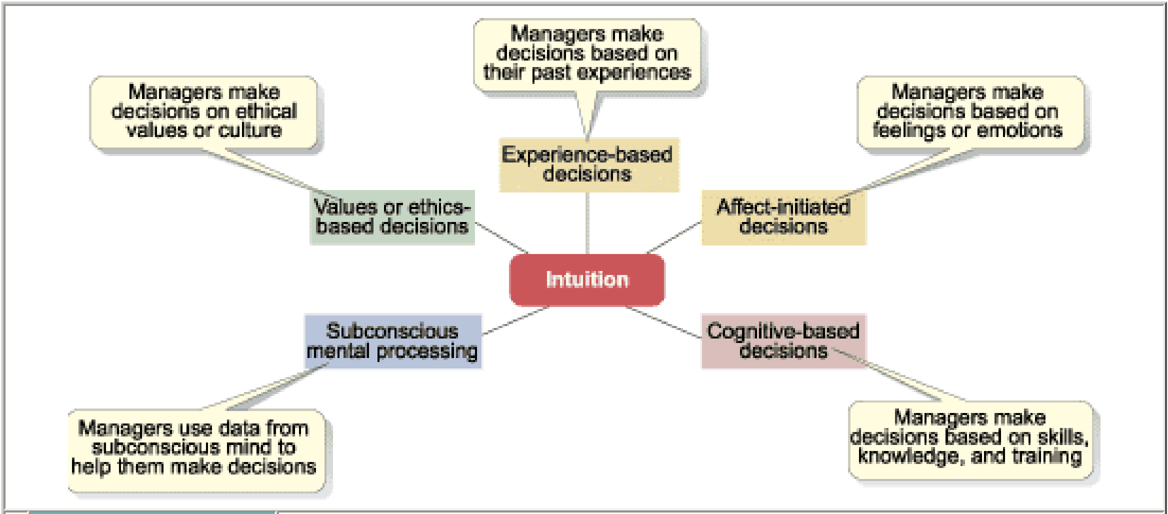


Exhibit 6.7 **What Is Intuition?**

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

Making a decision on intuition or "gut feeling" doesn't necessarily happen independently of rational analysis; rather, the two complement each other. A manager who has had experience with a particular, or even similar, type of problem or situation often can act quickly with what appears to be limited information. Such a manager doesn't rely on a systematic and thorough analysis of the problem or identification and evaluation of alternatives but instead uses his or her experience and judgment to make a decision.

How common is intuitive decision making? One survey of managers and other organizational employees revealed that almost one-third of them emphasized "gut feeling" over cognitive problem solving and decision making.[13]

click here to explore now

video example

What, if anything, is wrong in using intuition in making decisions?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Types of Problems and Decisions

Managers will be faced with different types of problems and decisions as they do their jobs. Depending on the nature of the problem, the manager can use different types of decisions.

Well-Structured Problems and Programmed Decisions

Some problems are straightforward. The goal of the decision maker is clear, the problem is familiar, and information about the problem is easily defined and complete. Examples of these types of problems might include a customer's wanting to return a purchase to a retail store, a supplier's being late with an important delivery, a news team's responding to an unexpected and fast-breaking event, or a college's handling of a student wanting to drop a class. Such situations are called well-structured problems since they are straightforward, familiar, and easily defined problems. For instance, a server in a restaurant spills a drink on a customer's coat. The manager has an upset customer and he or she needs to do something. Because drinks are frequently spilled, there's probably some standardized routine for handling the problem. For example, the manager offers to have the coat cleaned at the restaurant's expense. In handling this problem situation, the manager uses a programmed decision.

Decisions are programmed to the extent that they are repetitive and routine and to the extent that a definite approach has been worked out for handling them. Because the problem is well structured, the manager doesn't have to go to the trouble and expense of going through an involved decision process. Programmed decision making is relatively simple and tends to rely heavily on previous solutions. The "develop-the-alternatives" stage in the decision-making process either doesn't exist or is given little attention. Why? Because once the structured problem is defined, its solution is usually self-evident or at least reduced to very few alternatives that are familiar and that have proved successful in the past. In many cases, programmed decision making becomes decision making by precedent. The spilled drink on the customer's coat doesn't require the restaurant manager to identify and weight decision criteria or to develop a long list of possible solutions. Rather, the manager falls back on a systematic procedure, rule, or policy.

A procedure is a series of interrelated sequential steps that a manager can use for responding to a structured problem. The only real difficulty is in identifying the problem. Once the problem is clear, so is the procedure. For instance, a purchasing manager receives a request from the sales department for 15 Palm Pilots for use by the company's customer service representatives. The purchasing manager knows that there is a definite procedure for handling this decision. The decision-making process in this case is merely executing a simple series of sequential steps.

A rule is an explicit statement that tells a manager what he or she can or cannot do. Rules are frequently used by managers when they confront a well-structured problem because they are simple to follow and ensure consistency. For example, rules about lateness and absenteeism permit supervisors to make disciplinary decisions rapidly and with a relatively high degree of fairness.

A third guide for making programmed decisions is a policy. It provides guidelines to channel a manager's thinking in a specific direction. In contrast to a rule, a policy establishes 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. For instance, each of the following is a policy statement:

> 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 *satisfied, whenever possible*, and *competitive* are terms that require interpretation. The policy to pay competitive wages does not tell a company's human resources manager the exact amount he or she should pay, but it does give direction to the decision he or she makes.

Poorly Structured Problems and Nonprogrammed Decisions

As you can well imagine, not all problems that managers face are well structured and solvable by a programmed decision. Many organizational situations involve poorly structured problems, which are problems that are new or unusual and for which information is ambiguous or incomplete. For example, the selection of an architect to design a new corporate manufacturing facility in Bangkok is an example of a poorly structured problem. So too is the problem of whether to invest in a new unproven technology or whether to shut down a money-losing division. When problems are poorly structured, managers must rely on nonprogrammed decision making in order to develop unique solutions. Nonprogrammed decisions are unique and nonrecurring. When a manager confronts a poorly structured problem, or one that is unique, there is no cut-and-dried solution. It requires a custom-made response through nonprogrammed decision making.

Integration

Exhibit 6.8 describes the relationship among the types of problems, the types of decisions, and organizational level. Because lower-level managers confront familiar and repetitive problems (well structured), they mostly rely on programmed decisions such as procedures, rules, and organizational policies. The problems confronting managers usually become more poorly structured as they move up the organizational hierarchy. Why? Because lower-level managers handle the routine decisions themselves and turn over to upper-level managers the decisions they find unusual or difficult. Similarly, higher-level managers turn over routine decisions to their subordinates so they can deal with more difficult issues.

Exhibit 6.8 **Types of Problems, Types of Decisions, and Level in the Organization**

Keep in mind, however, that few managerial decisions in the real world are either fully programmed or nonprogrammed. These are extremes, and most decisions fall somewhere in between. Few programmed decisions are designed to eliminate individual judgment completely. At the other extreme, even a unique situation requiring a nonprogrammed decision can be helped by programmed routines. It's best to think of decisions as *mainly* programmed or *mainly* nonprogrammed rather than as completely one or the other.

A final thought on this topic is that organizational efficiency is facilitated by the use of programmed decision making, which may explain its wide popularity. Whenever possible, management decisions are likely to be programmed. Obviously, using programmed decisions isn't too realistic at the top level of the organization because most of the problems that top managers confront are nonrecurring. But there are strong economic incentives for top managers to create standard operating procedures (SOPs), rules, and policies to guide other managers as they make decisions.

Programmed decisions minimize the need for managers to exercise discretion. This is important because discretion can cost money. The more nonprogrammed decision making a manager is required to do, the greater the judgment needed. Because sound judgment isn't all that common, it costs more to acquire the services of managers who possess it. Some organizations try to economize by hiring less skilled or experienced managers but then don't develop programmed decision guides for them to follow. This, too, can be costly! Take, for example, a small women's clothing store chain whose owner, because he chooses to pay low salaries, hires store managers with little experience and limited ability to make good judgments. This practice, by itself, might not be a problem. The trouble is that the owner doesn't provide either training or explicit rules and procedures to guide his store managers' decisions. Each handles problems a little bit differently. The result is continuous complaints by customers about things such as promotional discounts, processing credit sales, and the handling of returns.

One of the more challenging tasks facing managers as they make decisions—programmed or nonprogrammed—is analyzing decision alternatives (Step 5 in the decision-making process). In the next section, we'll look at analyzing alternatives under different conditions.

Decision-Making Conditions

There are three conditions that managers may face as they make decisions: certainty, risk, and uncertainty. What are the characteristics of each of these decision-making conditions?

Certainty

The ideal situation for making decisions is one of certainty, that is, a situation in which a manager can make accurate decisions because the outcome of every alternative is known. For example, when North Dakota's state treasurer is deciding in which bank to deposit excess state funds, he knows exactly how much interest is being offered by each bank and will be earned on the funds. He is certain about the outcomes of each alternative. As you might expect, this condition isn't characteristic of most managerial decision situations. It's more idealistic than realistic.

Risk

A far more common situation is one of risk, those conditions in which the decision maker is able to estimate the likelihood of certain alternatives or outcomes. The ability to assign probabilities to outcomes may be the result of personal experiences or secondary information. Under the conditions of risk, managers have historical data that allow them to assign probabilities to different alternatives. Let's work through an example.

Suppose that you manage a ski resort in the Colorado Rockies. You're thinking about adding another lift to your current facility. Obviously, your decision will be significantly influenced by the additional revenue that the new lift would generate, and additional revenue will depend on snowfall. The decision is made somewhat clearer because you have reasonably reliable past weather data on snowfall levels in your area. The data show that during the past 10 years, you had three years of heavy snowfall, five years of normal snowfall, and two years of light snow. Can you use this information to help you make your decision about adding the new lift? If you have good information on the amount of revenues generated during each level of snow, the answer is yes.

You can calculate expected value, the conditional return from each possible outcome, by multiplying expected revenues by snowfall probabilities. The result is the average revenue you can expect over time if the given probabilities hold. As Exhibit 6.9 shows, the expected revenue from adding a new ski lift is $687,500. Of course, whether that justifies a decision to build or not depends on the costs involved in generating that revenue—such as the cost of building the lift, the additional annual operational expenses for another lift, the interest rate for borrowing money, and so forth.

Event	**Revenues Expected**	×	**Probability**	=	**Expected Value of Each Alternative**
Heavy snowfall	$850,000		0.3		$255,000
Normal snowfall	725,000		0.5		362,500
Light snowfall	350,000		0.2		70,000
					$687,500

Exhibit 6.9 **Expected Value for Revenues from the Addition of One Ski Lift**

Uncertainty

What happens if you have a decision to make when you're not certain about the outcomes and can't even make reasonable probability estimates? We call such a condition uncertainty. Managers do face decision-making situations of uncertainty. Under conditions of uncertainty, the choice of alternative is influenced by the limited amount of information available to the decision maker.

Another factor that influences choices under conditions of uncertainty is the psychological orientation of the decision maker. The optimistic manager will follow a *maximax* choice (maximizing the maximum possible payoff), the pessimist will follow a *maximin* choice (maximizing the minimum possible payoff), and the manager who desires to minimize his maximum "regret" will opt for a *minimax* choice. Let's look at these different choice approaches using an example.

Consider the case of a marketing manager at Visa International. She has determined four possible strategies (S_1, S_2, S_3, and S_4) for promoting the Visa card throughout the southeastern United States. The marketing manager also knows that major competitor MasterCard has three competitive actions (CA_1, CA_2, CA_3) it's using to promote its card in the same region. In this case, we'll assume that the Visa executive has no previous knowledge that would allow her to place probabilities on the success of any of the four strategies. With these facts, the Visa manager formulates the matrix shown in Exhibit 6.10 to show the various Visa strategies and the resulting profit to Visa depending on the competitive action used by MasterCard.

(in millions of dollars)			
Visa Marketing Strategy	**MasterCard's Response**		
	CA_1	**CA_2**	**CA_3**
S_1	13	14	11
S_2	9	15	18
S_3	24	21	15
S_4	18	14	28

Exhibit 6.10 **Payoff Matrix**

In this example, if our Visa manager is an optimist, she'll choose S_4 because that could produce the largest possible gain: $28 million. Note that this choice maximizes the maximum possible gain (maximax choice).

If our manager is a pessimist, she'll assume that only the worst can occur. The worst outcome for each strategy is as follows: S_1 = $11 million; S_2 = $9 million; S_3 = $15 million; S_4 = $14 million. These are the most pessimistic outcomes from each strategy. Following the *maximin* choice, she would maximize the minimum payoff; in other words, she'd select S_3 ($15 million is the largest of the minimum payoffs).

In the third approach, managers recognize that once a decision is made, it will not necessarily result in the most profitable payoff. There may be a regret of profits forgone (given up)—*regret* referring to the amount of money that could have been made had a different strategy been used. Managers calculate regret by subtracting all possible payoffs in each category from the maximum possible payoff for each given event, in this case for each competitive action. For our Visa manager, the highest payoff, given that MasterCard engages in CA_1, CA_2, or CA_3, is $24 million, $21 million, or $28 million, respectively (the highest number in each column). Subtracting the payoffs in Exhibit 6.10 from those figures produces the results shown in Exhibit 6.11.

(in millions of dollars)			
Visa Marketing Strategy	**MasterCard's Response**		
	CA_1	**CA_2**	**CA_3**
S_1	11	7	17
S_2	15	6	10
S_3	0	0	13
S_4	6	7	0

Exhibit 6.11 **Regret Matrix**

The maximum regrets are S_1 = $17 million; S_2 = $15 million; S_3 = $13 million; and S_4 = $7 million. The *minimax* choice minimizes the maximum regret, so our Visa manager would choose S_4. By making this choice, she'll never have a regret of profits forgone of more than $7 million. This result contrasts, for example, with a regret of $15 million had she chosen S_2 and MasterCard had taken CA_1.

Although managers will try to quantify a decision when possible by using payoff and regret matrices, uncertainty often forces them to rely more on intuition, creativity, hunches, and "gut feeling." Regardless of the decision situation, each manager has his or her own style of making decisions.

Decision-Making Styles

Suppose that you were a new manager at Cannondale Corporation or at the local YMCA. How would you approach decision making? One perspective on decision-making styles proposes that people differ along two dimensions in the way they approach decision making.[14] The first is an individual's *way of thinking*. Some of us tend to be rational and logical in the way we think or process information. A rational type looks at information in order and makes sure that it's logical and consistent before making a decision. Others of us tend to be 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. These types must have consistency and order in the way they structure information so that ambiguity is minimized. On the other hand, some of us can tolerate high levels of ambiguity and are able to process many thoughts at the same time. When we diagram these two dimensions, four decision-making styles are evident: directive, analytic, conceptual, and behavioral (see Exhibit 6.12). Let's look more closely at each style.

Exhibit 6.12 **Decision-Making Styles**

Source: S.P. Robbins and D.A. De Cenzo, *Supervision Today*, 2nd ed. (Upper Saddle River, NJ: Prentice Hall, 1998), p. 166.

- *Directive style*. People using the directive style have low tolerance for ambiguity and are rational in their way of thinking. They're efficient and logical. Directive types make fast decisions and focus on the short run. Their efficiency and speed in making decisions often result in their making decisions with minimal information and assessing few alternatives.

- *Analytic style*. Decision makers with an analytic style have much greater tolerance for ambiguity than do directive types. They want more information before making a decision and consider more alternatives than a directive-style decision maker does. Analytic decision makers are best characterized as careful decision makers with the ability to adapt or cope with unique situations.

- *Conceptual style*. Individuals with a conceptual style tend to be very broad in their outlook and will look at many alternatives. They focus on the long run and are very good at finding creative solutions to problems.

- *Behavioral style*. Decision makers with a behavioral style work well with others. They're concerned about the achievements of subordinates and are receptive to suggestions from others. They often use meetings to communicate, although they try to avoid conflict. Acceptance by others is important to this decision-making style.

Although these four decision-making styles are distinct, most managers have characteristics of more than one style. It's probably more realistic to think of a manager's dominant style and his or her alternate styles. Although some managers will rely almost exclusively on their dominant style, others are more flexible and can shift their style depending on the situation.

Managers should also recognize that their employees may use different decision-making styles. Some employees may take their time carefully weighing alternatives and considering riskier options (analytic style) whereas other employees may be more concerned about getting suggestions from others before making decisions (behavioral style). This doesn't make one approach better than the other. It just means that their decision-making styles are different.

Summing Up Managerial Decision Making

How can we best sum up managerial decision making? Exhibit 6.13 provides a concise overview. Because it's in their best interests, managers *want* to make good decisions—that is, choose the "best" alternative, implement it, and determine whether or not it takes care of the situation that called for a decision in the first place. Their decision-making process is affected by four factors including the decision-making approach being followed, the decision-making conditions, the type of problem being dealt with, and the decision-maker's own style of decision making. Each of these factors plays a role in determining how a manager makes a decision. So whether that decision involves addressing an employee's habitual tardiness, resolving a problem with product quality, or determining whether to enter a new market (as in our chapter-opening case), remember that it has been shaped by a number of factors.

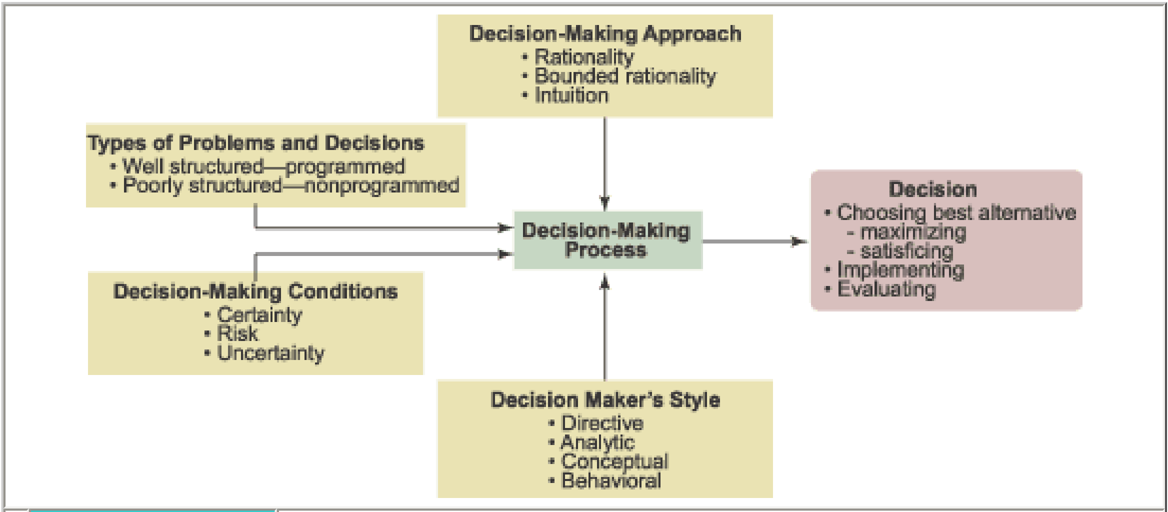


Exhibit 6.13 **Overview of Managerial Decision Making**

go to page: 1 2 3 4 5 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Chapter Wrap-Up

You had a chance to voice your opinion about Mario Galasso dilemma at the beginning of this chapter. Now listen as two managers share their views.

Stacey Renee Unger
Media Specialist
Edward Jones, St. Louis, Missouri

Not working? Get Quicktime

Mario Galasso wants to know if adding a new off-road motorcycle product line was a good business decision. I would start by evaluating the:

- Product's cost to develop and possible return
- Resources that the new product is taking away from currently profitable products

Lynee Pauk
Laboratory Supervisor and Medical Technologist
St. John's Regional Health Center, Springfield, Missouri

Not working? Get Quicktime

There are a couple of important decision criteria Galasso might use to evaluate the effectiveness of the decision to produce the new bike. First, Galasso should look to see what goals were established when the bike decision was being considered. Those goals should be part of the criteria to evaluate the decision's effectiveness.

- Brand awareness in motorcycles
- Market share within the industry
- Inventory numbers
- Integration of the new product with other existing products

Then I would establish specific decision effectiveness criteria by developing a five-year marketing plan for the new motorcycle that would include revenue goals, market share goals, inventory goals, and brand awareness levels. Finally, I would develop an integrated marketing/advertising plan for all the new products in a targeted market.

If goals aren't reached after five years, I would consider selling the product line to competitors, discontinuing the product, or updating the motorcycle with consumer input. Although introducing a new product isn't easy, an established plan will help Mario decide if the motorcycle was a good business decision.

Then Galasso could get firsthand feedback by sponsoring racers. Put them on the bike to see if they like how it handles. Galasso not only could get feedback on the bike from individuals who have ridden some of their top competitors' bikes, but it would also get Cannondale's name out into the biking circuit.

Next, Galasso could also get feedback from the numbers—how is the motorcycle industry doing as a whole? Has Cannondale's market share increased? If so, is it due to the introduction of the new bike? How is customer response to the product?

> end-of-chapter resources

Management (activebook), 7/e

Stephen P. Robbins Mary Coulter

Chapter Outline

Go to Student View

Table of Contents

Chapter Contents

Search

Rate the Difficulty

In the News

Internet Exercises

Robbins OnLine Learning System (R.O.L.L.S.)

Faculty Resources

Misc. Resources

Chapter 7: Foundations of Planning

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	The Nurse Staffing Dilemma (06/12/02)
	The Case for Caution ft.com (05/22/02)

Insurance Rates Affect Planning (05/10/02)

Planning to Be Dry (05/09/02)

God and Business: The Surprising Quest for Spiritual Renewal in the American Workplace (02/05/02)

Stand by your CEO (Sometimes). (08/16/00)

Made-to-order - First Computers, then Fast Food, Now Cars? (05/08/00)

Harley-Davidson's Statistical Control System (04/05/00)

Microsoft Broadens Vision Statement Beyond PCs (08/20/99)

You're Fired! (02/22/99)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Examining Performance Management in the Federal Government (07/02/02)

Rapid Response in Outer Space (06/12/00)

Streamlining the Internet for Executive Work (08/03/99)

Virtual Coaches- The New Managers? (02/24/99)

Strategic Planning Tools & Decision-Making (02/05/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap07.doc

Lecture Presentation - chap07.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

Modules - modules.doc

Preface - preface.doc

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Add to...

Just for Students

Chapter Outlines - chapoutlines.doc

> What's Ahead

A Manager's Dilemma

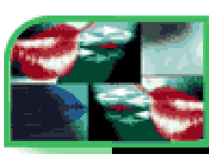
Gazoontite.com. Its name may be light-hearted, but its CEO, Soon-Chart Yu, is serious about capturing a significant portion of a $30 billion market for allergy and asthma sufferers.[1] Yu honed his managerial skills as a brand manager for the Formula 409 cleaning product line at Clorox. During his four-year tenure at Clorox, he won company-wide recognition for best advertising, best promotion, and best new product. However, he always had a desire to build his own business. Yu really didn't know what business he wanted to pursue until he started putting together data on something he knew about personally: allergies and asthma. Like half of all U.S. households, Yu and his family had suffered for years. After researching the allergy/asthma market and learning about the intricacies of retailing through a part-time job at a Crate & Barrel store, he took the plunge.

In May 1999, gazoontite.com opened as the "definitive one-stop shop for breathing happier and healthier." Offering over 1,000 high-quality products such as hypoallergenic toys, bed sheets, air cleaners, and other items for people with breathing problems, gazoontite.com sells its products online, in retail outlets, and through catalogs distributed in doctors' offices. Yu says that his goal is to make purchasing products as convenient as possible to everyone who needs them.

Getting his business up and running took significant amounts of planning. Yu had to convince investors to "cough up" an initial $4 million and to invest an additional $30 million a few months into the business. However, because he had prepared well-thought-out objectives and plans and showed investors that he was serious about making his business successful, getting them to provide funds wasn't at all difficult.

Launching a business and then managing its continued successful growth require different managerial actions. Yu had effectively planned for the launch of his business; now he needs to plan to keep it going. Describe the different types of plans that Yu might need.

What Would You Do?



Before you begin reading this chapter, try a short warm-up activity.

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

In this chapter we present the basics of planning. In the following pages, you'll learn what planning is, why managers plan, how they plan, and about some contemporary issues in planning.

> What Is Planning?

As we stated in Chapter 1, planning involves defining the organization's goals, establishing an overall strategy for achieving those goals, and developing a comprehensive set of plans to integrate and coordinate organizational work. It's concerned with both ends (what's to be done) and means (how it's to be done).

Planning can either be formal or informal. All managers engage in some planning, but their planning might be informal. In informal planning, nothing is written down, and there is little or no sharing of goals with others in the organization. This type of planning often is done in many small businesses where the owner-manager has a vision of where he or she wants the business to go and how to get there. Informal planning is general and lacks continuity. Although it's more common in smaller organizations, informal planning exists in some large organizations as well. And some small businesses have very sophisticated planning processes and formal plans.

When we use the term *planning* in this book, we mean *formal* planning. In formal planning, specific goals covering a period of years are defined. These goals are written down and shared with organizational members. Finally, specific action programs exist for the achievement of these goals; that is, managers clearly define the path they want to take to get the organization and the various work units from where they are to where they want them to be.

> Why Do Managers Plan?

Setting goals, establishing strategies to achieve those goals, and developing a set of plans to integrate and coordinate activities seem pretty complicated. Given that fact, why should managers want to plan? What impact does planning have on performance?

Purposes of Planning

We can identify at least four reasons for planning. Planning gives direction, reduces the impact of change, minimizes waste and redundancy, and sets the standards used in controlling. Let's look at each of these purposes.

Planning establishes coordinated effort. It gives direction to managers and nonmanagers alike. When employees know where the organization or work unit is going 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 be working at cross purposes, preventing the organization from moving efficiently toward its goals.

Planning also reduces uncertainty by forcing managers to look ahead, anticipate change, consider the impact of change, and develop appropriate responses. It also clarifies the consequences of actions managers might take in response to change. Even though planning can't eliminate change, managers plan in order to anticipate changes and develop the most effective response to them.

In addition, planning reduces overlapping and wasteful activities. When work activities are coordinated around established plans, wasted time and resources and redundancy can be minimized. Furthermore, when means and ends are made clear through planning, inefficiencies become obvious and can be corrected or eliminated.

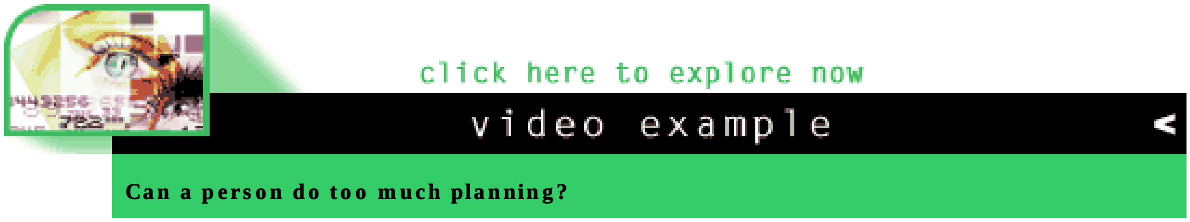
Finally, planning establishes goals or standards that are used in controlling. If we're unsure of what we're trying to accomplish, how can we determine whether we have actually achieved it? In planning, we develop the goals and the plans. Then, through controlling, we compare actual performance against the goals, identify any significant deviations, and take any necessary corrective action. Without planning, there would be no way to control.

Planning and Performance

Is planning worthwhile? Do managers and organizations that plan outperform those that don't? Intuitively, you would expect the answer to be a resounding yes. Although studies of performance in organizations that plan are generally positive, we can't say that organizations that formally plan *always* outperform those that don't plan.

Numerous studies have been done to test the relationship between planning and performance.[2]

On the basis of these studies, we can draw the following conclusions. First, generally speaking, formal planning is associated with higher profits, higher return on assets, and other positive financial results. 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. Next, in those studies in which formal planning didn't lead to higher performance, the external environment often was the culprit. Governmental regulations, powerful labor unions, and other critical environmental forces constrain managers' options and reduce the impact of planning on an organization's performance. Finally, the planning/performance relationship is influenced by the planning time frame. Organizations need at least four years of systematic formal planning before performance is impacted.



go to page: 1 2 3 4 5 6 << previous | next >>

Management (activebook), 7/e

Stephen P. Robbins Mary Coulter

> How Do Managers Plan?

Planning is often called the primary management function because it establishes the basis for all the other functions that managers perform. Without planning, managers wouldn't know what to organize, lead, or control. In fact, without plans, there wouldn't *be* anything to organize, lead, or control! So how *do* managers plan? That's what we want to look at in this section. Planning involves two important elements: goals and plans.

The Role of Goals and Plans in Planning

Goals are desired outcomes for individuals, groups, and entire organizations.[3] *Goals* are *objectives*, and we use the two terms interchangeably. They provide the direction for all management decisions and form the criterion against which actual work accomplishments can be measured. That's why they're often called the foundation of planning. If you don't know what that desired target or outcome is, how could you establish plans for reaching it? Plans are documents that outline how goals are going to be met and that typically describe resource allocations, schedules, and other necessary actions to accomplish the goals. As managers plan, they're developing both goals and plans.

Goals, or desired outcomes, drive the creation of most plans. Although the Summer Olympics of 2008 are years away, Beijing wants to be the host of the games. To improve its chances, the city is encouraging citizens to learn some English, setting a goal of teaching half of all Beijingers 100 English phrases in preparation. Here drivers and conductors in the city's public transportation system receive basic English lessons.

Types of Goals

At first glance, it might appear that organizations have a single objective: for business firms, to make a profit; for not-for-profit organizations, to meet the needs of some constituent group(s). In reality, all organizations have multiple objectives. Businesses also want to increase market share and keep employees enthused about the organization. A church provides a place for religious practices but also assists economically disadvantaged individuals in its community and acts as a social gathering place for church members. No one single measure can evaluate whether an organization is successful. Emphasis on one goal, such as profit, ignores other goals that must also be reached if long-term success is to be achieved. Also, as we discussed in Chapter 5, using a single objective such as profit can result in unethical practices because managers will ignore other important parts of their jobs in order to look good on that one measure.

Exhibit 7.1 provides a sampling of both financial and strategic goals from some well-known U.S. corporations. Financial goals are related to the financial performance of the organization; strategic goals are related to other areas of an organization's performance. Except for a few of the financial ones, these goals could apply to a not-for-profit organization as well. Notice, too, that although survival isn't specifically mentioned as a goal, it's of utmost importance to all organizations. Some of the goals listed in Exhibit 7.1 contribute directly to profits, but obviously, an organization must survive if other goals are to be achieved.

Financial Objectives	**Strategic Objectives**
• Faster revenue growth • Faster earnings growth • Higher dividends • Wider profit margins • Higher returns on invested capital • Stronger bond and credit ratings • Bigger cash flows • A rising stock price • Recognition as a "blue chip" company • A more diversified revenue base • Stable earnings during recessionary periods	• A bigger market share • A higher, more secure industry rank • Higher product quality • Lower costs relative to key competitors • Broader or more attractive product line • A stronger reputation with customers • Superior customer service • Recognition as a leader in technology and/or product innovation • Increased ability to compete in international markets • Expanded growth opportunities

Exhibit 7.1 **Stated Objectives From Large U.S. Companies**

Source: A.A. Thompson Jr. and A.J. Strickland III, *Strategic Management* (New York: McGraw-Hill/Irwin, 2001), p. 43.

Another way to describe goals is in terms of whether they're real or stated. Exhibit 7.1 is a list of stated goals—official statements of what an organization says, and what it wants its various stakeholders to believe, its goals are. However, stated goals—which can be found in an organization's charter, annual report, 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 variety of stakeholders. These stakeholders frequently evaluate the organization by different criteria. For example, when Ford Motor Company chairman, Bill Ford Jr., announced his company's goal to make its vehicles more fuel efficient and more environmentally friendly as a way to best serve its shareholders, environmentalists and Ford executives viewed it differently.[4] The company reached out to environmental groups by initiating discussions on fuel economy issues. It also released a corporate citizenship report that acknowledged "very real conflicts" between Ford's stated commitment to the environment and its continued marketing of gas-guzzling SUVs. Environmentalists, although encouraged by the company's concern, were wary of its ultimate intent. Ford executives, well aware of the need to produce vehicles that the public demanded and that added dollars to the bottom line, had long been battered by environmentalists' criticisms, thus making them reluctant to cooperate in any collaborative discussions. Was the goal of being more environmentally friendly true and the goal of doing the best for its shareholders false? No. Both were true, but they did conflict.

Have you ever read an organization's objectives as stated in its company literature? For instance, Lands End Inc. says, "We are dedicated to providing outstanding customer service." At SBC Communications, goals include "growing our customer base by expanding into new markets; providing service over state-of-the-art networks; selling more services to each of our customers; and executing our strategy better than any other company." And Colgate-Palmolive identifies its goals as "strong global growth, building marketing leadership, increasing profitability, and living the company's values."[5] These types of statements are, at best, vague and are more likely to represent management's public relations skills than serve as meaningful guides to what the organization is actually trying to accomplish. It shouldn't be surprising then to find that an organization's stated goals are often quite irrelevant to what actually goes on.[6] The content of such goals is substantially determined by what various stakeholders want to hear. If you want to know an organization's real goals—those goals that an organization actually pursues—closely observe what organizational members are doing. Actions define priorities. For example, universities that proclaim the goal of limiting class size, facilitating close student-faculty relations, and actively involving students in the learning process and that then put students into lecture classes of 300 or more are pretty common! An awareness that real and stated objectives differ is important, if for no other reason than to understand what might otherwise seem to be management inconsistencies.

Types of Plans

The most popular ways to describe organizational plans are by their breadth (strategic versus operational), time frame (short term versus long term), specificity (directional versus specific), and frequency of use (single-use versus standing). These planning classifications aren't independent. As Exhibit 7.2 illustrates, strategic plans are long term, directional, and single use. Operational plans are short term, specific, and standing. Let's describe each of these types of plans.

Exhibit 7.2 **Types of Plans**

Strategic plans are plans that apply to the entire organization, establish the organization's overall goals, and seek to position the organization in terms of its environment. Plans that specify the details of how the overall goals are to be achieved are called operational plans. How do the two types of plans differ? Strategic plans tend to cover a longer time frame. They also cover a broader view of the organization. Strategic plans also include the formulation of goals whereas operational plans define ways to achieve the goals. Also, operational plans tend to cover short time periods—monthly, weekly, and day-to-day.

The difference in years between short-term and long-term plans has shortened considerably. It used to be that long term meant anything over seven years. Try to imagine what you'd like to be doing in seven years and you can begin to appreciate how difficult it can be for managers to establish plans that far in the future. As organizational environments have become more uncertain, the definition of *long term* has changed. We're going to define long-term plans as those with a time frame beyond three years.[7] We'll define short-term plans as those covering one year or less. The intermediate term is any time period in between. Although these time classifications are fairly common, an organization can designate any time frame it wants to use for planning purposes.

Intuitively, it would seem that specific plans would be preferable to directional, or loosely guided, plans. Specific plans are clearly defined and leave no room for interpretation. They have specifically stated objectives. There's no ambiguity and no problem with misunderstandings. For example, a manager who seeks to increase his or her unit's work output by 8 percent over a given 12-month period might establish specific procedures, budget allocations, and schedules of activities to reach that goal. The drawbacks of specific plans are that they require clarity and a sense of predictability that often do not exist.

When uncertainty is high and management must be flexible in order to respond to unexpected changes, directional plans are preferable. Directional plans are flexible plans that set out general guidelines. (Exhibit 7.3 illustrates the difference between specific and directional planning.) They provide focus but do not lock managers into specific goals or courses of action. Instead of detailing a specific plan to cut costs by 4 percent and increase revenues by 6 percent in the next six months, managers might formulate a directional plan for improving profits by 5 to 10 percent over the next six months. The flexibility inherent in directional plans must be weighed against the loss of clarity provided by specific plans.

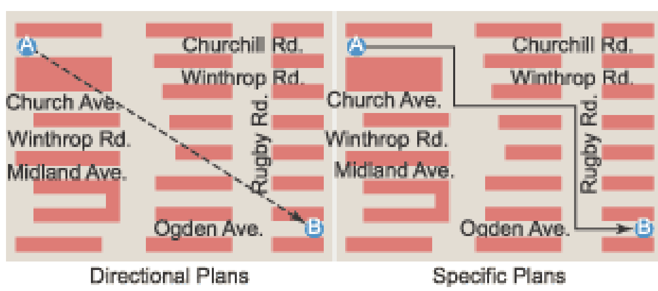


Exhibit 7.3 **Specific Versus Directional Plans**

Some plans that managers develop are ongoing while 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 Charles Schwab and Company introduced its online discount stock brokerage service, top-level executives used a single-use plan to guide the creation and implementation of the new service. In contrast, standing plans are ongoing plans that provide guidance for activities performed repeatedly. Standing plans include policies, rules, and procedures that we defined in Chapter 6. An example of a standing plan would be the sexual harassment policy developed by the University of Arizona. It provides guidance to university administrators, faculty, and staff as they perform their job duties.

click here to explore now
video example
Take a closer look at the concepts and issues you've been reading about.

click here to explore now
active concept check
Testing...Testing...1, 2, 3

Establishing Goals

Taylor has just been elected president of her business school's honorary fraternity. She wants the organization to be more actively involved in the business school than it has been in the past. Marcel graduated from the university with a degree in marketing and computers three years ago and went to work for a regional consulting services firm. He recently was promoted to manager of the eight-person e-commerce development team and hopes to strengthen the team's financial contributions to the firm. What should Taylor and Marcel do now? The first thing they should do is establish some goals. How? That's what we're going to look at in this section.

Approaches to Establishing Goals

As we stated earlier, goals provide the direction for all management decisions and actions and form the criterion against which actual accomplishments are measured. Everything organizational members do should be oriented toward helping their work units and the organization achieve its goals. These goals can be established through a process of traditional goal setting or management by objectives.

The central theme in traditional goal setting is that goals are set at the top and then broken down into subgoals for each level of the organization. For example, the president of a manufacturing business tells the production vice president what he expects manufacturing costs to be for the coming year and tells the marketing vice president what level he expects sales to reach for the year. Then, at some later point, performance is evaluated to determine whether the assigned goals have been achieved. This traditional perspective assumes that top managers know what's best because they see the "big picture." Thus, the goals that are established and passed down to each succeeding level of the organization serve to direct and guide, and in some ways, constrain, individual employees' work behaviors. Employees' work efforts at the various levels and in the various work areas are geared to meet the goals that have been assigned in their areas of responsibility.

One of the problems with this traditional approach is that if top managers define the organization's goals in broad terms—achieving "sufficient" profits or increasing "market leadership"—these ambiguous goals have to be made more specific as they flow down through the organization. At each level, managers define the goals, applying their own interpretations and biases as they make them more specific. However, what often results is that goals lose clarity and unity as they make their way down from the top of the organization to lower levels. Exhibit 7.4 illustrates what can happen in this situation.

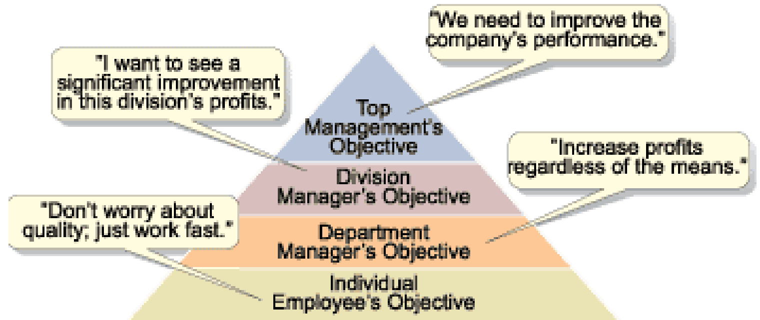


Exhibit 7.4 **Traditional Objective Setting**

However, when the hierarchy of organizational goals *is* clearly defined, it forms an integrated network of goals, or a means-ends chain. This means that higher-level goals, or ends, are linked to lower-level goals, which serve as the means for their accomplishment. In other words, the achievement of goals at a low level becomes the means to reach the goals at the next level (ends). And the accomplishment of goals at that level becomes the means to achieve the goals at the next level (ends). And so forth and so on, up through the different levels of the organization. This is how the traditional goal-setting approach is supposed to work.

Instead of traditional goal setting, many organizations use management by objectives (MBO). In this management system specific performance goals are jointly determined by employees and their managers, progress toward accomplishing these goals is periodically reviewed, and rewards are allocated on the basis of this progress. Rather than using goals only as controls, MBO uses them to motivate employees as well.

Management by objectives consists of four elements: goal specificity, participative decision making, an explicit time period, and performance feedback.[8] Its appeal lies in its focus on the accomplishment of participatively set objectives as the reason for and motivation behind individuals' work efforts. Exhibit 7.5 lists the steps in a typical MBO program.

1. The organization's overall objectives and strategies are formulated.
2. Major objectives are allocated among divisional and departmental units.
3. Unit managers collaboratively set specific objectives for their units with their managers.
4. Specific objectives are collaboratively set with all department members.
5. Action plans, defining how objectives are to be achieved, are specified and agreed upon by managers and employees.
6. The action plans are implemented.
7. Progress toward objectives is periodically reviewed, and feedback is provided.
8. Successful achievement of objectives is reinforced by performance-based rewards.

Exhibit 7.5 **Steps in a Typical MBO Program**

Do MBO programs work? Studies of actual MBO programs confirm that MBO increases employee performance and organizational productivity. A review of 70 programs, for example, found organizational productivity gains in 68 of them.[9] This same review also identified top-management commitment and involvement as important conditions for MBO to succeed.

One problem of MBO programs is that they can be useless in times of dynamic environmental change. An MBO program needs some stability for employees to work toward accomplishing the set goals. If new goals must be set every few weeks, there's no time for employees to work on accomplishing the goals and measuring that accomplishment. Another problem of MBO programs is that an overemphasis by an employee on accomplishing his or her goals without regard to others in the work unit can be counterproductive. A manager must work closely with all members of the work unit to assure that employees aren't working at cross purposes. Finally, if MBO is viewed simply as an annual exercise in filling out paperwork, employees won't be motivated to accomplish the goals.

Characteristics of Well-Designed Goals

Goals are not all created equal! Some goals are better than others. How do you tell the difference? What makes a "well-designed" goal?[10] Exhibit 7.6 outlines the characteristics of well-designed goals.

- Written in terms of outcomes rather than actions
- Measurable and quantifiable
- Clear as to a time frame
- Challenging yet attainable
- Written down
- Communicated to all necessary organizational members

Exhibit 7.6 **Characteristics of Well-Designed Goals**

A well-designed goal should be *written in terms of outcomes* rather than actions. The desired end result is the most important element of any goal and, therefore, the goal should be written to reflect this. Next, a goal should be *measurable and quantifiable*. It's much easier to determine if a goal has been met if it's measurable. For instance, suppose one of your goals is to "produce a high-quality product." What exactly do you mean by high quality? Because there are numerous ways to define quality, the goal should state specifically how you will measure whether or not the product is high quality. This means that even in areas in which it may be difficult to quantify your intent, you should try to find some specific way to measure whether that goal is accomplished. Otherwise, why have the goal if you can't measure whether it's been met? In line with specifying a quantifiable measure of accomplishment, a well-designed goal should also be *clear as to a time frame*. Although open-ended goals may seem preferable because of their supposed flexibility, in fact, goals without a time frame make an organization less flexible. This happens because you're never sure when the goal has been met or when you should call it quits because the goal will never be met regardless of how long you work at it. A well-designed goal will specify a time frame for accomplishment. Next, a well-designed goal should be *challenging but attainable*. Goals that are too easy to accomplish are not motivating and neither are goals that are not attainable even with exceptional effort. Next, well-designed goals should be *written down*. Although actually writing down goals may seem too time consuming, the process of writing the goals forces people to think them through. In addition, the written goals become visible and tangible evidence of the importance of working toward something. Finally, well-designed goals are *communicated to all organizational members* who need to know the goals. Why? Making people aware of the goals ensures that they're all "on the same page" and working in ways to ensure the accomplishment of the organizational goals.

Steps in Goal Setting

What steps should managers follow to set goals? The goal-setting process consists of five steps.

1. Review the organization's mission, which is the purpose of an organization. These broad statements of what the organization's purpose is and what it hopes to accomplish provide an overall guide to what organizational members think is important. (We'll look more closely at organizational mission in Chapter 8.) It's important to review these statements before writing goals because the goals should reflect what the mission statement says.

2. Evaluate available resources. You don't want to set goals that are impossible to achieve given your available resources. Even though goals should be challenging, they should be realistic. After all, if the resources you have to work with won't allow you to achieve a goal no matter how hard you try or how much effort is exerted, that goal shouldn't be set. That would be like the person with a $50,000 annual income and no other financial resources setting a goal of building a $1 million house in two years. No matter how hard he or she works at it, it's not going to happen.

3. Determine the goals individually or with input from others. These goals reflect desired outcomes and should be congruent with the organizational mission and goals in other organizational areas. These goals should be measurable, specific, and include a time frame for accomplishment.

4. Write down the goals and communicate them to all who need to know. We've already explained the benefit of writing down and communicating goals.

5. Review results to see whether goals are being met. Change, as needed.

Once the goals have been established, written down, and communicated, a manager is ready to develop plans for pursuing the goals.

Developing Plans

The process of developing plans is influenced by three contingency factors and by the planning approach followed.

Contingency Factors in Planning

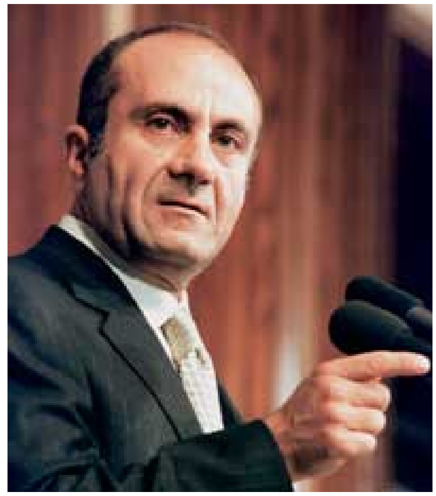
Look back at our chapter-opening Manager's Dilemma. How will Soon-Chart Yu know what types of plans to develop for gazoontite.com? Will strategic or operational plans be needed? How about specific or directional plans? In some situations, long-term plans make sense; in others they do not. What are these situations? Three contingency factors affect planning: level in the organization, degree of environmental uncertainty, and length of future commitments.[11]

Exhibit 7.7 shows the general relationship between a manager's level in the organization and the type of planning done. For the most part, operational planning dominates managers' planning efforts at lower levels. At higher organizational levels, the planning becomes more strategy oriented.

Exhibit 7.7 **Planning in the Hierarchy of Organizations**

The second contingency factor that affects planning is environmental uncertainty. When environmental uncertainty is high, plans should be specific but flexible. Managers must be prepared to rework and amend plans as they're implemented. At times, managers may even have to abandon their plans.[12] For example, at Continental Airlines, CEO Gordon M. Bethune and other executives established a specific goal of focusing on what customers wanted most—on-time flights—to help the company become more competitive in the highly uncertain airline industry. Because of the high level of uncertainty, the management team identified a "destination but not a flight plan," and was willing to change plans as necessary to achieve that goal of on-time service. Also, it's important for managers to continue formal planning efforts through periods of environmental uncertainty because studies have shown that it takes at least four years of such efforts before any positive impact on organizational performance is seen.[13]

The last contingency factor affecting planning is also related to the time frame of the plans. The more that current plans affect future commitments, the longer the time frame is for which managers should plan. This commitment concept means that plans should extend far enough to meet those commitments made when the plans were developed. Planning for too long or for too short a time period is inefficient and ineffective. To see how important the commitment concept is to planning, just look at the shores of Lake Erie in Cleveland, where several distinct geometric forms are combined into an impressive building—the Rock and Roll Hall of Fame. In the early 1980s, a group of music industry professionals founded the Rock and Roll Hall of Fame to honor music greats, but the hall had no physical facility. The hall's board decided in 1986 to build an actual hall and museum. Initial plans were developed, but building cost estimates proved to be too low and the project was delayed. The original groundbreaking, scheduled for 1990, didn't take place until 1993. By that time, it wasn't feasible to back out of the project, even with the delays and higher costs. Instead, construction proceeded and the hall and museum opened in September 1995. How does this example illustrate the commitment concept? The decision made back in the early 1980s became a commitment for future actions and expenditures. Once the board decided to build a facility, it had to plan for the increased costs and the construction delays. The future impact of the decision to build was that it committed the board to live with the decision and all its consequences, good and bad.



Strategic planning takes place at the higher levels of an organization. A plan to put a computer, printer, and Internet access in the home of every one of the company's 346,000 employees is the idea of Ford's chief executive Jacques E. Nasser. Ford is spending between $50 and $150 million to carry out Nasser's plan to make the company a customer-focused powerhouse.

Approaches to Planning

Federal, state, and local government officials work together on a plan to boost populations of wild salmon in the northwestern United States. Managers in the Global Fleet Graphics division (which makes premium, durable graphic-marking systems for buildings, signs, vehicles, and heavy equipment) of the 3M Company are developing plans detailing innovative solutions for satisfying increasingly demanding customers and battling more aggressive competitors. Emilio Azcárraga Jean, chairman and president of Grupo Televisa, the Mexican broadcasting company, gets input from many different people before setting company goals and then turns over the planning for achieving the goals to various executives. In each of these situations, planning is done a little differently. *How* an organization plans can best be understood by looking at *who* does the planning.

In the traditional approach, planning was done entirely by top-level managers who were often assisted by a formal planning department, a group of planning specialists whose sole responsibility was helping to write the various organizational plans. Under this approach, plans developed by top-level managers flowed down through other organizational levels, much like the traditional approach to goal setting. As they flowed down through the organization, plans were tailored to the particular needs of each level. Although this approach helped make managerial planning thorough, systematic, and coordinated, all too often the focus was on developing "the plan," a thick binder (or binders) full of meaningless information, that was stuck away on a shelf and never used by anyone for guiding or coordinating work efforts. In fact, in a survey of managers about formal top-down organizational planning processes, over 75 percent said that their company's planning approach was unsatisfactory.[14] A common complaint was that "plans are documents that you prepare for the corporate planning staff and later forget." Although this traditional top-down approach to planning is still used by many organizations, it can be effective only if managers understand the importance of creating a workable, usable document that organizational members actually draw on for direction and guidance, not a document that looks impressive but is never used.

Another approach to planning is to involve more organizational members in the process. In this approach, plans aren't handed down from one level to the next but instead are developed by organizational members at the various levels and in the various work units to meet their specific needs. For instance, at Dell Computer Corporation's server manufacturing facility in Austin, Texas, employees from production, supply management, and channel management meet weekly to make plans based on current product demand and supply. In addition, work teams set their own daily schedules and track their progress against those schedules. If a team falls behind, team members develop "recovery" plans to try to get back on schedule.[15] When organizational members are more actively involved in planning, they see that the plans are more than just something written down on paper. They can actually see that the plans are used in directing and coordinating work.

> Contemporary Issues in Planning

We conclude this chapter by addressing two contemporary issues in planning. Specifically, we're going to look at criticisms of planning, and then at how managers can plan effectively in dynamic environments.

Criticisms of Planning

Formalized organizational planning became popular in the 1960s and, for the most part, it still is today. It makes sense for an organization to establish some direction. But critics have challenged some of the basic assumptions underlying planning. What are the primary arguments directed at formal planning?

1. *Planning may create rigidity*.[16] Formal planning efforts can lock an organization into specific goals to be achieved within specific timetables. When these goals were set, the assumption may have been that the environment wouldn't change during the time period the goals covered. If that assumption is faulty, managers who follow a plan may face trouble. Rather than remaining flexible—and possibly throwing out the plan—managers who continue to do the things required to achieve the original goals may not be able to cope with the changed environment. Forcing a course of action when the environment is fluid can be a recipe for disaster.

2. *Plans can't be developed for a dynamic environment*.[17] Most organizations today face dynamic environments. If a basic assumption of making plans—that the environment won't change—is faulty, then how can you make plans at all? Today's business environment is often chaotic, at best. By definition, that means random and unpredictable. Managing under those conditions requires flexibility, and that may mean not being tied to formal plans.

3. *Formal plans can't replace intuition and creativity*.[18] Successful organizations are typically the result of someone's innovative vision. But visions have a tendency to become formalized as they evolve. Formal planning efforts typically involve a thorough investigation of the organization's capabilities and opportunities and a mechanical analysis that reduces the vision to some type of programmed routine. That approach can spell disaster for an organization. For example, the rapid growth of Apple Computer in the late 1970s and throughout the 1980s was attributed, in part, to the innovative and creative approaches of one of its co-founders, Steven Jobs. As the company grew, Jobs felt there was a need for more formalized management—something he was uncomfortable doing. He hired a CEO who ultimately ousted Jobs from his own company. With Jobs's departure came increased organizational formality, including detailed planning—the same things that Jobs despised so much because he felt that they hampered creativity. By the mid-1990s, Apple, once an industry leader, was struggling for survival. The situation became so bad that Jobs was brought back as CEO to get Apple back on track, which he eventually did by refocusing on innovation.

4. *Planning focuses managers' attention on today's competition not on tomorrow's survival*.[19] Formal planning has a tendency to focus on how to best capitalize on existing business opportunities within an industry. It often doesn't allow managers to consider creating or reinventing an industry. Consequently, formal plans may result in costly blunders and high catch-up costs when other competitors take the lead. On the other hand, companies such as Intel, ABB (Asea Brown Boveri), and Sony have found success from forging into uncharted waters, spawning new industries as they go.[20]

5. *Formal planning reinforces success, which may lead to failure*.[21] Success breeds success. That's an "American tradition." If it's not broken, don't fix it, right? Well, maybe not! Success may, in fact, breed failure in an uncertain environment. It's hard to change or discard previously successful plans—to leave the comfort of what works for the anxiety of the unknown. Successful plans, however, may provide a false sense of security, generating more confidence in the formal plans than is warranted. Many managers will not face the unknown until they're forced to do so by environmental changes. By then, it may be too late!

How valid are these criticisms? Should managers forget about planning? No, managers shouldn't forget about planning! Although the criticisms have merit when directed at rigid, inflexible planning, today's managers can be effective planners if they understand planning in dynamic uncertain environments.

Effective Planning in Dynamic Environments

A wireless technology called Bluetooth that links together information devices such as mobile phones, laptops, and handheld organizers is threatening to revolutionize all kinds of industries. Honeywell is using the Internet to help fashion a customized prototype of products from fan blades to golf club heads. Mexican cement maker Cemex is using Internet-based truck dispatch systems to speed deliveries to customers. Consumers continue to increase how much they spend on eating out instead of cooking at home. The Euro is now the official currency of a majority of countries in the European Union.

How can managers effectively plan when the external environment is continually changing? We already discussed uncertain environments as one of the main contingency factors that affect the types of plans managers develop. Because dynamic environments are more the norm than the exception for today's managers, let's revisit how to plan in an uncertain environment.

In an uncertain environment, managers want to develop plans that are specific but flexible. Although this may seem contradictory, it's not. To be useful, plans need some specificity, but the plans should not be cast in stone. Managers must recognize that planning is an ongoing process. The plans serve as a road map even though the destination may be changing constantly due to dynamic market conditions. They should be willing to change directions if environmental conditions warrant. This flexibility is particularly important as plans are implemented. Managers must stay alert to environmental changes that could impact the effective implementation of plans and make changes as needed. Keep in mind, also, that it's important to continue formal planning efforts, even when the environment is highly uncertain, in order to see any effect on organizational performance. It's the persistence in planning efforts that contributes to significant performance improvement. Why? It seems that, as with most activities, managers "learn to plan" and the quality of their planning improves when they continue to do it.[22]

click here to explore now

video example

Given the fact that external environments are increasingly dynamic and complex, doesn't that make strategic and long-term planning obsolete?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 << previous | next >>

> Chapter Wrap-Up

You had a chance to voice your opinion about Soon-Chart Yu's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Gyl Wadge Kovalik
Project Director
Texas Department of Health, Austin, Texas

Not working? Get Quicktime

Since Gazoontite.com has been in business for a while, it's likely that Yu has hired some key management personnel and other employees to work in his organization. The first step in planning for the company's future would be to develop a strategic, long-term plan with key management staff to map out the general direction of the company over the next three or more years.

Carrie Lund
Area Service Manager
CHEP USA, Gladstone, Missouri

Not working? Get Quicktime

In planning for the ongoing operation of his business, Yu would need to do some different types of planning that would cover different areas of his business. First, he would need formal plans for both long-range and immediate staffing needs. This is particularly important in light of the difficulties that Internet companies often face because of the scarcity of people with the talents needed to take the company to the next level.

The strategic plan would be directional and allow flexibility for line-level managers to adjust to and plan for external environmental realities.

The next step in planning would be involving all employees in a management by objectives exercise to establish specific performance goals for the short term and long term related to the strategic and financial goals in the strategic plan.

Yu might want to consider hiring planning consultants to assist with the first planning cycle because his past managerial experience with an established company might not translate well into the volatile world of an Internet start-up.

Next, Yu would need plans for compiling, evaluating, and reacting to ever-changing customer needs. The volatility of the Internet world makes some type of planning in this area necessary. Yu would also need plans for staying aware of the competition, both online and traditional. It's important to have some systematic approach to identifying and evaluating competitors.

Finally, he would need plans for negotiating with vendors and suppliers. Since gazoontite.com is essentially a retailer of others' products, Yu would need to plan for the relationships he desires with his vendors and suppliers, especially as the business continues to grow.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log On: Internet-Based Exercise
- Working Together: Team-Based Exercise
- Case Application

go to page: 1 2 3 4 5 6 << previous

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter 8: Strategic Management

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	[The Nurse Staffing Dilemma](#) (06/12/02)
	[The Case for Caution](#) (05/22/02)
	[Stamping Out Redundancy in E-Government](#) (05/21/02)
	[The Competitive Environment Gets Cleaner](#) (04/04/02)
	[Campbell's Soup Shipments Rise As Buyers Stock Pantries](#) (01/08/02)
	[Campbell's Soup Shipments Rise As Buyers Stock Pantries](#) (01/08/02)
	[Oracle, Microsoft Battle to Fill Small Firms' Needs](#) (01/08/02)
	[Oracle, Microsoft Battle to Fill Small Firms' Needs](#) (01/08/02)
	[Man Behind The Empire](#) (11/06/01)
	[Man Behind The Empire](#) (11/06/01)
	[Disney Discusses Strategy Behind Buying Fox Family](#) (08/23/01)
	[Sites are Offering Data in Lieu of Sales](#) (08/23/01)

[Sites are Offering Data in Lieu of Sales](#) (08/23/01)

Some Business-to-Business Marketplaces Showing Staying Power (08/23/01)

Some Business-to-Business Marketplaces Showing Staying Power (08/23/01)

The Only Strong Thing at Corning is the Balance Sheet (08/23/01)

The Only Strong Thing at Corning is the Balance Sheet (08/23/01)

Re-evaluating Online Strategies (07/19/01)

Retailers Find Web Apparel Unprofitable (07/19/01)

Mining Firms Reap the Benefits of Being Late Adopters (07/18/01)

A "New" Model for the Internet (07/09/01)

Competitive Strategy Moves for Boeing (06/20/01)

The Many Faces of Cost-Cutting (06/20/01)

Traffic Does Not Always Equal Profit (06/19/01)

Content That Sells (06/18/01)

Slow But Steady (05/23/01)

Slow But Steady (2)- More Case Studies of Successful e-Business Ventures (05/23/01)

Intel Inside the War Room: Let the Chips Fall Where they May! (05/21/01)

Taking Customer Service Seriously (04/23/01)

Escaping the Web (04/10/01)

Internet in Vietnam Seen as Gateway to Other Business (04/10/01)

Companies in no Hurry to Buy Over the Internet (04/09/01)

Investors Finally Consider Internet Companies' Shaky Math (04/09/01)

New Alternatives to Banner Ads (04/09/01)

Advanced Online Banking, Born of Necessity (04/06/01)

Challenges More Daunting than Song-Swapping (04/06/01)

Learning the Web the Hard Way (04/06/01)

Pushing Ahead with Online Education (04/06/01)

At a French Factory, Culture is a Two-way Street (04/05/01)

Retailers Rethink Internet Kiosks (04/02/01)

[Comparison Sites Struggling As Well](#) (03/07/01)

[Looking for Value in Failed Dot-coms](#) (03/07/01)

[Sure, it Would be Easier on the Web, but Let's Haggle!](#) (03/07/01)

[Travel Sites Emulating Merchants](#) (03/07/01)

[Multiple Seats of Power: Companies Cutting Down On Directorships](#) (02/15/01)

[Don't Hold Your Breath](#) (02/07/01)

[FedEx, UPS Teach Dot-coms Ways to Get Gifts Under Tree on Time](#) (02/07/01)

[Online Providers of Film, Cartoons Combine Forces](#) (02/07/01)

[Planning to Lead in Publishing](#) ft.com (01/23/01)

[Will Bricks-and-Mortar Merchants Grow Complacent?](#) (01/05/01)

[A High-tech Domino Effect: As Dot-coms Go, So Go the E-commerce Consultants](#) (01/04/01)

[E-commerce Report: Internet Merchants Adapt to Survive](#) (01/04/01)

[Lessons From the Online Rubble](#) (01/04/01)

[New Page in E-retailing: Catalogs](#) (01/04/01)

Retail Puzzle: Invest in Bricks or Clicks? (01/04/01)

Small and Medium-sized Enterprises Fragmentation Hinders the Sector's Growth (01/04/01)

Don't Forget the Little Guy (12/13/00)

Internet Startups: Dotcom Back from the Dead (12/13/00)

Luxury Sites Get Scrappy (12/13/00)

Racing Down the Electronic Highway (12/13/00)

Trading Exchanges:Impressive growth, but mind the hype (12/13/00)

Manufacturing to Web-Based Orders How Supply Chains Will Become "Dynamic Arteries" (12/06/00)

Production Simulation The Totally Digital Factory May Not Be So Far Away (12/06/00)

Brazil's Online Retailers: A Modest Start for Flashy Fashion Malls (11/27/00)

E-commerce in Mexico Customers Remain Cautious (11/27/00)

PullingThePlug.com (11/27/00)

Bill Gates Turns Skeptical on Digital Solution's Scope (11/10/00)

E-Tailers Fine Tune Affiliate Sales (11/10/00)

[Online Brokerages go from Clicks to Bricks](#) (11/08/00)

[Bricks-and-Clicks World Needs Commercial Space](#) (11/01/00)

[One Giant Grows, Another Shrinks](#) ft.com (11/01/00)

[Using Web Sites for Customer Service](#) (11/01/00)

[Web Merchants Make Good on Hype](#) (11/01/00)

[British Grocer Tesco Thrives Filling Web Orders from its Stores' Aisles](#) (10/31/00)

[E-Commerce Report: Large Companies Spread Internet Retailing](#) (10/30/00)

[Public Broadcasting on Sale](#) (10/30/00)

[A New Chapter](#) (08/04/00)

[Carriers Relish Some Big Net Savings](#) (08/04/00)

[Euro-bots](#) (08/04/00)

[Fading Beauties](#) (08/04/00)

[Stalled](#) (08/04/00)

[Food Fight](#) (07/31/00)

For Qualcomm, China Has Beckoned Twice and Then Hung Up (07/31/00)

[Auto] Industry Faces Up to Challenge of E-Commerce (06/28/00)

The B2B Revolution (05/16/00)

Made-to-order - First Computers, then Fast Food, Now Cars? (05/08/00)

When Giants Merge (01/11/00)

Being Boeing (01/04/00)

Special Report: Partners (11/01/99)

When Capital Gets Antsy (10/01/99)

Transforming the Power Business (10/20/97)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Strategy at Flextronics (01/16/02)

Inside Scania (12/05/01)

Deloitte Consulting (08/30/01)

Accenture: Life after split from Arthur Andersen Group (08/29/01)

Covisint (08/29/01)

Pirelli: An Italian Conglomerate (08/29/01)

The McCann Erickson Group (08/29/01)

The Omnicom Group: A Global Leader In Marketing Communication (08/29/01)

Roaring For a Race: Ducati Motorcycles (07/19/01)

Roaring For a Race: Ducati Motorcycles (07/19/01)

Saving Lives and Livestock-Inside Schering-Plough (07/19/01)

A Manufacturing and Media Conglomerate - General Electric (07/18/01)

Challenging the Giant: Airbus (07/18/01)

The Hidden Side of Toshiba (07/17/01)

Viacom: An Entertaining Story (07/17/01)

A Look at an Emerging International Telecom Giant - Alcatel (06/21/01)

Brewing Excellence - The Case of Starbucks Corporation (06/05/01)

A Look at an International Consumer Electronics Giant - Royal Philips Electronics (05/31/01)

History and Strategy at JCPenney (05/31/01)

Innovation and Profits at Lucent Technologies (05/31/01)

Mission and Corporate Strategy at Quaker Oats (05/31/01)

Agilent Technologies - Life After Being Spun Off From Hewlett Packard (05/29/01)

Crisis Management - Case of Firestone/Bridgestone Inc. (05/29/01)

Duplicating Excellence - The Case of Xerox Corporation (05/29/01)

Corporate Governance - Checks and Balances in Strategic Management (05/23/01)

Ford Motor Company - Developing and Leveraging Core Competencies (05/23/01)

Not Just on Paper - Mission, Strategy, and Organization of Stora Enso (05/23/01)

Personal Mission Statements (04/11/01)

Inside A Fast Changing Global Consumer Products Giant - Unilever (03/29/01)

Values-Based Strategy- The Case of Body Shop International PLC (03/29/01)

The Role of Mission Statements in Strategic Management - The Case of Cargill (03/28/01)

[Developing Customers' Competencies: An Example From Oracle Corp.](#) (03/15/01)

[Consistency and Innovation - the Case of Revlon](#) (03/02/01)

[Inside Siebel Systems – Developing Customer Intimacy](#) (02/09/01)

[The Alliance Advantage in Solutions Software Market - The Case of i2 Technologies](#) (02/09/01)

[Social Responsibility at Philip Morris](#) (02/07/01)

[Using Web Data to Compare Regions](#) (11/29/00)

[Strategic Management in the Retail Industry](#) (05/24/00)

[Free Long Distance May Soon Be a Reality](#) (05/12/00)

[Competitive Issues in On-Line Bookselling](#) (04/17/00)

[An Examination of the Mission Statement of Two Competitors](#) (01/04/00)

[Using the Internet to Influence Organizational Stakeholders](#) (12/02/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...	
	Instructors Manual - chap08.doc
	Lecture Presentation - chap08.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Modules - modules.doc
	Preface - preface.doc
	Self Assessment Library 2.0 - selfas.doc
	Table of contents - toc.doc

Add to...	Just for Students
	Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e

Stephen P. Robbins   Mary Coulter

Chapter 8

go to page: 1

Go to Student View

Table of Contents

Chapter Contents

Search

Add Annotation

View Annotations

Rate the Difficulty

> What's Ahead

A Manager's Dilemma

The ball is in Val Ackerman's court. As president of the WNBA (Women's National Basketball Association), Ackerman is facing some tough strategic issues.[1]

The WNBA, formed in 1997, is wholly owned by the NBA, the professional basketball association that has spotlighted superstars such as Michael Jordan, Magic Johnson, Shaquille O'Neal, and Kobe Bryant. The WNBA's 16 teams are located in the same cities as NBA teams and most play in the same arenas. With the nurturing and financial support of its parent, the WNBA is the best hope for women's team play in professional sports. It has national television exposure and outstanding facilities to showcase players' talents. And it has captured the hearts of fans in the communities with WNBA teams. Ackerman states, "We are pioneers. We are succeeding where many others have failed."

Although the league seems to have several things going for it, there are plenty of problems. Ticket sales and television viewer levels have been flat. Players complain about low pay, and some have left for European and Australian leagues where player salaries can top six figures. In the WNBA, rookies start at $26,000 per year plus benefits, and salaries cap out at $80,000. Some top draft picks earn as little as $56,000 while a few select players can earn six-figure incomes with sponsor contracts and bonuses. However, the women who have achieved these lofty levels are few and far between. The league is caught between needing to recruit talent with fan drawing power and to keep operating costs low enough to maintain reasonable ticket prices.

The WNBA's core target market is women and children. They comprise around 75 percent of ticket buyers and 50 percent of the television audience. Many male sports fans have been unimpressed with the women's quality of play. And with the continuing limited ability to attract top-notch talent, the level of play isn't likely to improve. Put yourself in Ackerman's position. How could she use a SWOT (strengths, weaknesses, opportunities, threats) analysis to strategically manage the WNBA's future?

What Would You Do?

click here to explore now

objectives

Take a moment to familiarize yourself with the key objectives of this chapter.

Management (activebook), 7/e

Stephen P. Robbins   Mary Coulter

Chapter 8

go to page: 2

[Go to Student View](#)
[Table of Contents](#)
[Chapter Contents](#)
[Search](#)
[Add Annotation](#)
[View Annotations](#)
[Rate the Difficulty](#)

The importance of having a good strategy can be seen by what Val Ackerman is attempting to do with the WNBA. By designing strategies to help the WNBA attract fans and players, Ackerman is trying to build the league into a prosperous, thriving organization. An underlying theme in this chapter is that good strategies result in high organizational performance.

> The Importance of Strategic Management

Effective managers around the world recognize the role that strategic management plays in their organization's performance. Through well-designed strategies, Swedish company Electrolux has "conquered" Europe and is looking at the United States. Hindustan Lever Ltd., an Indian company that makes soaps, detergents, and food preparations, has achieved a three-year total return to stockholders of 120 percent as a result of developing and implementing effective strategies. And Millennium Pharmaceuticals of Cambridge, Massachusetts, is poised to exploit its scientific knowledge and capabilities in gene-based medicine and jump into the ranks of the world's top pharmaceutical companies. These companies illustrate the value of strategic management. In this section, we want to look at what strategic management is and why it's considered important to managers.

What Is Strategic Management?

To begin to understand the basics of strategy and strategic management you need look no further than at what's happened in the discount retail industry. The industry's two largest competitors—Wal-Mart and Kmart—have battled for market dominance since 1962, the year both companies were founded. The two chains have other striking similarities as well: store atmosphere, names, markets served, and organizational purpose. Yet, Wal-Mart's performance (financial and otherwise) has surpassed that of Kmart. Why? Organizations vary in how well they perform because of differences in their strategies and differences in competitive abilities.[2] Wal-Mart is good at strategic management, whereas Kmart struggles to find the right combination.

Strategic management is that set of managerial decisions and actions that determines the long-run performance of an organization.[3] It entails all of the basic management functions; that is, the organization's strategies must be planned, organized, put into effect, and controlled. We'll discuss in detail the process of how strategic management takes place in an organization at a later point in the chapter.

click here to explore now

video example <

How is strategic management related to the planning function?

Purposes of Strategic Management

Why is strategic management considered so important? Because it's involved in many of the decisions that managers make. Most of the significant current business events reported in the various business publications involve strategic management. For instance, in a recent week, there were reports of Chase Manhattan Bank's bid to purchase J.P. Morgan & Co., of questions being raised about Ford's response to the failures of Firestone tires on its Ford Explorers, and of the impact of rising fuel prices on Italian airline Alitalia. All are examples of managers making strategic decisions. Also, a survey of business owners found that 69 percent had strategic plans, and among those owners, 89 percent responded that they found their plans to be effective.[4] They stated, for example, that strategic planning gave them specific goals and provided their staff with a unified vision. Although some management analysts claim that strategic planning is "dead," others emphasize its importance.[5] In addition, studies of the effectiveness of strategic planning and management have found that, as with planning in general, companies with formal strategic management systems had higher financial returns than did companies with no such system.[6]

Today, strategic management has moved beyond for-profit business organizations to include governmental agencies, hospitals, and other not-for-profit organizations. For instance, when the U.S. Postal Service found itself in intense competitive battles with overnight package delivery companies, electronic mail services, and private mailing facilities, the U.S. Postmaster General (the Postal Service's CEO) used strategic management to help pinpoint important issues and to design appropriate strategic responses including the popular self-adhesive stamps and an electronic postmark used to certify e-mail messages. Although strategic management in not-for-profits has not been as well researched as that in for-profit organizations, we know that it's important for these organizations as well.

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> The Strategic Management Process

The strategic management process, as illustrated in Exhibit 8.1, is an eight-step process that encompasses strategic planning, implementation, and evaluation. Although the first six 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. Let's examine in detail the eight steps in the strategic management process.

Exhibit 8.1 The Strategic Management Process

Step 1: Identifying the Organization's Current Mission, Objectives, and Strategies

Every organization needs a mission—a statement of the purpose of an organization. The mission answers the question: What is our reason for being in business? Defining the organization's mission forces managers to carefully identify the scope of its products or services. For instance, the mission of Prime Trucking Inc., a trucking company headquartered in Missouri, is "to prosper while providing excellent service to our customers." The mission statement for the U.S. Federal Bureau of Prisons reads, "The Federal Bureau of Prisons protects society by confining offenders in the controlled environments of prisons and community-based facilities that are safe, humane, and appropriately secure, and which provide work and other self-improvement opportunities to assist offenders in becoming law-abiding citizens." The mission statement of The Body Shop

International PLC says that it "dedicates its business to the pursuit of social and environmental change." These statements provide clues to what these organizations see as their reason for being in business. Exhibit 8.2 provides a description of the typical components of mission statements.

Component	Question
Customers:	**Who are the organization's customers?**
We believe our first responsibility is to the doctors, nurses, and patients, to mothers and all others who use our products and services. (Johnson & Johnson)	
Products or services:	**What are the organization's major products or services?**
AMAX's main products are molybdenum, coal, iron ore, copper, lead, zinc, petroleum and natural gas, potash, phosphates, nickel, tungsten, silver, gold, and magnesium. (AMAX)	
Markets:	**Where does the organization compete geographically?**
Our emphasis is on North American markets, although global opportunities will be explored. (Blockway)	
Technology:	**How technologically current is the organization?**
The common technology in these areas is discrete particle coatings. (Nashua)	
Concern for survival, growth, and profitability:	**Is the organization committed to growth and financial stability?**
In this respect, the company will conduct its operations prudently, and will provide the profits and growth which will assure Hoover's ultimate success. (Hoover's Universal)	
Philosophy:	**What are the organization's basic beliefs, values, aspirations, and ethical priorities?**
It's all part of the Mary Kay philosophy—a philosophy based on the golden rule. A spirit of sharing and caring where people give cheerfully of their time, knowledge, and experience. (Mary Kay Cosmetics)	
Self-concept:	**What is the organization's major competitive advantage and core competencies?**
Crown Zellerbach is committed to leapfrogging competition within 1,000 days by unleashing the constructive and creative abilities and energies of each of its employees. (Crown Zellerbach)	
Concern for public image:	**How responsive is the organization to societal and environmental concerns?**
To share the world's obligation for the protection of the environment. (Dow Chemical)	
Concern for employees:	**Does the organization consider employees a valuable asset?**
Bama seeks people who want to learn and contribute in a team environment. We provide a safe work environment, operate as an equal opportunity employer, focus on employee development and retention, develop mutual respect and trust for each other and support promotion from within. We value the voice of each employee. (The Bama Companies)	

Exhibit 8.2 **Components of a Mission Statement**

Determining the purpose or reason for one's business is as important for not-for-profit organizations as it is for business firms. A college, for instance, must decide if it's training students for the professions, training students for particular jobs, or educating students through a well-rounded liberal arts education. Is it seeking students from the top 5 percent of high school graduates, students with low academic grades but high aptitude test scores, or students in the vast middle ground? Does it seek to attract older, working students or recent high school graduates? Answers to questions such as these clarify the organization's current purpose. For instance, many colleges have made significant investments in distance-learning and Internet-based courses and are tapping into markets that they previously could not serve.

It's also important for managers to identify the goals currently in place and the strategies currently being pursued. As we explained in Chapter 7, goals are the foundation of planning. A company's goals provide the measurable performance targets that employees strive to reach. Knowing the company's current goals gives managers a basis for deciding whether those goals need to be changed. For the same reasons, it's important for managers to identify the organization's current strategies.

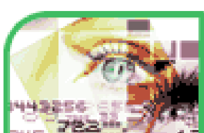
Step 2: Analyzing the Environment

In Chapter 3, we described the external environment as an important constraint on a manager's actions. Analyzing that environment is a critical step in the strategy process. Why? Because an organization's environment, to a large degree, defines management's options. A successful strategy will be one that aligns well with the environment.[7] Managers in every organization need to analyze the environment. They need to know, for instance, what the competition is doing, what pending legislation might affect the organization, and what the labor supply is like in locations where it operates. In analyzing the external environment, managers should examine both the specific and general environments to see what trends and changes are occurring. For instance, managers in the sporting goods industry are finding that the industry is going through a metamorphosis.[8] Long dominated by the large traditional sporting goods companies such as Nike and Rawlings, the industry is being changed by dozens of smaller companies whose products are aimed at extreme sports enthusiasts—sports participants who value risk taking and pushing themselves to the limits. Many of these smaller companies credit their success to the X Games, the ESPN competition that features everything from skateboarding to sky surfing to street luge. Managers at both the traditional sporting goods companies and at the smaller companies want to stay on top of changes taking place in the external environment so they can take appropriate action. Step 2 of the strategic management process is complete when managers have an accurate grasp of what is taking place in the external environment and are aware of important trends that might affect the organization.

Step 3: Identifying Opportunities and Threats

After analyzing the environment, managers need to assess what they have learned in terms of opportunities that the organization can exploit and threats it faces. Opportunities are positive trends in external environmental factors; threats are negative trends.

Keep in mind that the same environment can present opportunities to one organization and pose threats to another in the same industry because of their different management of resources and capabilities. For example, Southwest Airlines and Continental Airlines have prospered in a turbulent industry, whereas other airlines such as TWA and United have faltered.



click here to explore now

video example

Where can you get information on what's happening in the various components of the external environment?

Step 4: Analyzing the Organization's Resources and Capabilities

Now we move from looking outside the organization to looking inside. For example, what skills and abilities do the organization's employees have; what resources does the organization have; has it been successful at innovating products; what is the organization's financial position; how do customers perceive the organization and the quality of its products or services? This step forces managers to recognize that every organization, no matter how large or successful, is constrained in some ways by the resources and capabilities it has available.

The internal analysis provides important information about an organization's specific resources and capabilities. If any of these organizational capabilities or resources are exceptional or unique, they're called the organization's core competencies. The core competencies are the organization's major value-creating skills, capabilities, and resources that determine the organization's competitive weapons.[9] For instance, Ram Mukunda, CEO of Startec Global Communications, has built a company that's regarded as one of the world's leading international communications companies. Startec has succeeded by serving the needs of many ethnic communities throughout the United States and around the world. The company's core competency is communicating with customers in their native languages and then tailoring high-value programs and products to meet their changing needs. Because of its capabilities in these areas, Startec's customer base has grown nearly 4,000 percent since the mid-1990s.[10]

Step 5: Identifying Strengths and Weaknesses

The analysis in Step 4 should lead to a clear assessment of the organization's internal resources (such as financial capital, technical expertise, skilled workforce, experienced managers, and so forth). It should also point out the organization's capabilities in performing the different functional activities (such as marketing, production and manufacturing, research and development, financial and accounting, information systems, human resources management, and so forth). Any activities the organization does well or any unique resources that it has are called strengths. Weaknesses are activities the organization does not do well or resources it needs but does not possess. Look back at our chapter-opening dilemma. What might Val Ackerman look at in determining her organization's strengths and weaknesses?

An understanding of the organization's culture and its strengths and drawbacks is a crucial part of Step 5 that's often overlooked.[11] Managers should be aware that strong and weak cultures have different effects on strategy and that the content of a culture has a major effect on strategies pursued.

As we discussed in Chapter 3, an organization's culture is its personality. It reflects the shared values, beliefs, and valued behaviors that embody the "way things are done around here." In a strong culture, almost all employees will have a clear understanding of what the organization is about. This clarity should make it easy for managers to convey to new employees the organization's core competencies and strengths. At a department store chain such as Nordstrom, which has a very strong culture of customer service and satisfaction, managers are able to instill cultural values in new employees in a much shorter time than could a competitor with a weak culture. The negative side of a strong culture, of course, is that it's more difficult to change. A strong culture may act as a significant barrier to accepting any changes in the organization's strategies. Successful organizations with strong cultures may become prisoners of their own successes.

As we know, cultures also differ in the degree to which they encourage taking risks, exploiting innovations, and rewarding performance. These cultural factors influence managers' preferences for certain strategies. In a risk-aversive culture, for example, managers are likely to favor strategies that are defensive, that minimize financial exposure, and that react to changes in the environment rather than try to anticipate those changes. Conversely, where innovation is highly valued, managers are likely to favor new technology and product development.

Organizational culture also can promote or hinder an organization's strategic actions. One study showed that firms with "strategically appropriate cultures" outperformed other corporations with less appropriate cultures.[12] What is a strategically appropriate culture? It's one that supports the firm's chosen strategy. For instance, at Hewlett-Packard, a high-tech company with over $48 billion in annual revenues, growth is the chosen strategy, and employees' product innovation efforts are enthusiastically encouraged and supported within the corporate culture. In fact, HP's culture, renowned for its openness, employee freedom and autonomy, has played a key role in the company's successful implementation of its global growth strategies.

The merging of Steps 3 and 5 results in an assessment of the organization's internal resources and capabilities and external environmental opportunities. (See Exhibit 8.3.) This is frequently called SWOT analysis because it's an analysis of the organization's *s*trengths, *w*eaknesses, *o*pportunities, and *t*hreats. Based on the SWOT analysis, managers can identify a strategic niche that the organization might exploit.

In light of the SWOT analysis, managers also reevaluate the organization's current mission and goals. Are they realistic? Do they need modification? Are we where we want to be right now? If changes are needed in the overall direction, this is where they are likely to originate. If no changes are necessary, managers are ready to begin the actual formulation of strategies.

Exhibit 8.3 **Identifying the Organization's Opportunities**

Step 6: Formulating Strategies

Strategies need to be established for the corporate, business, and functional levels of the organization, and we'll describe each of these types of strategies shortly. The formulation of strategies follows the decision-making process we discussed in Chapter 6. Managers need to develop and evaluate strategic alternatives and then select strategies that support and complement each other and that allow the organization to best capitalize on its strengths and environmental opportunities. Step 6 is complete when managers have developed a set of strategies that will give the organization a relative advantage over its rivals. Successful managers will choose strategies that give their organization the most favorable competitive edge, and then they will try to sustain that advantage.

Step 7: Implementing Strategies

After strategies are formulated, they must be implemented. A strategy is only as good as its implementation. No matter how effectively an organization has planned its strategies, it can't succeed if the strategies aren't implemented properly. The rest of the chapters in this book address a number of issues related to strategy implementation. For instance, in Chapter 10, we discuss the strategy-structure relationship. In Chapter 12, we show that if new strategies are to succeed, they often require hiring new people with different skills, transferring some current employees to new positions, or laying off some employees. Also, since more and more organizations are using teams, the ability to build and manage effective teams is an important part of implementing strategy. We cover teams in Chapter 15. Finally, top management leadership is a necessary ingredient in a successful strategy. So, too, is a motivated group of middle- and lower-level managers to carry out the organization's specific strategies. Chapters 16 and 17 discuss ways to motivate people and offer suggestions for improving leadership effectiveness.

click here to explore now

video example

I understand how strategies are formulated, but how are they implemented?

Step 8: Evaluating Results

The final step in the strategic management process is evaluating results. How effective have our strategies been? What adjustments, if any, are necessary? Anne Mulcahy, the president and chief operating officer of Xerox Corporation, has made strategic adjustments to improve her company's competitiveness in the information services industry. She developed these strategic actions after assessing the results of previous strategies and determining that changes were needed. We discuss this step in our coverage of the control process in Chapter 18.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> Types of Organizational Strategies

Organizational strategies include strategies at the corporate level, business level, and functional level. (See Exhibit 8.4.) Managers at the top level of the organization typically are responsible for corporate-level strategies. Managers at the middle level typically are responsible for business-level strategies. And managers at the lower levels of the organization typically are responsible for the functional-level strategies. Let's look at each of these types of strategies.

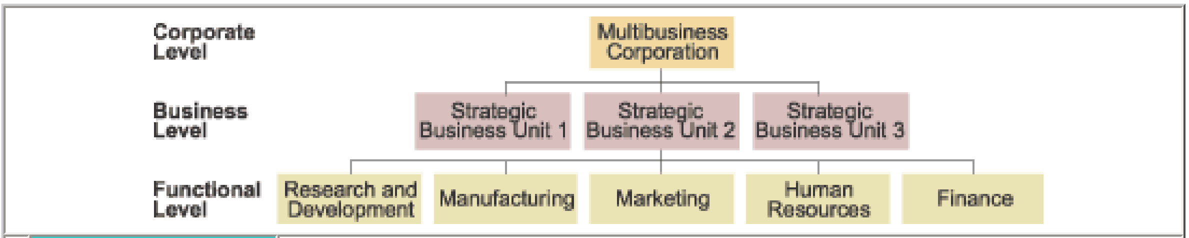


Exhibit 8.4 Levels of Organizational Strategy

Corporate-Level Strategy

A corporate-level strategy seeks to determine what businesses a company should be in or wants to be in. Corporate-level strategy determines the direction that the organization is going and the roles that each business unit in the organization will play in pursuing that direction. For instance, PepsiCo's corporate-level strategy integrates the strategies of its various business units—Soft Drinks (Pepsi, Mountain Dew, Slice), Snacks (Frito-Lay and Rold Gold pretzels), Other Beverages (Tropicana Juices, Aquafina bottled water, All Sport sports drinks, Dole Juices, and Lipton tea), and Quaker Oats—so the company can grow. PepsiCo once owned a restaurant division that included Taco Bell, Pizza Hut, and KFC, but, because of intense competitive pressures in the fast-food industry and the restaurant division's inability to contribute to corporate growth, PepsiCo changed its corporate-level strategy to concentrate on its soda and snack food divisions. It spun off that division as a separate and independent business entity called Tricon Global Restaurants, Inc. The most popular approach for describing an organization's corporate-level strategies is the grand strategies framework, which we'll look at first. We'll conclude our discussion of corporate-level strategies with a description of a strategy tool to help managers evaluate the various businesses the company is in.

Kellogg Company, Wal-Mart, and Westinghouse are profitable companies, but they seem to be going in different directions. Until recently, Kellogg's management was content to maintain the status quo and remain in the breakfast food industry. Wal-Mart, on the other hand, is rapidly expanding its operations and developing new business and retailing concepts. It's also pursuing global opportunities. Meanwhile, sluggish sales and an uncertain outlook in heavy industrial products and services such as turbine generators and electric and nuclear power generation have prompted Westinghouse Electric Corporation to scale back and sell some of its businesses. These different directions can be explained in terms of grand, or all-encompassing, strategies.[13] Exhibit 8.5 shows each of the grand strategies in relation to the SWOT analysis.

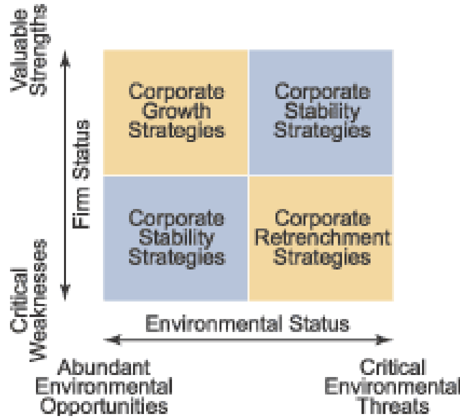


Exhibit 8.5 **SWOT Analysis and Grand Strategies**

Source: P. Wright, C.D. Pringle, and M.J. Kroll, *Strategic Management,* 2nd ed. (Boston: Allyn and Bacon, 1994), p. 82.

Grand Strategy—Stability

A stability strategy is a corporate-level strategy characterized by an absence of significant change. 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 return-on-investment results.

When should managers pursue stability? When they view the organization's performance as satisfactory and the environment appears to be stable and unchanging; that is, the organization is content to continue what it has been doing and sees no reason to change.

It's not easy to identify organizations pursuing a stability strategy, if for no other reason than few top managers are willing to admit they are doing it. Growth tends to have universal appeal, and retrenchment is often accepted as a necessary evil. But managers who actively pursue stability might be considered complacent or even smug. You should be aware, however, that many *small* business owners and managers may follow a stability strategy indefinitely. Why? These individuals may feel that their business is successful enough just as it is and that it adequately meets their personal goals.

We mentioned Kellogg Company as an example of a company that had followed a stability strategy. However, due to fierce competition in global cereal markets in which it was beginning to lose its unique niche and leadership position, Kellogg's management finally began to branch out by acquiring Worthington Foods (meats and meat alternatives) and Keebler Foods (cookies and snacks). Although the Kellogg Company can no longer be considered as pursuing a stability strategy, when an organization's managers *are* content to stick with what they are doing and are reluctant to move into other areas, that would be an example of the stability strategy.

Grand Strategy—Growth

The growth strategy is a corporate-level strategy that seeks to increase the level of the organization's operations. This includes increasing such popular quantitative measures as sales revenues, number of employees, and market share. Growth can be achieved through direct expansion, vertical integration, horizontal integration, or diversification.

Growth through direct expansion (also called concentration) is achieved by internally increasing a firm's sales, production capacity, or workforce. No other firms are acquired or merged with;

instead the company chooses to grow by itself through its own business operations. For instance, McDonald's has pursued a growth strategy by way of direct expansion. The company has grown by awarding franchises to people who are willing to be trained in the "McDonald's way" and by opening company-owned outlets. In addition, it's pursued other restaurant formats, such as Chipotle's Mexican Grill and Aroma Café, but again has chosen to do that on its own.

A company might also choose to grow by vertical integration, which is an attempt to gain control of inputs (backward vertical integration), outputs (forward vertical integration), or both. In backward vertical integration, the organization attempts to gain control of its inputs by becoming its own supplier. For instance, United Airlines has created its own in-flight food services business. In forward vertical integration, the organization gains control of its outputs (products or services) by becoming its own distributor. For example, Gateway Computer's retail stores are an example of an organization controlling its distribution.

In horizontal integration, a company grows by combining with other organizations in the same industry—that is, combining operations with competitors. For instance, H.J. Heinz, Inc., the food-processing company, combined operations with an organic baby food company, Earth's Best, to help its own Heinz baby foods division become more competitive. Because combining with competitors might decrease the amount of competition in an industry, the U.S. Federal Trade Commission assesses the impact of such proposed growth actions and must approve any proposed horizontal integration strategy. Other countries have similar restrictions. For instance, managers at America Online Inc. and Time Warner Inc. had to make concessions before the European Commission, the "watchdog" for the European Union, would allow their merger to stand.

Finally, an organization can grow through diversification, either related or unrelated. Related diversification is when a company grows by merging with or acquiring firms in different but related industries. For example, American Standard Cos., based in Piscataway, New Jersey, is in a variety of businesses including bathroom fixtures, air-conditioning and heating units, plumbing parts, and pneumatic brakes for trucks. The company's "strategic fit" is its exploitation of efficiency-oriented manufacturing techniques developed in its bathroom fixtures business and transferred to its other businesses. Unrelated diversification is when a company grows by merging with or acquiring firms in different and unrelated industries. For instance, Lancaster Colony Corporation makes salad dressing, car mats, and scented candles. These industries are different *and* unrelated.

Grand Strategy—Retrenchment

A retrenchment strategy is a corporate-level strategy designed to address organizational weaknesses that are leading to performance declines. There's no shortage of companies that have pursued a retrenchment strategy. A partial list includes some of the biggest corporate names: Procter & Gamble, AT&T, Kodak, Reebok, IBM, Toyota Motor Corporation, Mitsubishi, Daimler Chrysler, and Union Carbide. When an organization is facing performance problems, a retrenchment strategy helps it stabilize operations, revitalize organizational resources and capabilities, and prepare to compete once again.

Corporate Portfolio Analysis

When an organization's corporate strategy involves a number of businesses, managers can manage this collection, or portfolio, of businesses using a corporate portfolio matrix.[14] The first portfolio matrix—the BCG matrix—developed by the Boston Consulting Group, introduced the idea that an organization's businesses could be evaluated and plotted using a 2×2 matrix (see Exhibit 8.6) to identify which ones offered high potential and which were a drain on organizational resources.[15] The horizontal axis represents market share, which was evaluated as either low or high; and the vertical axis indicates anticipated market growth, which also was evaluated as either low or high. Based on its evaluation, the business was placed in one of four categories:

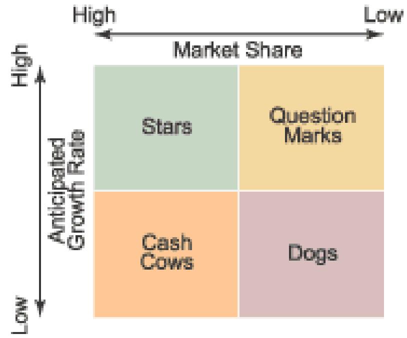


Exhibit 8.6 **The BCG Matrix**

- *Cash cows* (low growth, high market share). Businesses in this category generate large amounts of cash, but their prospects for future growth are limited.
- *Stars* (high growth, high market share). These businesses are in a fast-growing market and hold a dominant share of that market. Their contribution to cash flow depends on their need for resources.
- *Question marks* (high growth, low market share). These businesses are in an attractive industry but hold a small market share percentage.
- *Dogs* (low growth, low market share). Businesses in this category do not produce or consume much cash. They have a low market share in a low-growth industry.

What are the strategic implications of the BCG matrix? 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 is related to the question marks. After close and careful analysis, some will be sold off and others turned into stars. The dogs should be sold off or liquidated as they have low market share in markets with low growth potential.

A corporate portfolio matrix, such as the BCG matrix, can be a useful strategic management tool. It provides a framework for understanding diverse businesses and helps managers establish priorities for making resource allocation decisions.

Business-Level Strategy

Now we move to the business level. A business-level strategy seeks to determine how an organization should compete in each of its businesses. For a small organization in only one line of business or the large organization that has not diversified into different products or markets, the business-level strategy typically overlaps with the organization's corporate strategy. For organizations in multiple businesses, however, each division will have its own strategy that defines the products or services it will offer, the customers it wants to reach, and the like. For example, the French company LVMH-Moët Hennessy Louis Vuitton has different business-level strategies for its businesses including Christian Dior couture, Louis Vuitton leather goods, Guerlain perfume, Fred Joailler jewels, Hennessy champagne and cognac, and other luxury products. Each division has developed its own unique approach for competing. When an organization is in several different businesses, these single businesses that are independent and that formulate their own strategies are often called strategic business units.

The Role of Competitive Advantage

Developing an effective business-level competitive strategy requires an understanding of competitive advantage, a key concept in strategic management.[16] Competitive advantage is what sets an organization apart, that is, its distinct edge. That distinct edge comes from the organization's core competencies, which, as we know from earlier in the chapter, might be in the form of organizational capabilities—the organization does something that others cannot do or does it better than others can do it. For example, Dell has developed a competitive advantage from its ability to create a direct-selling channel that's highly responsive to customers. And Southwest Airlines has a competitive advantage because of its skills at giving passengers what they want—quick, convenient, and fun service. Or those core competencies that lead to competitive advantage also can come from organizational assets or resources—the organization has something that its competitors do not have. For instance, Wal-Mart's state-of-the-art information system allows it to monitor and control inventories and supplier relations more efficiently than its competitors, which Wal-Mart has turned into a price advantage. And Harley-Davidson, Nike, and Coca-Cola all have well-known global trademarks that they use to get premium prices for their products.

If implemented properly, quality can be a way for an organization to create a sustainable competitive advantage.[17] That's why many organizations apply quality management concepts to their operations in an attempt to set themselves apart from competitors.

As we first discussed in Chapter 2, quality management focuses on quality and continuous improvement. To the degree that an organization can satisfy a customer's need for quality, it can differentiate itself from competitors and attract a loyal customer base. Moreover, constant improvement in the quality and reliability of an organization's products or services may result in a competitive advantage that can't be taken away.[18] Product innovations offer little opportunity for sustained competitive advantage, particularly in today's dynamic environment, because they are usually copied by competitors as soon as they hit the market. But incremental improvement—an essential element of quality management—is something that might be developed into a competitive advantage. Let's look at how two very different companies use quality management to gain competitive advantage.

At Granite Rock Company of Watsonville, California, the quality management program is an important strategic tool. What types of strategic quality innovations does the company use? It found through numerous customer surveys that on-time delivery was its customers' highest priority. Granite Rock set about establishing standards for achieving on-time performance. It studied Domino's Pizza outlets, which guarantee fast, accurate delivery. From that study, Granite Rock instituted a program in which customers simply drive up in their trucks, insert a card, and tell the machine how much of which material is needed—a process similar to using a bank ATM. The truck is loaded automatically, and a bill is sent to the customer later. The company's Granite Xpress is open 24 hours a day, seven days a week to meet customer needs.

LM Ericsson, a Swedish company, is a world leader in designing and supplying mobile telephone networks for communications companies in Europe and around the world.[19] Its products are known for their high quality and innovativeness, a fact of which Ericsson is proud. In fact, the company is poised to exploit the next major trend in communications, the mobile Internet, as Ericsson is the sole supplier of these networks for several different commercial operators around the globe.

We can find numerous other examples of organizations worldwide that are using quality management as a competitive weapon. From the U.S.-based Motorola Corporation to South Korea's Daewoo Corporation, organizations are recognizing the value of quality management as a competitive advantage.

Given the fact that every organization has resources and capabilities, what makes some organizations more successful than others? Why do some professional baseball teams consistently win championships or draw large crowds? Why do some organizations have consistent and continuous growth in revenues and profits? Why do some colleges, universities, or departments experience continually increasing enrollments? Why do some companies consistently appear at the top of lists ranking the "best," or the "most admired," or the "most profitable"? Although every organization has resources and work systems to do whatever it's in business to do, not every one is able to effectively exploit its resources or capabilities and to develop the core competencies that can provide it with a competitive advantage. And it's not enough for an organization simply to create a competitive advantage; it must be able to sustain it. That is, a sustainable competitive advantage enables the organization to keep its edge despite competitors' actions or evolutionary changes in the industry.

Competitive Strategies

Many important ideas in strategic management have come from the work of Michael Porter.[20] His competitive strategies framework identifies three generic strategies from which managers can choose. Success depends on selecting the right strategy—one that fits the competitive strengths (resources and capabilities) of the organization and the industry it's in. Porter's major contribution has been to carefully explain how managers can create and sustain a competitive advantage that will give a company above-average profitability. An important element in doing this is an industry analysis.

Porter proposes that some industries are inherently more profitable (and, therefore, more attractive to enter and remain in) than others. For example, the pharmaceutical industry is one with historically high profit margins, and the airline industry has notoriously low ones. But a company can still make a lot of money in a "dull" industry and lose money in a "glamorous" industry. The key is to exploit a competitive advantage.

In any industry, five competitive forces dictate the rules of competition. Together, these five forces (see Exhibit 8.7) determine industry attractiveness and profitability. Managers assess an industry's attractiveness using the following five factors.

Exhibit 8.7 **Forces in the Industry Analysis**

Source: Based on M.E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: The Free Press, 1980).

1. *Threat of new entrants.* Factors such as economies of scale, brand loyalty, and capital requirements determine how easy or hard it is for new competitors to enter an industry.

2. *Threat of substitutes*. Factors such as switching costs and buyer loyalty determine the degree to which customers are likely to buy a substitute product.

3. *Bargaining power of buyers.* Factors such as number of customers in the market, customer information, and the availability of substitutes determine the amount of influence that buyers have in an industry.

4. *Bargaining power of suppliers.* Factors such as the degree of supplier concentration and availability of substitute inputs determine the amount of power that suppliers have over firms in the industry.

5. *Existing rivalry.* Factors such as industry growth rate, increasing or falling de-mand, and product differences determine how intense the competitive rivalry will be among existing firms in the industry.

Once managers have assessed the five forces and determined what threats and opportunities exist, they're ready to select an appropriate competitive strategy. According to Porter, no firm can be successful by trying to be all things to all people. He proposes that managers select a strategy that will give the organization a competitive advantage. Porter goes on to say that a competitive advantage comes from either having lower costs than all other industry competitors or by being significantly different from competitors. On that basis, managers can choose one of three strategies: cost leadership, differentiation, or focus. Which one managers select depends on the organization's strengths and core competencies and its competitors' weaknesses. (See Exhibit 8.8.)

Generic Strategy	Commonly Required Skills and Resources	Common Organizational Requirements
Overall cost leadership	Sustained capital investment and access to capital Process engineering skills Intense supervision of labor Products designed for ease in manufacture Low-cost distribution system	Tight cost control Frequent, detailed control reports Structured organization and responsibilities Incentives based on meeting strict quantitative targets
Differentiation	Strong marketing abilities Product engineering Creative flair Strong capability in basic research Corporate reputation for quality or technological leadership Long tradition in the industry or unique combination of skills drawn from other businesses Strong cooperation from channels	Strong coordination among functions in R&D, product development, and marketing Subjective measurement and incentives instead of quantitative measures Amenities to attract highly skilled labor, scientists, or creative people
Focus	Combination of the foregoing policies directed at the particular strategic target	Combination of the foregoing policies directed at the particular strategic target

Exhibit 8.8 **Requirements for Successfully Pursuing Porter's Competitive Strategies**

Source: Reprinted from M.E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: Free Press, 1980), pp. 40-41.

When an organization sets out to be the lowest-cost producer in its industry, it's following a cost leadership strategy. A low-cost leader aggressively searches out efficiencies in production, marketing, and other areas of operation. Overhead is kept to a minimum, and the firm does everything it can to cut costs. You won't find expensive art or interior decor at offices of low-cost leaders. For example, at Wal-Mart's headquarters in Bentonville, Arkansas, office furnishings are sparse and drab but functional. Although low-cost leaders don't place a lot of emphasis on "frills," the product or service being sold must be perceived as comparable in quality to that offered by rivals or at least be acceptable to buyers. Examples of companies that have used the low-cost leader strategy include Wal-Mart, Hyundai, and Southwest Airlines.

The company that seeks to offer unique products that are widely valued by customers is following a differentiation strategy. Sources of differentiation might be exceptionally high quality, extraordinary service, innovative design, technological capability, or an unusually positive brand image. The key to this competitive strategy is that whatever product or service attribute is chosen for differentiating must set the firm apart from its competitors and be significant enough to justify a price premium that exceeds the cost of differentiating.

Practically any successful consumer product or service can be identified as an example of the differentiation strategy: Nordstrom's (customer service); Sony (reputation for quality and innovative design); Coach handbags (design and brand image); and Kimberly-Clark's Huggies

Pull-Ups (product design).

The first two of Porter's competitive strategies seek a competitive advantage in the broad marketplace. However, the focus strategy aims at a cost advantage (cost focus) or a differentiation advantage (differentiation focus) in a narrow segment. That is, managers select a market segment or group of segments in an industry and don't attempt to serve the broad market. The goal of a focus strategy is to exploit a narrow segment of a market. These segments can be based on product variety, type of end buyer, distribution channel, or geographical location of buyers. For example, at Cia. Chilena de Fosforos, a large Chilean wood products manufacturer, Vice Chairman Gustavo Romero devised a focus strategy to sell chopsticks in Japan. Competitors and even some other company managers thought he was crazy. However, by focusing on this narrow segment, Romero's strategy managed to create more demand for his company's chopsticks than it had mature trees with which to make the products. Whether a focus strategy is feasible depends on the size of the segment and whether the organization can support the additional cost of focusing. Research suggests that the focus strategy may be the most effective choice for small businesses because they typically do not have the economies of scale or internal resources to successfully pursue one of the other two strategies.[21]

What happens if an organization is unable to develop a cost or differentiation advantage? Porter uses the term stuck in the middle to describe those organizations, which find it very difficult to achieve long-term success. Porter goes on to note that successful organizations frequently get into trouble by reaching beyond their competitive advantage and ending up stuck in the middle.

However, studies have shown that a dual emphasis on low costs and differentiation *can* result in high performance.[22] To successfully pursue both competitive advantages, though, an organization must be strongly committed to quality products or services, and consumers of those products or services must value quality. By providing high-quality products or services, an organization differentiates itself from its rivals. Consumers who value high quality will purchase more of the organization's products, and the increased demand will lead to economies of scale and lower per unit costs. For example, companies such as Anheuser-Busch, Federal Express, Intel, and Coca-Cola differentiate their products while at the same time maintain low-cost operations.

Functional-Level Strategy

A functional-level strategy seeks to determine how to support the business-level strategy. For organizations that have traditional functional departments such as manufacturing, marketing, human resources, research and development, and finance, these strategies need to support the business-level strategy. For example, when R. R. Donnelley & Sons Company, a Chicago-based printer, made a business-level strategy decision to invest significant dollars in high-tech digital printing methods, its marketing department had to develop new sales plans and promotional pieces, the production department had to incorporate the digital equipment in the printing plants, and the human resources department had to update its employee selection and training programs. We don't cover specific functional strategies in this book as they are the content of other business courses you take.

No matter what corporate strategy, competitive advantage or competitive strategy, or functional strategies an organization chooses to pursue, keep in mind that all are part of the strategic management process that plays a crucial role in organizational success. Without the strategic management process to guide and direct their strategic planning decisions and actions, managers would have little chance of designing effective and efficient strategies.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> Chapter Wrap-Up

Donald Weeks
Vice President, Finance & Operations
Zerus Hardware, Springfield, Missouri

[Not working? Get Quicktime](#)

The SWOT analysis is a useful tool that allows you to look at the big picture—a quick list of what you do well and what you don't. When I put together a SWOT analysis, the first place I look when developing a strategy is the weaknesses. If you can discover what makes you weak, then you can develop a plan to turn it into a strength or at least to neutralize it as a weakness.

From the information in a SWOT analysis, Ackerman should first utilize the strong nurturing support of the NBA to do more cross-

Ted Schaefer
Partner
PriceWaterhouseCoopers, Denver, Colorado

[Not working? Get Quicktime](#)

Ackerman has a great opportunity to drive the WNBA to a much higher level. A SWOT analysis will help her assess the organization and develop strategies that are sorely needed to survive.

The key to moving this organization forward is having top talent to draw in the fans. The players are the product and marquee names will draw in women *and* men. Although upgrading the talent will cost money, it is a necessity to drive

promotions for the WNBA. Players and management of the NBA team should assist and promote their women counterparts. Second, she should raise salaries in order to raise the level of play and retain players. This is very important for the long-term success of the league. The funding for these salary increases would come from the NBA in the short term. In the long term, the expanded fan base and greater advertising revenues could offset the cost.	revenue. The United States has top talent and the WNBA needs to have a goal of retaining all top U.S. talent. Although financing will be needed, I believe the league needs to be aggressive or it risks going out of business like the other U.S. women's basketball league. High quality needs to be the core strategy. Once the decision is made to obtain top talent, Ackerman needs to leverage that talent. The NBA is a quality organization and the fans expect a certain level of play. The WNBA needs to meet the quality standards of the NBA if it expects to move ahead.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log On: Internet-Based Exercise
- Working Together: Team-Based Exercise
- Case Application

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter Outline

Go to Student View
Table of Contents
Chapter Contents
Search
Rate the Difficulty
In the News
Internet Exercises
Robbins OnLine Learning System (R.O.L.L.S.)
Faculty Resources
Misc. Resources

Chapter 9: Planning Tools and Techniques

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Recruitment In The Big Five (05/23/02)

The Case for Caution (05/22/02)

Planning to Be Dry (05/09/02)

Contingency Planning (12/03/01)

Contingency Planning (12/03/01)

Soft Landing or Hard? Firm Tests Strategy on 3 Views of Future (07/31/00)

Mission Impossible Inc.-Corporate-Spying Firms Thrive (07/10/00)

Made-to-order - First Computers, then Fast Food, Now Cars? (05/08/00)

Being Boeing (01/04/00)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Group Activities in Colloquia (06/06/02)

Organizational Planning and the Development and Use of Gantt Charts (12/21/01)

Organizational Planning and the Development and Use of Gantt Charts (12/21/01)

Exploring the Balanced Scorecard (09/17/01)

Exploring the Balanced Scorecard (09/17/01)

Streamlining the Internet for Executive Work (08/03/99)

Strategic Planning Tools & Decision-Making (02/05/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap09.doc

Lecture Presentation - chap09.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

Modules - modules.doc

Preface - preface.doc

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Add to...	Just for Students
	Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> What's Ahead

A Manager's Dilemma

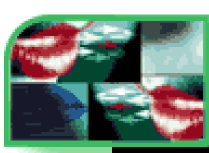
"The best-managed company in China." What else needs to be said about a manager who earns this distinction for his company? Lots! Wang Guoduan, founder of Kelon Electrical Holdings Company has proven that you don't have to be a dot-com to take on the world.[1]

Guoduan's business is China's largest and most successful refrigerator maker. The company sold almost $677 million of refrigerators, air conditioners, and other appliances in 2000 and captured nearly a quarter of the domestic Chinese market. Kelon also sells its minibar-style refrigerators at Wal-Mart in the United States and is pushing into other global locations including Europe and Southeast Asia. The company has repeatedly won awards as the best-run and most investor-friendly company in China, beating out companies such as China Telecom and computer manufacturer Giant.

Guoduan himself has an interesting background. In the early 1980s, he was managing a dilapidated, state-owned rice cooker factory in Rongqi, located in the Guangdong province. With demand for its rice cookers stagnant, Guoduan and some friends looked for a replacement product to manufacture. When they saw their first modern refrigerator, they immediately recognized the opportunity. This was at a time when the Chinese government was becoming less restrictive, and Guoduan believed that new governmental policies eventually would lead to increased consumer incomes. And with increased incomes, consumers would be looking for ways to make their everyday lives easier and more convenient. Well-designed, modern refrigerators would seem to be a highly desired consumer product. Having pinpointed the product, the Kelon team took apart a Japanese-made refrigerator to find out what made it work. Then after going through all the governmental channels of approval, the company started manufacturing refrigerators. By 1991, Kelon had become the country's number one refrigerator maker.

Now, however, Kelon's future is uncertain. A saturated market, sluggish economy, and increased competition are some of the challenges facing Guoduan. Put yourself in his position. What planning tools might prove useful to Guoduan?

What Would You Do?



click here to explore now

active poll <

Before you begin reading this chapter, try a short warm-up activity.

click here to explore now

objectives

Take a moment to familiarize yourself with the key objectives of this chapter.

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

In this chapter we'll discuss some basic planning tools and techniques that managers such as Wang Guoduan or managers at any businesses—large or small—could use. We'll begin by looking at some techniques for assessing the environment. Then we'll review techniques for allocating resources. Finally, we'll discuss some contemporary planning techniques including project management and scenarios.

> Techniques For Assessing The Environment

In our description of the strategic management process in Chapter 8, we discussed the importance of assessing the organization's environment. In this section, we review three techniques that have been developed to help managers with this task: environmental scanning, forecasting, and benchmarking.

Environmental Scanning

How can managers become aware of potentially important environmental changes such as a new law in eastern Germany permitting shopping for "tourist items" on Sunday? Toy retailer Toys R Us deciding to partner with Amazon.com in response to other competitors' strategic alliances with major Internet portals? The trend toward early retirement in the United States, France, Germany, and Japan? Managers in both small and large organizations use environmental scanning, which is the screening of large amounts of information to anticipate and interpret changes in the environment. Extensive environmental scanning is likely to reveal issues and concerns that could affect an organization's current or planned activities. Research has shown that companies with advanced environmental scanning systems increased their profits and revenue growth.[2] Organizations that don't keep on top of environmental changes are likely to face the opposite situation. For instance, Tupperware, the company that created airtight, easy-to-use, plastic food storage containers, enjoyed unprecedented success during the 1960s and 1970s selling its products at home-hostessed parties where housewives played games, socialized, and saw product demonstrations. However, as U.S. society changed—more women working full-time outside the home, an increasing divorce rate, and young adults waiting longer to marry—the popularity of Tupperware parties began to decline because no one had time to go to them. The company's North American market share fell from 60 percent to 40 percent while Rubbermaid, a competitor that marketed its plastic food storage containers in retail outlets, increased its market share from 5 percent to 40 percent. By the early 1990s, most American women had no desire to go to a Tupperware party or knew how to find Tupperware products. Yet, Tupperware's president, obviously clueless about the changed environment, predicted that before the end of the 1990s, the party concept would be popular once again.[3] This example shows how a once successful company can suffer by failing to recognize how the environment has changed.

One of the fastest-growing areas of environmental scanning is competitor intelligence.[4] It's 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? Let's look at an example of how one organization used competitor intelligence in its planning. Dun & Bradstreet (D&B), a leading provider of business credit, marketing, and purchasing information to companies that need this information, has an active business intelligence division. The manager of this division received a call from an assistant vice president for sales in one of the company's geographic territories. This person had been on a sales call with a major customer and the customer happened to mention in passing that another company had visited and made a major presentation about its services. What was interesting was that, although D&B has plenty of competitors, this particu-lar company wasn't one of them. The business intelligence division man-ager jumped into action and gathered together a team that sifted through dozens of sources (research services, Internet, personal contacts, and other external sources) and quickly became convinced that there was something to this—that this company was "aiming its guns right at us." Managers at D&B jumped into action to develop plans to counteract this competitive attack.[5]

Competitor intelligence experts suggest that 80 percent of what managers need to know about competitors can be found out from their own employees, suppliers, and customers.[6] Competitor intelligence doesn't necessarily have to involve organizational spying. Advertisements, promotional materials, press releases, reports filed with governmental agencies, annual reports, want ads, newspaper reports, and industry studies are examples of readily accessible sources of information. Attending trade shows and debriefing the salesforce can be other good sources of competitor information. Many firms even regularly buy competitors' products and have their own engineers study them (through a process called *reverse engineering*) to learn about new technical innovations. In addition, the Internet has opened up vast sources of competitor intelligence as many corporate Web pages include new product information and other press releases.

In the hotly contested overnight shipping market, competitor intelligence has sometimes given the advantage to FedEx, and sometimes to UPS. FedEx was the first company to let customers track their packages via a computerized private information network. That left UPS flat-footed for a time, but when customers balked at having to invest in FedEx's proprietary software, UPS came up with a way to send delivery notices directly to its customers' accounting systems.

The questions and concerns that often arise about competitor intelligence pertain to the ways in which competitor information is gathered. Competitor intelligence becomes illegal corporate spying when it involves the theft of proprietary materials or trade secrets by any means. Often there's a fine line between what's considered *legal and ethical* and what's considered *legal but unethical*. And, although the top manager at one competitive intelligence firm contends that 99.9 percent of intelligence gathering is legitimate, there's no question that some people or companies will go to any lengths to get information about competitors.[7]

One type of environmental scanning that is particularly important is global scanning. The value of global scanning to managers, of course, is largely dependent on the extent of the organization's global activities. For a company that has significant global interests, global scanning can be quite valuable. 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.[8] Some organizations, such as American Can Company and Mitsubishi Trading Company, have elaborate information networks and computerized systems to monitor global changes.[9]

The sources that managers use for scanning the domestic environment are too limited for global scanning. Managers need to globalize their perspectives and information sources. For instance, they can subscribe to information clipping services that review newspapers and business periodicals throughout the world and provide summaries of desired information. Also, there are numerous electronic services that provide topic searches and even provide automatic and continual updates in global areas of special interest to managers.

Forecasting

The second technique managers can use to assess the environment is forecasting. Forecasting is an important part of organizational planning and managers need forecasts that will allow them to predict future events effectively and in a timely manner. Environmental scanning creates the foundation for forecasts, which are predictions of outcomes. Virtually any component in the organization's general and specific environments can be forecasted. Let's look at how managers forecast and how effective forecasts are.

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 9.1 describes some popular 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 (for example, 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 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 DVD players on the sale of VHS players
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
Salesforce 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 purchases	Surveying major car dealers by a car manufacturer to determine types and quantities of products desired

Exhibit 9.1 **Forecasting Techniques**

Today, many organizations collaborate on forecasts by using Internet-based software known as CFAR, which stands for collaborative forecasting and replenishment.[10] CFAR offers a standardized way for retailers and manufacturers to use the Internet to exchange data. Each organization relies on its own data about past sales trends, promotion plans, and other factors 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 use the Internet to exchange more data and written comments until they arrive at a more accurate forecast. This mutual collaborative forecasting helps both organizations do a better job of planning.

click here to explore now
video example
Take a closer look at the concepts and issues you've been reading about.

Forecasting Effectiveness

The goal of forecasting is to provide managers with information that will facilitate decision making. Despite forecasting's importance to planning, managers have had mixed success in forecasting trends and events.[11] 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. Also, forecasting is relatively ineffective in predicting nonseasonal events such as recessions, unusual occurrences, discontinued operations, and the actions or reactions of competitors.

Although forecasting has a mixed record, there are ways to improve its effectiveness.[12] First, use simple forecasting methods. They tend to do as well as or often better than complex methods that tend to mistakenly confuse random data for meaningful information. For instance, at St. Louis–based Emerson Electric, CEO Chuck Knight found that forecasts developed as part of the company's planning process were indicating that the competition wasn't just domestic anymore but global. He didn't use any complex mathematical techniques to come to this conclusion but instead relied on the information already collected as part of his company's planning process. Next, compare every forecast with "no change." A no-change forecast is accurate approximately half the time. Third, don't rely on a single forecasting method. Make forecasts with several models and average them, especially when making long-range forecasts. Fourth, don't assume that 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. Fifth, shorten the length of forecasts to improve their accuracy because accuracy decreases as the time period you're trying to predict increases. And, finally, remember that forecasting *is* a managerial skill and as such can be practiced and improved. The availability of easy-to-use 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.

click here to explore now
video example
How is environmental scanning related to forecasting?

Benchmarking

Suppose that you are a talented pianist or track sprinter. To make yourself better, you want to learn from the best so you watch outstanding musicians or athletes for motions and techniques they use as they perform. That's what is involved in the final technique for assessing the environment we're going to discuss—benchmarking. This is the search for the best practices among competitors or noncompetitors that lead to their superior performance.[13] The basic idea behind benchmarking is that managers can improve quality by analyzing and then copying the methods of the leaders in various fields. Even small companies have found that benchmarking can bring big benefits. For instance, Manco, Inc., a small producer of duct tape based in Cleveland, benchmarks itself against some big names—Wal-Mart, Rubbermaid, and PepsiCo. Why? To help it compete better against rival 3M Corporation.[14]

The history behind benchmarking is quite interesting. In the 1970s, Japanese firms were aggressively copying the successes of others and applying what they learned in visits to companies around the world to improve their own products and processes. Xerox Corporation, a U.S. company, couldn't figure out how Japanese copier manufacturers were able to sell midsized copiers in the United States for considerably less than Xerox's costs. Xerox's director of manufacturing traveled with a team to Japan to make a detailed study of their competitors' costs and processes. What the team found was shocking. Their Japanese rivals were light-years ahead of Xerox in efficiency. So Xerox began benchmarking those efficiencies and turning around its performance. Today, companies such as AT&T, DuPont, Ford, and Kodak use benchmarking as a standard tool in their quest for performance improvement. In fact, some companies have chosen some pretty unusual benchmarking partners! Southwest Airlines, for example, studied Indy 500 pit crews, who can change a race tire in under 15 seconds, to see how they could make their gate turnaround even faster. IBM studied Las Vegas casinos looking for ways to discourage employee theft. And Giordano Holdings Ltd., a Hong Kong–based manufacturer and retailer of mass-market casual wear, borrowed its "good quality, good value" concept from Marks & Spencer, used The Limited to benchmark its point-of-sales computerized information system, and modeled its simplified product offerings on McDonald's menu approach.

What does the benchmarking process involve? As shown in Exhibit 9.2, it typically follows four steps:

Exhibit 9.2 **Steps in Benchmarking**

Source: Based on Y.K. Shetty, "Aiming High: Competitive Benchmarking for Superior Performance." *Long Range Planning*, February 1993, p. 42.

1. A benchmarking planning team is formed. The team's initial task is to identify what is to be benchmarked, identify comparative organizations, and determine data collection methods.

2. The team collects data internally on its own work methods and externally from other

organizations.

3. The data are analyzed to identify performance gaps and the cause of differences.
4. An action plan that will result in meeting or exceeding the standards of others is prepared and implemented.

How does a manager or benchmarking team get data on other organizations?[15] First, you need to decide against whom you're going to benchmark. Use your network of contacts among customers, suppliers, and employees for organizations they think are best at the process you're trying to improve. Trade associations and industry experts often know what organizations have revolutionary practices. And watch for organizations that may have won local, regional, or national quality awards as potential benchmarking partners. Also, use the Internet. Rivals' Web sites can be rich sources of information. Many company Web sites describe new products or services being developed and often have financial information that can be analyzed. Experts also suggest that managers not overlook the possibility of developing partnerships with other organizations, even rivals, to share benchmarking data. Obviously, this will work only if you have something that others want. But if, for example, you're looking to improve your customer satisfaction process and you already have a great order system in place, you may be able to swap data with another organization that has complementary needs.

How can managers ensure that their benchmarking efforts are effective? Exhibit 9.3 lists some suggestions for improving the process.

1. Link benchmarking efforts to strategic objectives.
2. Have the right-sized team—between six and eight people is most effective.
3. Involve those individuals who will be directly affected by benchmarking efforts.
4. Focus on specific, targeted issues rather than broad, general ones.
5. Set realistic timetables.
6. Choose benchmarking targets carefully.
7. Observe proper protocol when gathering benchmarking information by dealing with the appropriate individuals.
8. Don't collect excessive, unnecessary data.
9. Look at the processes behind the numbers, not just at the numbers themselves.
10. Identify benchmarking targets and then be sure to take action.

Exhibit 9.3 **Suggestions for Improving Benchmarking Efforts**

Source: Based on J.H. Sheridan, "Where Benchmarkers Go Wrong," *Industry Week*, March 15, 1993, pp. 28–34.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> Techniques For Allocating Resources

As we know from Chapter 7, once an organization's goals (or ends) have been established, an important aspect of planning is the focus on the "means"—that is, determining how those goals are going to be accomplished. Before managers can organize and lead in order to implement the goals, they must have resources. Resources are the assets of the organization and include financial (debt, equity, retained earnings, and other financial holdings); physical (equipment, buildings, raw materials, or other tangible assets); human (experiences, skills, knowledge, and competencies of people); intangible (brand names, patents, reputation, trademarks, copyrights, registered designs, and databases); and structural/cultural (history, culture, work systems, working relationships, level of trust, policies, and structure). How are these resources allocated effectively and efficiently so that organizational goals are met? That's what we want to look at in this section. Although managers can choose from a number of techniques for allocating resources (many of which are covered in courses on accounting, finance, human resources, and operations management), we'll 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 about them at a very early age when we discovered 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 9.4 describes the different types of budgets that managers might use.

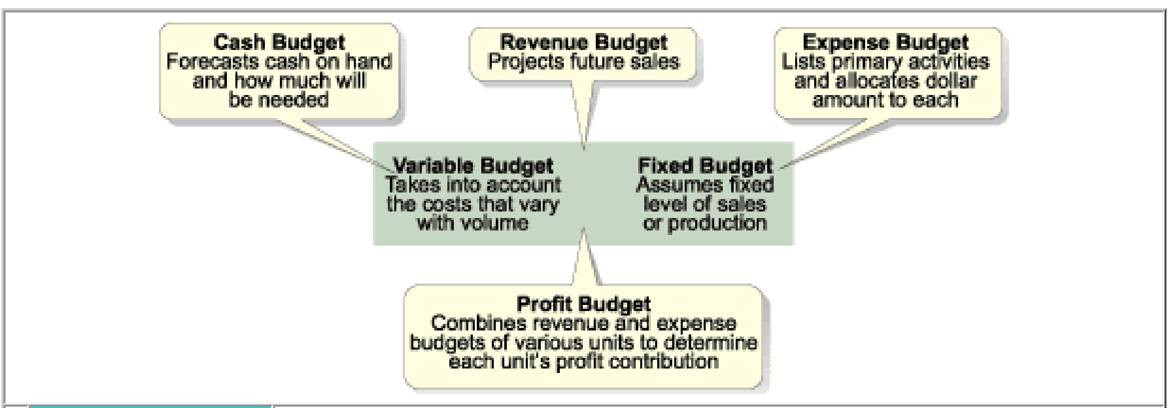


Exhibit 9.4 **Types of Budgets**

Source: Based on R.S. Russell and B.W. Taylor III, *Production and Operations Management* (Upper Saddle River, NJ: Prentice Hall, 1995), p. 287.

Why should a manager ever want to use a variable budget? Doesn't that contradict the concept of "planned" expenditures?

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, pesos, euros, yen, and the like are used as common measuring units. It seems only logical, then, that monetary budgets would be a useful tool for allocating resources and guiding work in such diverse departments as manufacturing and marketing research or at various levels in an organization. Budgets are one planning technique that most managers, regardless of organizational level, help formulate. It's an important managerial activity because it forces financial discipline and structure throughout the organization. However, many managers don't like preparing budgets because they feel the process is time consuming, inflexible, inefficient, and ineffective.[16] How can the budgeting process be improved? Exhibit 9.5 provides some suggestions. Organizations such as Texas Instruments, Ikea, Volvo, and Svenska Handelsbanken (the most consistently profitable bank in Europe) incorporated several of these suggestions as they revamped their budgeting processes. (See the Budgeting Skills Module on pp. 585–86 for an explanation of the mechanics of the budgeting process.)

- Be flexible.
- Goals should drive budgets—budgets should not determine goals.
- Coordinate budgeting throughout the organization.
- Use budgeting/planning software when appropriate.
- Remember that budgets are tools.
- Remember that profits result from smart management, not because you budgeted for them.

Exhibit 9.5 **Suggestions for Improving Budgeting**

Scheduling

If you observed a group of supervisors or department managers for a few days, you would see them regularly 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 doing what we call 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 the scientific management expert Frederick Taylor. The idea behind a Gantt chart is simple. It's essentially a bar graph with time on the horizontal axis and the activities to be scheduled on the vertical axis. The bars show output, both planned and actual, over a period of time. The Gantt chart visually shows when tasks are supposed to be done and compares that with the actual progress on each. It's a simple but important device that lets managers detail easily what has yet to be done to complete a job or project and to assess whether an activity is ahead of, behind, or on schedule.

Exhibit 9.6 depicts a simplified Gantt chart for book production developed by a manager in a publishing company. Time is expressed in months across the top of the chart. The major work activities are listed down the left side. Planning involves deciding what activities need to be done to get the book finished, the order in which those activities need to be completed, and the time that should be allocated to each activity. Where a box sits within a time frame reflects its planned sequence. The shading represents actual progress. The chart also serves as a control tool because the manager can see deviations from the plan. In this example, both the design of the cover and the printing of galley proofs are running behind schedule. Cover design is about three weeks behind, and galley proof printing is about two weeks behind schedule. Given this information, the manager might need to take some action to either make up for the lost weeks or to ensure that no further delays will occur. At this point, the manager can expect that the book will be published at least two weeks later than planned if no action is taken.

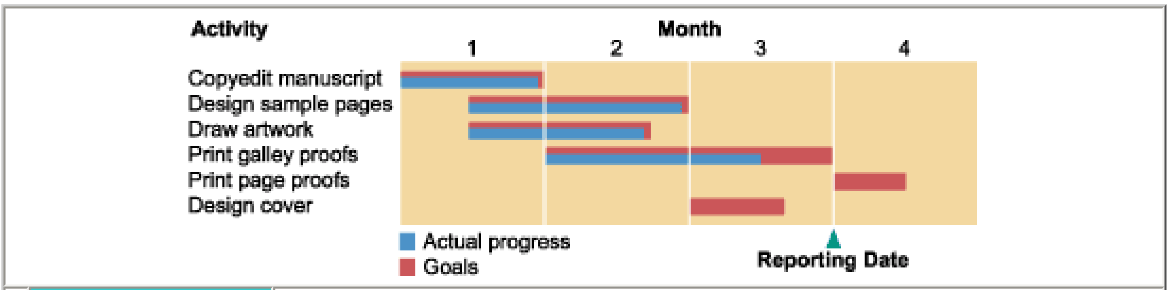


Exhibit 9.6 **A Gantt Chart**

Load Charts

A load chart is a modified Gantt chart. Instead of listing activities on the vertical axis, load charts list either entire departments or specific resources. This arrangement allows managers to plan and control capacity utilization. In other words, load charts schedule capacity by work areas.

For example, Exhibit 9.7 shows a load chart for six production editors at the same publishing company. Each editor supervises the production and design of several books. By reviewing a load chart, the executive editor, who supervises the six production editors, can see who is free to take on a new book. If everyone is fully scheduled, the executive editor might decide not to accept any new projects, to accept new projects and delay others, to make the editors work overtime, or to employ more production editors. In Exhibit 9.7, only Antonio and Maurice are completely scheduled for the next six months. The other editors have some unassigned time and they might be able to accept new projects or be available to help other editors who get behind.

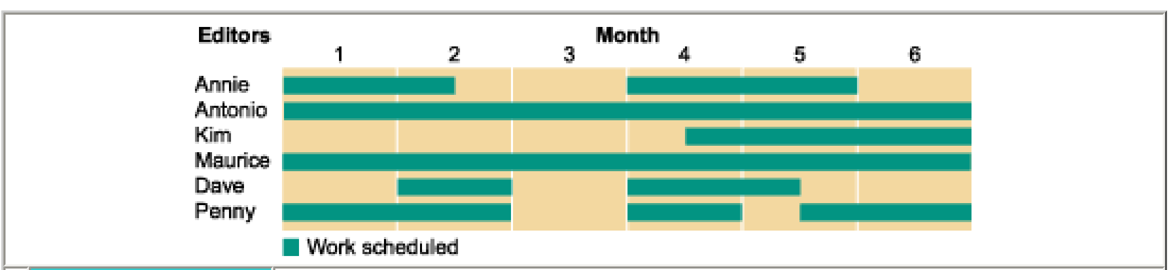


Exhibit 9.7 **A Load Chart**

PERT Network Analysis

Gantt and load charts are useful as long as the activities being 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 people? 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, then, 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 flowchartlike diagram that depicts the sequence of activities needed to complete a project and the time or costs associated with each activity. 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 9.8 explains the steps in this process.

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 9.8 **Steps in Developing a PERT Network**

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 that you're the superintendent at a construction 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 9.9 outlines the major events in the construction project and your estimate of the expected time to complete each. Exhibit 9.10 shows the PERT network based on the data in Exhibit 9.9. 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)

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 9.9 **A PERT Network for Constructing an Office Building**

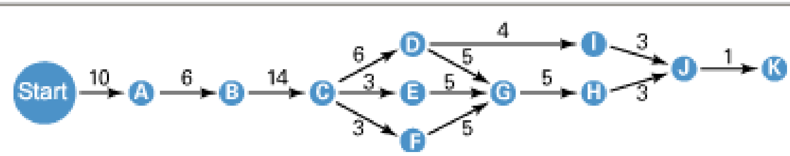


Exhibit 9.10 **A PERT Network for Constructing an Office Building**

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 (in other words, there is no slack time). 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? He or she 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.

Breakeven Analysis

Managers at Glory Foods want to know how many units of their new frozen food products 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.[17]

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 cost 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.

The 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 costs 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 Miguel's Photocopying Service charges $0.10 per photocopy. If fixed costs are $27,000 a year and variable costs are $0.04 per copy, Miguel can compute his breakeven point as follows: $27,000 ÷ ($0.10 – $0.04) = 450,000 copies, or when annual revenues are $45,000 (450,000 copies ¥ $0.10). This same relationship is shown graphically in Exhibit 9.11.

Exhibit 9.11	Breakeven Analysis

As a planning tool, breakeven analysis could help Miguel set his sales goal. For example, he could determine the profit he wants and then calculate what sales level is needed to reach that profit. Breakeven analysis could also tell Miguel 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

Kamie Bousman manages a manufacturing plant that produces two kinds of cinnamon-scented home fragrance products: wax candles and a woodchip-based potpourri sold in bags. Business is good and she can sell all of the products she can produce. This is her problem: Given that the bags of potpourri and the wax candles are produced in the same manufacturing departments, how many of each product should she produce to maximize profits? Kamie can use linear programming to solve her resource allocation problem.

Although linear programming can be used here, it can't be applied to all resource allocation problems because it requires that there be limited resources, that the goal be outcome optimization, that there be alternative ways of combining resources to produce a number of output mixes, and that there be a linear relationship between variables (a change in one variable must be accompanied by an exactly proportional change in the other).[18] For Kamie'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 Kamie'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, there are computer software programs designed specifically to help develop optimizing solutions.

First, we need to establish some facts about Kamie's business. Kamie 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 Kamie to be able to express her *objective function* as maximum profit = $10*P* + $18*S*, 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, Kamie knows how much time each fragrance product must spend in each department and the monthly production capacity (1,200 hours in manufacturing and 900 hours in assembly) for the two departments. (See Exhibit 9.12.) The production capacity numbers act as *constraints* on her overall capacity. Now Kamie can establish her constraint equations:

$$2P + 4S \leq 1{,}200$$

$$2P + 2S \leq 900$$

Number of Hours Required (per unit)			
Department	**Potpourri Bags**	**Scented Candles**	**Monthly Production Capacity (in hours)**
Manufacturing	2	4	1,200
Assembly	2	2	900
Profit per unit	$10	$18	

Exhibit 9.12 **Production Data for Cinnamon-Scented Products**

Of course, Kamie can also state that *P* 0 and *S* 0, because neither fragrance product can be produced in a volume less than zero.

Kamie has graphed her solution in Exhibit 9.13. The shaded area represents the options that don't exceed the capacity of either department. What does 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 Kamie 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 Kamie faces is that of assembly, shown by line DF. If Kamie decides to produce all potpourri bags, the maximum she can assemble is 450 (900 hours production capacity ÷ 2 hours required to assemble). Likewise, if Kamie 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 Kamie'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).

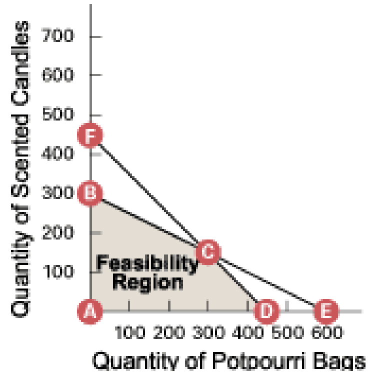


Exhibit 9.13 **Graphical Solution to Linear Programming Problem**

click here to explore now

video example

Where would a manager get the information to actually do linear programming?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 << previous | next >>

> Contemporary Planning Techniques

Today's managers face the challenges of planning in an environment that's both dynamic and complex. Two planning techniques that are appropriate for this type of environment are project management and scenario planning. Both techniques emphasize *flexibility*, something that's important to making planning more effective and efficient in this type of organizational environment.

Project Management

Different types of organizations, ranging from manufacturers such as DaimlerChrysler and Boeing to software design firms such as Purple Moon and Microsoft, do their work using projects. A project is a one-time-only set of activities that has a definite beginning and ending point in time.[19] Projects vary in size and scope—from a NASA space shuttle launch to a sorority's holiday party. Project management is the task of getting a project's activities done on time, within budget, and according to specifications.[20]

More and more organizations are using project management because the approach fits well with the need for flexibility and rapid response to perceived market opportunities. 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 nicely and neatly into the standardized planning procedures that guide an organization's other routine and ongoing work activities. Instead, managers use project management techniques to effectively and efficiently accomplish the project's goals. What does the project management process involve?

Project Management Process

In the typical project, the 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 9.14. 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 there is no history or 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 typically is done using flowchart-type 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.

Exhibit 9.14 **Project Planning Process**

Source: Based on R.S. Russell and B.W. Taylor III, *Production and Operations Management* (Upper Saddle River, NJ: Prentice Hall, 1995), p. 287.

Today, the project management process can take place online as a number of Internet-based project collaboration software packages are available. For instance, one package, OnProject.com, described as an Internet workspace, allows users to share and manage information associated with projects. Even suppliers and customers can be part of the process.[21]

The Role of the Project Manager

The temporary nature of projects makes managing them different from, say, overseeing a production line and preparing a weekly tally of costs on an ongoing basis. The one-shot nature of the work makes a project manager the organizational equivalent of a hired gunman. 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.

Even with the availability of sophisticated computerized and online scheduling programs and other project management tools, the role of project manager is challenging because he or she is managing people who are still linked to their permanent work areas. The only real influence project managers have is their communication skills and their power of persuasion. To make matters worse, 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 his or her particular project.

Scenario Planning

We already know how important it is that today's managers monitor and assess the external environment for trends and changes. As they assess the environment, issues and concerns that could affect their organization's current or planned operations are likely to be revealed. All of these won't be equally important, so it's usually necessary to focus on a limited set that are most important and to develop scenarios based on each.

A scenario is a consistent view of what the future is likely to be. Developing scenarios also can be described as contingency planning; that is, if this is what happens, then these are the actions we need to take. If, for instance, environmental scanning reveals increasing interest by the U.S. Congress for raising the national minimum wage, managers at Shoney's Restaurants could create multiple scenarios to assess the possible consequences of such an action. What would be the implications for its labor costs if the minimum wage were raised to $8.00 an hour? How about

$9.00 an hour? What effect would these changes have on the chain's bottom line? How might competitors respond? Different assumptions lead to different outcomes. The intent of scenario planning is not to try to predict the future but to reduce uncertainty by playing out potential situations under different specified conditions.[22] Shoney's could, for example, develop a set of scenarios ranging from optimistic to pessimistic in terms of the minimum wage issue. It would then be prepared to implement new strategies to get and keep a competitive advantage. An expert in scenario planning said, "Just the process of doing scenarios causes executives to rethink and clarify the essence of the business environment in ways they almost certainly have never done before."[23]

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, an earthquake in Taiwan in 1999 that destroyed a large portion of the country's chip-manufacturing facilities was a wild card for global computer makers. Other random events that surfaced in the last decade would be the rapid spread of AIDS and the sudden popularity of the Internet. And there certainly will be random events that materialize in the twenty-first century. As difficult as it may be for managers to anticipate and deal with these random events, they're not totally vulnerable to the consequences. Exhibit 9.15 lists some suggestions for preparing for unexpected events.

- Identify potential unexpected events.
- Determine if any of these events would have early indicators.
- Set up an information-gathering system to identify early indicators.
- Have appropriate responses (plans) in place if these unexpected events occur.

Exhibit 9.15 **Preparing for Unexpected Events**

Source: S. Caudron, "Frontview Mirror," *Business Finance*, December 1999, pp. 24–30.

Planning tools and techniques can help managers prepare confidently for the future. But they should remember that all of the techniques we've described in this chapter are simply tools. They will never replace the manager's skills and capabilities in using the information gained to develop effective and efficient plans.

go to page: 1 2 3 4 5 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter 9

go to page: 5

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Chapter Wrap-Up

You had a chance to voice your opinion about Wang Guoduan's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Richard F. Unger
President
Unger, Sletten, and Associates, St. Louis, Missouri

Not working? Get Quicktime

Mr. Guoduan has a lot of challenges facing him! However, there must be other new-product opportunities available to get the company back in a growth position.

He should try identifying successful new-product entries in other countries that may apply to the Chinese market and that Kelon could manufacture—maybe something such as the George Foreman grill. Once a list of potential new products is identified, it would be easy to conduct some market research to evaluate consumer demand.

If consumer demand turns out to be attractive, he should look at doing break-even analysis to determine if it will be feasible to produce the new products. If so, he might want to use linear programming to

Cindy Brewer
Corporate Trainer
Sears, Inc., Chicago, Illinois

Not working? Get Quicktime

Mr. Guoduan has proven himself to be an effective manager, and he should be able to adapt to the changing environment. To help him do this, he should do some type of environmental scanning that will pinpoint emerging trends, not only in China but in other global markets also. Part of this planning analysis should be some type of competitor intelligence. Who are these competitors that are coming into the market? What do they offer that Kelon doesn't? What are their strengths and weaknesses? With this information, Guoduan should be able to pinpoint future growth possibilities for his company.

Once he has identified potential product or market opportunities, Guoduan might find financial planning tools such as budgets and

help him determine the mix of products that will allow him to maximize resource allocation.	break-even analysis useful. After all, if the proposed products won't make money, then the decision needs to be reconsidered.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log On: Internet-Based Exercise
- Working Together: Team-Based Exercise
- Case Application
- Mastering Management
- Managing Entrepreneurial Ventures

go to page: 1 2 3 4 5 << previous

Management (activebook), 7/e

Stephen P. Robbins   Mary Coulter

Chapter Outline

Go to Student View
Table of Contents
Chapter Contents
Search
Rate the Difficulty
In the News
Internet Exercises
Robbins OnLine Learning System (R.O.L.L.S.)
Faculty Resources
Misc. Resources

Chapter 10: Organizational Structure and Design

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...

- How to Turn Companies into Learning Organizations: What Executives Can Learn From a Women's Liberal Arts College (04/18/02)
- Structure by Country or Structure by Product? (09/19/01)
- Structure by Country or Structure by Product? (09/19/01)
- Assisting the Chief Executive (08/29/01)
- Google Is Smart, Fast, Honest, And May Be Best Sleuth On The Web (04/05/01)
- Employers and Employees Sing the Blues Regarding Telecommuting (12/13/00)
- Bela Karolyi - A Leader Whose Style Fits (08/30/00)
- When A Company Gets Too Big… (07/26/00)
- ….Until the Ax Fell (03/01/00)
- Global Automakers Adapt Their Structures to Strategy and Culture (01/04/00)
- Virtual Teams: Technology and the Workplace of the Future (12/10/98)
- P&G Will Make Jager CEO Ahead of Schedule (10/27/98)
- Two on Top (06/18/98)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Telecommuting: Many Benefits---A Few Concerns

(01/18/01)

Unorganization (09/29/00)

Exploring Organization Design (12/18/98)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap10.doc

Lecture Presentation - chap10.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

Modules - modules.doc

Preface - preface.doc

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Add to... Just for Students

Chapter Outlines - chapoutlines.doc

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> What's Ahead

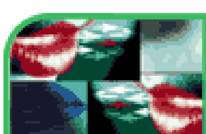
A Manager's Dilemma

Nokia, headquartered in Finland, is the world's leading maker of mobile phones and has a well-known brand. CEO Jorma Ollila isn't content with the company's current success and wants to position Nokia for the future.[1]

The company has evolved dramatically since its founding in 1865 as a wood-pulp mill. Over the years, it moved into a number of diverse industries ranging from paper to chemicals and rubber. But during the 1990s, the company took a radically new direction as it shifted into the burgeoning field of telecommunications. Today, Nokia is a global company whose primary growth areas are in wireless and wired telecommunications. It has more than 56,000 employees worldwide, and one in every three employees works in some form of product research. Its commitment to innovation is reflected in the fact that throughout the 1990s, Nokia again and again introduced better products than any of its competitors. It was also able to get its products to retailers and cellular phone companies in the right quantity and at the right time. How? Ollila says there's something about the way Nokia works that makes it more pragmatic, more focused, and more flexible than other companies. This is how he described it, "It's the way the organization creates a meeting of minds among people. How do you send a very strong signal that this is a meritocracy, and this is a place where you are allowed to have a bit of fun, to think unlike the norm, where you are allowed to make a mistake?"

Ollila has structured Nokia to be very nonhierarchical. Often, it's unclear who's in charge, although employees love the freedom once they get used to it. This kind of hands-off management encourages creativity, entrepreneurship, and personal responsibility. To balance this flexibility, rigorous financial targets keep employees focused on the organization's work. Ollila believes that Nokia could be even better if it became a learning organization. Put yourself in Ollila's position. What could he do to make his company a learning organization?

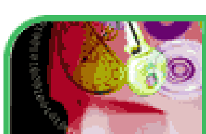
What Would You Do?



click here to explore now

active poll <

Before you begin reading this chapter, try a short warm-up activity.



click here to explore now

objectives <

Take a moment to familiarize yourself with the key objectives of this chapter.

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Although Jorma Ollila's desire to make his organization more of a learning organization might not be right for others, it does illustrate how important it is for managers to design an organizational structure that helps accomplish organizational goals and objectives. In this chapter, we'll present information about designing appropriate organizational structures. We'll look at the various elements of organizational structure and what contingency factors influence the design. We'll look at some traditional and contemporary organizational designs. And, finally, we'll describe a learning organization and what executives like Jorma Ollila can do to turn their organization into one.

> Defining Organizational Structure

No other topic in management has undergone as much change in the past few years as that of organizing and organizational structure. Traditional approaches to organizing work are being questioned and reevaluated as managers search out structural designs that will best support and facilitate employees' doing the organization's work—ones that can achieve efficiency but also have the flexibility that's necessary for success in today's dynamic environment. Recall from Chapter 1 that organizing is defined as the process of creating an organization's structure. That process is important and serves many purposes. (See Exhibit 10.1.) The challenge for managers is to design an organizational structure that allows employees to effectively and efficiently do their work.

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
Establishes relationships among individuals, groups, and departments
Establishes formal lines of authority
Allocates and deploys organizational resources

Exhibit 10.1 **Some Purposes of Organizing**

Just what is an organization's structure? An organizational structure is the formal framework by which job tasks are divided, grouped, and coordinated. When managers develop or change an organization's structure, they are engaged in organizational design, a process that involves decisions about six key elements: work specialization, departmentalization, chain of command, span of control, centralization and decentralization, and formalization.[2]

Work Specialization

Remember our discussion of Adam Smith in Chapter 2, who first identified division of labor in the late eighteenth century and concluded that it contributed to increased employee productivity. Early in the twentieth century, Henry Ford used this concept in an assembly line where every Ford worker was assigned a specific, repetitive task. By breaking jobs into small standardized tasks, which could be performed over and over again, Ford was able to produce cars at the rate of one every 10 seconds, while using relatively low-skilled workers.

Today we use the term work specialization to describe the degree to which tasks in an organization are divided into separate jobs. The essence of work specialization is that an entire job is not done by one individual but instead is broken down into steps, and each step is completed by a different person. Individual employees specialize in doing part of an activity rather than the entire activity.

During the first half of the twentieth century, managers viewed work specialization as an unending source of increased productivity. And for a time it was! Because it wasn't widely used, when work specialization *was* implemented, employee productivity rose. By the 1960s, however, it had become evident that a good thing could be carried too far. The point had been reached in some jobs where human diseconomies from work specialization—boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover—more than offset the economic advantages. In such instances, worker productivity could be increased by enlarging, not narrowing, the scope of job activities. In addition, managers found that employees who were given a variety of work to do, allowed to do the activities necessary to complete a whole job, and put into teams with interchangeable skills often achieved significantly higher output with increased employee satisfaction.

Most managers today see work specialization as an important organizing mechanism but not as a source of ever-increasing productivity. They recognize the economies it provides in certain types of jobs, but they also recognize the problems it creates when it's carried to extremes. McDonald's, for example, uses high work specialization to efficiently make and sell its fast-food products, and most employees in health care organizations are specialized. However, other organizations, such as Saturn Corporation, Hallmark, and Ford Australia, have successfully broadened the scope of jobs and reduced work specialization.

Departmentalization

Does your college have an office of student services? A financial aid department? Once jobs have been divided up through work specialization, they have to be grouped back together so that common tasks can be coordinated. The basis by which jobs are grouped together is called departmentalization. Every organization will have its own specific way of classifying and grouping work activities. Exhibit 10.2 shows the five common forms of departmentalization.

	Exhibit 10.2	The Five Common Forms of Departmentalization

Functional departmentalization groups jobs by functions performed. This approach can be used in all types of organizations, although the functions change to reflect the organization's objectives and work activities. Product departmentalization groups jobs by product line. In this approach, each major product area is placed under the authority of a manager who's a specialist in, and is responsible for, everything having to do with that product line. Geographical departmentalization groups jobs on the basis of territory or geography such as southern, midwestern, or northwestern regions for an organization operating only in the United States; or for a global company, maybe U.S., European, Canadian, and Asian-Pacific regions. Process departmentalization groups jobs on the basis of product or customer flow. In this approach, work activities follow a natural processing flow of products or even of customers. Finally, customer departmentalization groups jobs on the basis of common customers who have common needs or problems that can best be met by having specialists for each.

Large organizations often combine most or all of these forms of departmentalization. For example, a major Japanese electronics firm organizes each of its divisions along functional lines, its manufacturing units around processes, its sales units around seven geographic regions, and its sales regions into four customer groupings.

Two trends are currently popular regarding departmentalization. First, customer departmentalization is increasingly being used as an approach to better monitor customers' needs and to be better able to respond to changes in those needs. For example, L. L. Bean organized around a half-dozen customer groups on the basis of what customers generally purchased. This arrangement allowed the company to better understand its customers and to respond faster to their needs. Second, managers are using cross-functional teams, groups of individuals who are experts in various specialties and who work together.[3] For instance, at Thermos Corporation (known worldwide for its beverage containers and lunch boxes) flexible interdisciplinary teams replaced the old tradition-bound functionally departmentalized structure. One of these teams—the Lifestyle Team—developed a new electric grill that has been extremely popular with consumers. This team of individuals from engineering, marketing, and manufacturing was involved in every aspect of bringing this winning product to market—from defining the target market, to defining the product, to working with manufacturing on a feasible design. We'll discuss the use of cross-functional teams more fully in Chapter 15.

click here to explore now

active poll

What do you think? Voice your opinion and find out what others have to say.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Chain of Command

For many years, the chain-of-command concept was a cornerstone of organizational design. As you'll see, it has far less importance today. But contemporary managers still need to consider its implications when deciding how best to structure their organizations.

The chain of command is the continuous line of authority that extends from upper organizational levels to the lowest levels and clarifies who reports to whom. It helps employees answer questions such as "Who do I go to if I have a problem?" or "To whom am I responsible?"

You can't discuss the chain of command without discussing three other 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] To facilitate decision making and coordination, an organization's managers are part of the chain of command and are granted a certain degree of authority to meet their responsibilities. As managers coordinate and integrate the work of employees, those employees assume an obligation to perform any assigned duties. This obligation or expectation to perform is known as responsibility. Finally, the unity of command principle (one of Fayol's 14 principles of management) helps preserve the concept of a continuous line of authority. It states that a person should report to only one manager. Without unity of command, conflicting demands and priorities from multiple bosses can create problems.

Early management theorists (Fayol, Weber, Taylor, and others) were enamored with the concepts of chain of command, authority, responsibility, and unity of command. However, times change and so do the basic tenets of organizational design. These concepts are considerably less relevant today because of information technology and employee empowerment. Employees throughout the organization can access information that used to be available only to top managers in a matter of a few seconds. Also, using computers, employees communicate with anyone else anywhere in the organization without going through formal channels—that is, the chain of command. Moreover, as employees are empowered to make decisions that previously were reserved for management, as more organizations use self-managed and cross-functional teams, and as new organizational designs with multiple bosses continue to be implemented, the traditional concepts of authority, responsibility, and chain of command are becoming less relevant.

Span of Control

How many employees can a manager efficiently and effectively manage? This question of span of control is important because, to a large degree, it determines the number of levels and managers an organization has. All things being equal, the wider or larger the span, the more efficient the organization. An example can show why.

Assume that we have two organizations, both of which have approximately 4,100 employees. As Exhibit 10.3 shows, if one organization has a uniform span of four and the other a span of eight, the wider span will have two fewer levels and approximately 800 fewer managers. If the average manager made $42,000 a year, the organization with the wider span would save over $33 million a year in management salaries alone! Obviously, wider spans are more efficient in terms of cost. However, at some point, wider spans reduce effectiveness. That is, when the span becomes too large, employee performance suffers because managers no longer have the time to provide the necessary leadership and support.

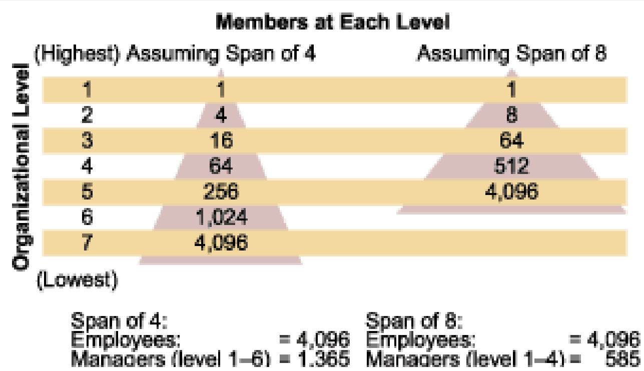


Exhibit 10.3 **Contrasting Spans of Control**

The contemporary view of span of control recognizes that many factors influence the appropriate number of employees that a manager can efficiently *and* effectively manage. These factors encompass the skills and abilities of the manager and the employees and characteristics of the work being done. For instance, the more training and experience employees have, the less direct supervision they'll need. Therefore, managers with well-trained and experienced employees can function quite well with a wider span. Other contingency variables that will determine the appropriate span include similarity of employee tasks, the complexity of those tasks, the physical proximity of subordinates, the degree to which standardized procedures are in place, the sophistication of the organization's information system, the strength of the organization's culture, and the preferred style of the manager.[5]

The trend in recent years has been toward larger spans of control. Wide spans of control are consistent with managers' efforts to reduce costs, speed up decision making, increase flexibility, get closer to customers, and empower employees. However, to ensure that performance doesn't suffer because of these wider spans, organizations are investing heavily in employee training. Managers recognize that they can handle a wider span when employees know their jobs inside and out or can turn to co-workers if they have questions.

Centralization and Decentralization

In some organizations, top managers make all the decisions and lower-level managers and employees simply carry out their directives. At the other extreme are organizations in which decision making is pushed down to the managers who are closest to the action. The former organizations are highly centralized, and the latter are decentralized.

Centralization describes the degree to which decision making is concentrated at a single point in the organization. If top managers make the organization's key decisions with little or no input from below, then the organization is centralized. In contrast, the more that lower-level employees provide input or actually make decisions, the more decentralization there is. Keep in mind that the concept of centralization-decentralization is a relative, not an absolute, one. What we mean is that an organization is never completely centralized or decentralized. Few organizations could function effectively if all decisions were made by only a select group of top managers; nor could they function if all decisions were delegated to employees at the lowest levels.

Consistent with efforts to make organizations more flexible and responsive, there's been a distinct trend toward decentralizing decision making. 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 do top managers. For instance, when Interstate Bakeries Corporation purchased the Hostess and Wonder Bread brands from Ralston Purina Company, it immediately revived the lagging sales of familiar brands such as Twinkies, Ding Dongs, and HoHos—something that Ralston had not been able to do. How did Interstate accomplish what Ralston could not? Ralston was highly centralized and nearly all decisions were made by top managers. In contrast, Interstate pushed decision making down to individual plant and brand managers. They could react to local conditions in making decisions.[6] Another example of this trend toward decentralization can be seen at Honeywell of Australia and New Zealand, which moved from a hierarchical management structure to one that is much flatter and team based. Before the change, nearly all decisions were made at headquarters, but authority was pushed down to individual plant and brand managers. The results have been increased revenues and a more intimate knowledge and understanding of the company's major customers.[7] Likewise, at the Bank of Montreal, all 1,164 branches were organized into 236 "communities"—that is, a group of branches within a limited geographical area. Each community is led by a community area manager, who typically works within a 20-minute drive of the other branches. This area manager can respond faster and more intelligently to problems in his or her community than could some senior executive in Montreal.[8]

What determines whether an organization will move toward more centralization or decentralization? Exhibit 10.4 lists some of the factors that have been identified as influencing the amount of centralization or decentralization an organization has.[9]

More Centralization	More Decentralization
• 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 to have a say in decisions. • Decisions are significant. • Organization is facing a crisis or the risk of company failure. • Company is large. • Effective implementation of company strategies depends on managers retaining say over what happens.	• Environment is complex, uncertain. • Lower-level managers are capable and experienced at making decisions. • Lower-level managers want a voice in decisions. • Decisions are relatively minor. • Corporate culture is open to allowing managers to have 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 10.4 **Factors That Influence the Amount of Centralization and Decentralization**

Formalization

Formalization refers to the degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures. If a job is highly formalized, then the person doing that job has a minimum amount of discretion over what is to be done, when it's to be done, and how he or she could do it. Employees can be expected to handle the same input in exactly the same way, resulting in consistent and uniform output. In organizations with high formalization, there are explicit job descriptions, numerous organizational rules, and clearly defined procedures covering work processes. Where formalization is low, job behaviors are relatively unstructured and employees have a great deal of freedom in how they do their work. Because an individual's discretion on the job is inversely related to the amount of behavior in that job that is preprogrammed by the organization, the greater the standardization, the less input the employee has into how work is done. Standardization not only eliminates the possibility that employees will engage in alternative behaviors, it even removes the need for employees to consider alternatives.

The degree of formalization can vary widely between organizations and even within organizations. For instance, at a newspaper publisher, news reporters often have a great deal of discretion in their jobs. They may pick their news topic, find their own stories, research them the way they want, and write them up, usually within minimal guidelines. On the other hand, the compositors and typesetters who lay out the newspaper pages don't have that type of freedom. They have constraints—both time and space—that standardize how they do their work.

> Organizational Design Decisions

Organizations are not all structured in exactly the same way. A company with 30 employees isn't going to look like one with 30,000 employees. But even organizations of comparable size don't necessarily have similar structures. What works for one organization may not work for another. How do managers decide what organizational design to use? That decision depends upon certain contingency factors. In this section, we'll look at two generic models of organizational design and then at the contingency factors that favor each.

Mechanistic and Organic Organizations

Exhibit 10.5 describes two organizational forms.[10] The mechanistic organization is a rigid and tightly controlled structure. It's characterized by high specialization, rigid departmentalization, narrow spans of control, high formalization, a limited information network (mostly downward communication), and little participation in decision making by lower-level employees.

Mechanistic	Organic
• High Specialization	• Cross-Functional Teams
• Rigid Departmentalization	• Cross-Hierarchical Teams
• Clear Chain of Command	• Free Flow of Information
• Narrow Spans of Control	• Wide Spans of Control
• Centralization	• Decentralization
• High Formalization	• Low Formalization

Exhibit 10.5 **Mechanistic versus Organic Organization**

Mechanistic types of organizational structures tend to be efficiency machines, well oiled by rules, regulations, standardized tasks, and similar controls. This organizational design tries to minimize the impact of differing personalities, judgments, and ambiguity because these human traits are seen as inefficient and inconsistent. Although no pure form of a mechanistic organization exists in reality, almost all large corporations and governmental agencies have at least some of these mechanistic characteristics.

In direct contrast to the mechanistic form of organization is the organic organization, which is as highly adaptive and flexible a structure as the mechanistic organization is rigid and stable. Rather than having standardized jobs and regulations, the organic organization is flexible, which allows it to change rapidly as needs require. Organic organizations have division of labor, but the jobs people do are not standardized. Employees are highly trained and empowered to handle diverse job activities and problems, and these organizations frequently use employee teams. Employees in organic-type organizations require minimal formal rules and little direct supervision. Their high levels of skills and training and the support provided by other team members make formalization and tight managerial controls unnecessary.

When is a mechanistic structure preferable and when is an organic one more appropriate? Let's look at the key contingency factors that influence the decision.

The organic, flexible organizational structure of ad agency TBWA Worldwide allows most of its employees to work as informally as they want, whether they are meeting in the company dining room or working at home in their pajamas.

click here to explore now

video example

When is an organic structure best? When is a mechanistic structure best?

Contingency Factors

Top managers of most organizations typically put a great deal of thought into designing an appropriate structure. What that appropriate structure is depends on four contingency variables: the organization's strategy, size, technology, and degree of environmental uncertainty.

Strategy and Structure

An organization's structure should facilitate the achievement of goals. Because goals are influenced by the organization's strategies, it's only logical that strategy and structure should be closely linked. More specifically, structure should follow strategy. If managers significantly change the organization's strategy, they will need to modify the structure to accommodate and support the change.

Alfred Chandler initially researched the strategy-structure relationship.[11] He studied several large U.S. companies over a period of 50 years and concluded that changes in corporate strategy led to changes in an organization's structure. He found that these organizations usually began with a single product or product line that required only a simple or loose form of organization. However, as these organizations grew, their strategies became more ambitious and elaborate and the structure changed to support the chosen strategy.

Most current strategy frameworks tend to focus on three dimensions: (1) innovation, which reflects the organization's pursuit of meaningful and unique innovations; (2) cost minimization, which reflects the organization's pursuit of tightly controlled costs; and (3) imitation, which reflects an organization's seeking to minimize risk and maximize profit opportunities by copying the market leaders. What structural design works best with each?[12] Innovators need the flexibility and free-flowing information of the organic structure, whereas cost minimizers seek the efficiency, stability, and tight controls of the mechanistic structure. Imitators use structural characteristics of both—the mechanistic structure to maintain tight controls and low costs and the organic structure to pursue new and innovative directions.

Size and Structure

There's considerable evidence that an organization's size significantly affects its structure.[13] For instance, large organizations—those with 2,000 or more employees—tend to have more specialization, departmentalization, centralization, and rules and regulations than do small organizations. However, the relationship isn't linear. Rather, size affects structure at a decreasing rate; that is, size has less impact as an organization grows. Why? Essentially, once an organization has around 2,000 employees, it's already fairly mechanistic. Adding an additional 500 employees to a firm with 2,000 employees won't have much of an impact. On the other hand, adding 500 employees to an organization that has only 300 members is likely to result in a shift toward a more mechanistic structure.

Technology and Structure

Every organization has at least one form of technology to convert its inputs into outputs. For instance, workers at Maytag Corporation build its washers, dryers, and other home appliances on a standardized assembly line. Employees at Kinkos Copies produce custom jobs for individual customers. And employees at Bayer AG work on a continuous-flow production line for manufacturing its pharmaceuticals. Each of these organizations represents a different type of technology.

The initial interest in technology as a determinant of structure can be traced to the work of a British scholar, Joan Woodward.[14] She studied several small manufacturing firms in southern England to determine the extent to which structural design elements were related to organizational success. Woodward was unable to find any consistent pattern until she segmented the firms into three categories based on the size of their production runs. The three categories, representing three distinct technologies, 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 10.6.

	Unit Production	**Mass Production**	**Process Production**
Structural characteristics	Low vertical differentiation Low horizontal differentiation Low formalization	Moderate vertical differentiation High horizontal differentiation High formalization	High vertical differentiation Low horizontal differentiation Low formalization
Most effective structure	Organic	Mechanistic	Organic

Exhibit 10.6	Woodward's Findings on Technology, Structure, and Effectiveness

Since Woodward's initial work, numerous studies have been done on the technology-structure relationship. These studies generally demonstrate that organizations adapt their structures to their technology.[15] The processes or methods that transform an organization's inputs into outputs differ by their degree of routineness. In general, the more routine the technology, the more standardized and mechanistic the structure can be. Organizations with more nonroutine technology are more likely to have organic structures.[16]

Environmental Uncertainty and Structure

In Chapter 3 we introduced the organization's environment and the amount of uncertainty in that environment as constraints on managerial discretion. Why should an organization's structure be affected by its environment? Because of environmental uncertainty! Some organizations face relatively stable and simple environments; others face dynamic and complex environments. Because uncertainty threatens an organization's effectiveness, managers will try to minimize it. One way to reduce environmental uncertainty is through adjustments in the organization's structure.[17] The greater the uncertainty, the greater the need for the flexibility offered by an organic design. On the other hand, in stable, simple environments, mechanistic designs tend to be most effective.

The evidence on the environment-structure relationship helps to explain why so many managers 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 being designed to be more organic.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 << previous | next >>

Common Organizational Designs

What organizational designs do Ford, Toshiba, Procter & Gamble, and eBay have? In making organizational design decisions, managers have some common structural designs from which to choose. We'll first look at some traditional organizational designs and then at some more contemporary designs.

Traditional Organizational Designs

In designing a structure to support the efficient and effective accomplishment of organizational goals, managers may choose to follow more traditional organizational designs. These designs—the simple structure, functional structure, and divisional structure—tend to be more mechanistic. Exhibit 10.7 summarizes the strengths and weaknesses of each of these designs.

Simple Structure

Strengths: Fast; flexible; inexpensive to maintain; clear accountability

Weaknesses: Not appropriate as organization grows; reliance on one person is risky

Functional Structure

Strengths: Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment) and employees are grouped with others who have similar tasks

Weaknesses: Pursuit of functional goals can cause managers to lose sight of what's best for overall organization; functional specialists become insulated and have little understanding of what other units are doing

Divisional Structure

Strengths: Focuses on results—division managers are responsible for what happens to their products and services

Weaknesses: Duplication of activities and resources increases costs and reduces efficiency

Exhibit 10.7 **Strengths and Weaknesses of Common Traditional Organizational Designs**

Simple Structure

Most organizations start as entrepreneurial ventures with a simple structure consisting of owners and employees. A simple structure is an organizational design with low departmentalization, wide spans of control, authority centralized in a single person, and little formalization.[18] This structure is most commonly used by small businesses in which the owner and manager are one and the same.

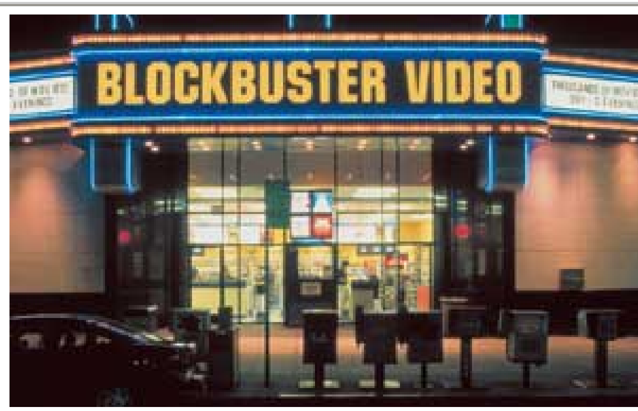
Many organizations, do not, by choice or by design, remain simple structures. As an organization grows, it generally reaches a point where it has to add employees to help cope with the additional duties and requirements of operating at that level. As the number of employees rises, the structure tends 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. (You can review Weber's concept of bureaucracy in Chapter 2.) At this point, a manager might choose to organize around a functional structure or a divisional structure.

Functional Structure

A functional structure is an organizational design that groups similar or related occupational specialties together. It's the functional approach to departmentalization applied to the entire organization. For instance, Revlon, Inc. is organized around the functions of operations, finance, human resources, and product research and development.

Divisional Structure

The divisional structure is an organizational structure made up of separate units or divisions.[19] In this design, each unit or division has relatively limited autonomy, with a division manager responsible for performance and who has strategic and operational authority over his or her unit. In divisional structures, however, the parent corporation typically acts as an external overseer to coordinate and control the various divisions, and it often provides support services such as financial and legal. Take Wal-Mart Stores, Inc., for example. Its divisions include Wal-Mart Realty, International, Specialty Stores, Sam's Clubs, and Supercenters. The Limited Inc. is another example of an organization with a divisional structure. Its divisions include Apparel (The Limited, Express, Lerner New York, Lane Bryant, Structure, Limited Too, and Mast Industries), Intimate Brands Inc. (Victoria's Secret Stores, Victoria's Secret Catalogue, Bath & Body Works, White Barn Candle Company, and Gryphon Development LP), Other Retail (Henri Bendel and Galyan's Trading Company), and Center Functions (Limited Distribution Services, Limited Store Planning, Limited Real Estate, Limited Design Services, Limited Brand and Creative Services, and Limited Technology Services).



Each unit of the media conglomerate Viacom International, Inc. is managed in a separate division of the company. Viacom's divisional structure enables it to oversee Nickelodeon, MTV, Showtime, CBS-TV, Blockbuster, Paramount, and Simon & Schuster.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Contemporary Organizational Designs

As our chapter-opening Manager's Dilemma illustrated, managers in contemporary organizations are finding that these traditional hierarchical designs often aren't appropriate for the increasingly dynamic and complex environments they face. In response to marketplace demands for being lean, flexible, and innovative, managers are finding creative ways to structure and organize work and to make their organizations more responsive to the needs of customers, employees, and other organizational constituents.[20] Now, we want to introduce you to some of the more contemporary concepts in organizational design.

Team-Based Structures

In a team-based structure, the entire organization is made up of work groups or teams that perform the organization's work.[21] Needless to say, in a team-based structure, employee empowerment is crucial because there is no line of managerial authority from top to bottom. Rather, employee teams are free to design work in the way they think is best. However, the teams are also held responsible for all work activity and performance results in their respective areas. Let's look at some examples of organizations that are organized around teams.

Whole Foods Market, Inc., the largest natural-foods grocer in the United States, is structured entirely around teams.[22] Every one of Whole Foods' stores is an autonomous profit center composed of an average of 10 self-managed teams, each with a designated team leader. The team leaders in each store are a team; store leaders in each region are a team; and the company's six regional presidents are a team. At Sun Life Assurance of Canada's U.S. office in Wellesley, Massachusetts, customer representatives have been reorganized into eight-person teams trained to expedite all customer requests. Now, when customers call in, they're not switched from one specialist to another but to one of the teams that takes care of every aspect of the customer's request.

In large organizations, the team structure complements what is typically a functional or divisional structure. This allows the organization to have the efficiency of a bureaucracy while providing the flexibility that teams provide. To improve productivity at the operating level, for instance, companies such as Saturn, Motorola, and Xerox extensively use self-managed teams. And at Boeing, Baxter International, and Hewlett-Packard, cross-functional teams are used to design new products or coordinate major projects.

Matrix and Project Structures

Other popular contemporary designs are the matrix and project structures. The matrix structure is an organizational structure that assigns specialists from different functional departments to work on one or more projects being led by project managers. Exhibit 10.8 shows an example of the matrix structure used in an aerospace firm. Along the top are the familiar organizational functions. The specific projects the firm is currently working on are listed along the left-hand side. Each project is managed by an individual who staffs his or her project with people from each of the functional departments. The addition of this vertical dimension to the traditional horizontal functional departments, in effect, "weaves together" elements of functional and product departmentalization—hence, the term *matrix*. One other unique aspect you need to know about the matrix design is that it creates a *dual chain of command*. It explicitly violates the classical organizing principle of unity of command. How does the matrix work in reality?

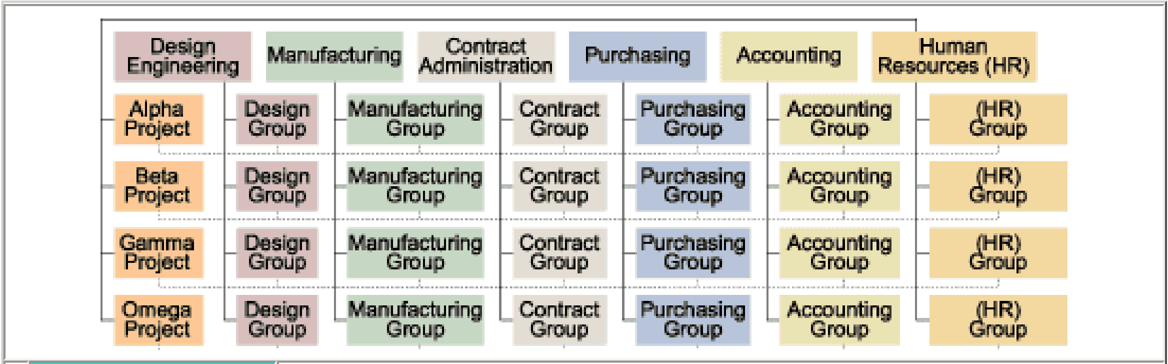


Exhibit 10.8 **A Matrix Organization in an Aerospace Firm**

Employees in a matrix organization have two managers: their functional department manager and their product or project manager, who share authority. The project managers have authority over the functional members who are part of their project team in areas relative to the project's goals. However, decisions such as promotions, salary recommendations, and annual reviews remain the functional manager's responsibility. To work effectively, project and functional managers have to communicate regularly, coordinate work demands on employees, and resolve conflicts together.

Although the matrix structure works well—and continues to be an effective structural design choice for many organizations—some organizations are using a more "advanced" type of project structure, in which employees continuously work on projects. Unlike the matrix structure, a project structure has no formal departments to which employees return at the completion of a project. Instead, employees take their specific skills, abilities, and experiences to other work projects. In addition, all work activities in project structures are performed by teams of employees who become part of a project team because they have the appropriate work skills and abilities. For instance, at Oticon Holding A/S, a Danish hearing-aid manufacturer, there are no organizational departments or employee job titles. All work activities are project based, and these 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 the project is completed, however, they move on to the next one.[23]

Project structures tend to be very fluid and flexible organizational designs. There's no departmentalization or rigid organizational hierarchy to slow down decision making or taking actions. In this type of structure, managers serve as facilitators, mentors, and coaches. They "serve" the project teams by eliminating or minimizing organizational obstacles and by ensuring that the teams have the resources they need to effectively and efficiently complete their work.

Autonomous Internal Units

Some large organizations with numerous business units or divisions have adopted a design that's nothing more than a collection of autonomous internal units—that is, independent decentralized business units, each with its own products, clients, competitors, and profit goals. Although this may sound similar to the divisional structure we described earlier, the key difference is that these business units are *autonomous*. There is no centralized control or resource allocation as you'd find in the divisional structure. An example of an organization using this structure is ABB (Asea Brown Boveri), a global organization with annual revenues exceeding $24 billion. It makes equipment for power transmission and distribution; automation systems; petroleum technologies and equipment; and electrical and mechanical products. ABB is actually about 1,000 companies operating in more than 140 countries around the globe. The whole operation is managed by just eight top executives at headquarters in Zurich, Switzerland. The autonomous internal unit structure allows ABB remarkable flexibility to acquire new businesses, respond to competitors, and exploit market opportunities.[24]

click here to explore now

active concept check

Testing...Testing...1, 2, 3

The Boundaryless Organization

Another approach to contemporary organizational design is the idea of the boundaryless organization, an organization whose design is not defined by, or limited to, the horizontal, vertical, or external boundaries imposed by a predefined structure.[25] The term was coined by Jack Welch, former chairman of General Electric, who wanted to eliminate vertical and horizontal boundaries within GE and break down external barriers between the company and its customers and suppliers. This idea may sound odd, yet many of today's most successful organizations are finding that they can most effectively operate in today's environment by remaining flexible and *un*structured: that the ideal structure for them is *not* having a rigid, predefined structure. Instead, the boundaryless organization seeks to eliminate the chain of command, to have appropriate spans of control, and to replace departments with empowered teams.[26]

What do we mean by "boundaries"? Think of the horizontal boundaries imposed by work specialization and departmentalization, the vertical boundaries that separate employees into organizational levels and hierarchies, and the external boundaries that separate the organization from its customers, suppliers, and other stakeholders. By removing *vertical* boundaries through such structural approaches as cross-hierarchical teams and participative decision making, the hierarchy is flattened. Managers can remove *horizontal* boundaries by using cross-functional teams and organizing work activities around work processes instead of around functional departments. And *external* boundaries can be minimized or eliminated by using strategic alliances with suppliers, or value chain management customer-organization linkages, concepts described in Chapter 19.

click here to explore now

video example

Doesn't the boundaryless organization undermine everything positive about formal structures?

The Learning Organization

We first introduced the concept of a learning organization in Chapter 2 as we looked at some of the current issues facing managers. The concept of a learning organization doesn't involve a specific organizational design per se but instead describes an organizational mind-set or philosophy that has significant design implications. What is a learning organization? It's an organization that has developed the capacity to continuously adapt and change because all members take an active role in identifying and resolving work-related issues.[27] In a learning organization, employees are practicing knowledge management by continually acquiring and sharing new knowledge and are willing to apply that knowledge in making decisions or performing their work. Some organizational design theorists even go so far as to say that an organization's ability to do this—that is, to learn and to apply that learning as they perform the organization's work—may be the only sustainable source of competitive advantage.[28]

What would a learning organization look like? As you can see in Exhibit 10.9, the important characteristics of a learning organization revolve around organizational design, information sharing, leadership, and culture. Let's take a closer look at each.

Exhibit 10.9 **Characteristics of a Learning Organization**

Source: Based on P.M. Senge, *The Fifth Discipline: The Art and Practice of Learning Organizations* (New York: Doubleday, 1990); and R.M. Hodgetts, F. Luthans, and S.M. Lee, "New Paradigm Organizations: From Total Quality to Learning to World Class," *Organizational Dynamics*, Winter 1994, pp. 4–19.

What types of organizational design elements would be necessary for learning to take place? In a learning organization, it's critical for members to share information and collaborate on work activities throughout the entire organization—across different functional specialties and even at different organizational levels. This can be done by minimizing or eliminating the existing structural and physical boundaries. In this type of boundaryless environment, employees are free to work together and collaborate in doing the organization's work the best way they can and to learn from each other. Because of this need to collaborate, teams also tend to be an important feature of a learning organization's structural design. Employees work in teams on whatever activities need to be done, and these employee teams are empowered to make decisions about doing their work or resolving issues. With empowered employees and teams, there's little need for "bosses" to direct and control. Instead, managers serve as facilitators, supporters, and advocates for employee teams.

Learning can't take place without information. For a learning organization to "learn," information must be shared among members; that is, organizational employees must engage in knowledge management. This means sharing information openly, in a timely manner, and as accurately as possible. Because there are few structural and physical barriers in a learning organization, the environment is conducive to open communication and extensive information sharing.

Leadership plays an important role as an organization moves to become a learning organization. What should leaders in a learning organization do? One of their most important functions is facilitating the creation of a shared vision for the organization's future and then keeping organizational members working toward that vision. In addition, leaders should support and encourage the collaborative environment that's critical to learning. Without strong and committed leadership throughout the organization, it would be extremely difficult to be a learning organization.

Finally, the organizational culture is an important aspect of being a learning organization. A learning organization's culture is one in which everyone agrees on a shared vision and everyone recognizes the inherent interrelationships among the organization's processes, activities, functions, and external environment. There is a strong sense of community, caring for each other, and trust. In a learning organization, employees feel free to openly communicate, share, experiment, and learn without fear of criticism or punishment.

No matter what structural design managers choose for their organizations, the design should help employees do their work in the best—most efficient and effective—way they can. The structure needs to help, not hinder, organizational members as they carry out the organization's work. After all, the structure is simply a means to an end.

click here to explore now

active example

What type of organizational structure do I prefer?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 << previous | next >>

> Chapter Wrap-Up

You had a chance to voice your opinion about Jorma Ollila's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Susan Colegrove
Project Manager
Industrial Participation Programs, Military Aircraft and Missile Systems Division, The Boeing Company, St. Louis, Missouri

Not working? Get Quicktime

Most companies would have to agree that their product or service line isn't the same today as it was when they were first established. Nokia is not unusual in that respect. However, in order to stay competitive in this fast-changing environment, Nokia must provide its customers with a better product and delivery plan. The company has been able to do this quite well.

Joe Jakubielski
I/T Analyst
Hallmark Cards, Inc., Kansas City, Missouri

Not working? Get Quicktime

Creating a learning organization requires the sharing of knowledge among employees. By creating a work atmosphere in which employees are encouraged and rewarded for sharing their expertise, Ollila could improve upon Nokia's past successes. It sounds as if the organizational structure is already in place for this to happen. Employees are given the freedom to do their jobs the best way they know how. Under such an

Ollila's idea of reorganizing his company into a learning organization should not be difficult. Some workplace cultures could not make this change immediately. However, Nokia has a less rigid structure already in place. The company encourages innovation, communication, and teamwork. These three factors can only be beneficial in supporting his idea. In addition, he can support this change by communicating the new philosophy and desired outcomes, encouraging open communication and participation, and by providing proper leadership.	approach, group goals and rewards should take precedence over individual ones. In addition, another suggestion would be to place higher emphasis on training. The company could make it mandatory for employees to attend a greater number of training classes per year. Displaying a commitment to learning such as this would show employees the intentions that Ollila has to turn Nokia into a learning organization.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log On: Internet-Based Exercise
- Working Together: Team-Based Exercise
- Case Application
- Mastering Management

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter Outline

Go to Student View
Table of Contents
Chapter Contents
Search
Rate the Difficulty
In the News
Internet Exercises
Robbins OnLine Learning System (R.O.L.L.S.)
Faculty Resources
Misc. Resources

Chapter 11: Managerial Communication and Information Technology

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...

Can J & J Keep the Magic Going? (07/17/02)

Effective Communications - Strategies to Stop Project Shutdown (06/04/02)

Telecommuters Learn To Put Bosses at Ease and Get Promoted, Too (04/24/02)

Disappearing Pensions Ahead (09/24/01)

The World White Web: Internet Recruiting is Not the Way to Pursue Diversity (03/15/01)

How To Tell Employees All The Things They Don't Want To Hear (09/18/00)

Communication - A Key To Establishing Trust (04/05/00)

Part 2: Communication - A Key To Establishing Trust (04/05/00)

….Until the Ax Fell (03/01/00)

You're Fired! (02/22/99)

By the Way - Your Staff Hates You (01/05/99)

Other Unions Could Follow Pilots' Lead (10/27/98)

P&G Will Make Jager CEO Ahead of Schedule (10/27/98)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Effective Communication Strategies--A Powerful Tool For Leadership (04/10/01)
	Language Classes Help Smooth the Communications for Both Employees and Managers (04/10/01)
	Communication: A Critical Skill for Business Students (01/04/00)
	Communicating Nonverbal Messages (06/22/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...	
	Instructors Manual - chap11.doc
	Lecture Presentation - chap11.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

Modules - modules.doc

Preface - preface.doc

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Add to... Just for Students

Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> What's Ahead

A Manager's Dilemma

Semifreddi's is an artisan-bread bakery (bakers of specialty bread and bread shaped in unusual and artistic ways) in Emeryville, California. CEO Tom Frainier has built a company whose annual revenues are over $7 million.[1] He describes himself as an "accessible, available, communicative guy." However, language barriers are proving to be a challenge for Tom and his workers, most of who come from Mexico, Laos, China, Peru, Cambodia, Yemen, and Vietnam. Even though his workers have limited English language skills, Tom feels that he is communicating sufficiently well with his diverse workforce because no major problems have arisen—at least yet.

Consider the recent problem when customers began making comments about the lack of parking on one side of the bakery. As Tom did anytime there were issues to be discussed, he called an employee meeting. He asked workers not to park in the spaces reserved for customers. Some employees misunderstood and thought that he was telling them not to drive to work. Tom said later that his mistake was talking slowly and loudly and assuming that his employees would understand him. However, the miscommunication over the parking issue was minor in comparison to another of Tom's communication challenges.

Tom is a staunch supporter of open book management, a management approach that entails regularly "opening up the financial statements" to employees and sharing this information with them in order to make them feel more a part of the business. He recently gathered together employees from different work shifts for a meeting and rattled off a bunch of numbers. Then Tom asked everybody if they understood the information, and all heads nodded in agreement. Tom said later, "I didn't realize that they were just being polite." His desire to involve employees by letting them see the financial results of their actions wasn't having the intended effect.

Put yourself in Tom's position. What could he do to improve the effectiveness of his communications?

What Would You Do?

click here to explore now

objectives

Before you begin, take a moment to familiarize yourself with the key objectives of this chapter.

go to page: 1 2 3 4 5 6 next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Tom Frainier of Semifreddi's recognizes the importance of effectively communicating with his employees. Communication between managers and employees provides the information necessary to get work done effectively and efficiently in organizations. As such, there's no doubt that communication is fundamentally linked to managerial performance.[2] In this chapter, we'll present basic concepts in managerial communication. We'll explain the interpersonal communication process, methods of communicating, barriers to effective communication, and ways to overcome those barriers. We'll also look at organizational communication issues including communication flow and communication networks. Finally, because managerial communication is so greatly influenced by information technology, we'll look at contemporary issues and challenges associated with electronic communications and other forms of information technology.

> Understanding Managerial Communication

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. Managers need effective communication skills. We aren't suggesting, however, that good communication skills alone make a successful manager. We can say, though, that ineffective communication skills can lead to a continuous stream of problems for a manager.

What is Communication?

Communication is the transfer and understanding of meaning. The first thing to note about this definition is the emphasis on the *transfer* of meaning. This means that if no information or ideas have been conveyed, communication hasn't taken place. The speaker who isn't heard or the writer who isn'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 Portuguese addressed to a person who doesn't read Portuguese 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 perceived 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 clearly understanding the message.[3] If someone disagrees with us, many of us 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. In fact, many times when a conflict has gone on a long time, people will say it's because the parties aren't communicating effectively. That assumption reflects the tendency to think that effective communication equals agreement.

The final point we want to make about managerial communication is that it encompasses both interpersonal communication—communication between two or more people—and organizational communication—all the patterns, networks, and systems of communication within an organization. We're going to explore a manager's interpersonal communication first.

go to page: 1 2 3 4 5 6 << previous | next >>

Management (activebook), 7/e

Stephen P. Robbins   Mary Coulter

Go to Student View

Table of Contents

Chapter Contents

Search

Add Annotation

View Annotations

Rate the Difficulty

> The Process of Interpersonal Communication

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 11.1 illustrates the seven elements of the communication process: the communication source, the message, encoding, the channel, decoding, the receiver, and feedback. In addition, note that the entire process is susceptible to noise—disturbances that interfere with the transmission, receipt, or feedback of a message. Typical examples of noise include illegible print, phone static, inattention by the receiver, or background sounds of machinery or co-workers. Remember that anything that interferes with understanding can be noise, and noise can create distortion at any point in the communication process. Let's look at how distortions can happen with the sender, the message, the channel, the receiver, and the feedback loop.

Exhibit 11.1	The Interpersonal Communication Process

A *sender* initiates a message by *encoding* a thought. Four conditions influence the effectiveness of that encoded message: the skills, attitudes, and knowledge of the sender, and the sociocultural system. How? We'll use ourselves, as your textbook authors, as an example. If we don't have the requisite skills, our message won't reach you, the reader, in the form desired. Our success in communicating to you depends on our writing skills. In addition, any preexisting ideas (attitudes) that we may have about numerous topics will affect how we communicate. For instance, our attitudes about managerial ethics, labor unions, or the importance of managers to organizations influence our writing. Next, the amount of knowledge we have about a subject affects the message(s) we are transferring. We can't communicate what we don't know; and if our knowledge is too extensive, it's possible that our writing won't be understood by the readers. Finally, the socio-cultural system in which we live influences us as communication senders. Our beliefs and values (all part of culture) act to influence what and how we communicate. Think back to our chapter-opening Manager's Dilemma and how Tom Frainier wants to be an effective communicator. As he encodes his ideas into messages when communicating with employees, he'll need to reflect on his skill, attitudes, knowledge, and the sociocultural system (of both the United States and his employees' countries of origin) in order to reduce any possible noise.

The *message* itself can distort the communication process, regardless of the kinds of supporting tools or technologies used to convey it. A message is the actual physical product encoded by the source. It can be the written document, the oral speech, and even the gestures and facial expressions we use. The message is affected by the symbols used to transfer meaning (words, pictures, numbers, etc.), the content of the message itself, and the decisions that the sender makes in selecting and arranging both the symbols and the content. Noise can distort the communication process in any of these areas.

The *channel* chosen to communicate the message also has the potential to be affected by noise. Whether it's a face-to-face conversation, an e-mail message, or a company-wide memorandum, distortions can and do occur. Managers need to recognize that certain channels are more appropriate for certain messages. Obviously, if the office is on fire, a memo to convey that fact is inappropriate! And if something is important, such as an employee's performance appraisal, a manager might want to use multiple channels—perhaps an oral review followed by a written letter summarizing the points. This decreases the potential for distortion.

The *receiver* is the individual to whom the message is directed. Before the message can be received, however, the symbols in it must be translated into a form that the receiver can understand. This is the *decoding* of the message. Just as the sender was limited by his or her skills, attitudes, knowledge, and sociocultural system, so is the receiver. And just as the sender must be skillful in writing or speaking, the receiver must be skillful in reading or listening. A person's knowledge influences his or her ability to receive. Moreover, the receiver's attitudes and sociocultural background can distort the message.

The final link in the communication process is a *feedback loop.* Feedback returns the message to the sender and provides a check on whether understanding has been achieved. Because feedback can be transmitted along the same types of channels as the original message, it faces the same potential for distortion.

Methods of Communicating Interpersonally

You need to communicate to your employees the organization's new policy on sexual harassment; you want to compliment one of your workers on the extra hours she's put in to help your work group complete a customer's order; you must tell one of your employees about changes to her job; or you would like to get employees' feedback on your proposed budget for next year. In each of these instances, how would you communicate this information? Managers have a wide variety of communication methods from which to choose. These include face-to-face, telephone, group meetings, formal presentations, memos, traditional mail, fax machines, employee publications, bulletin boards, other company publications, audio- and videotapes, hot lines, electronic mail, computer conferencing, voice mail, teleconferences, and videoconferences. All of these communication channels include oral or written symbols, or both. How do you know which to use? Managers can use 12 questions to help them evaluate the various communication methods.[5]

1. Feedback—how quickly can the receiver respond to the message?

2. Complexity capacity—can the method effectively process complex messages?
3. Breadth potential—how many different messages can be transmitted using this method?
4. Confidentiality—can communicators be reasonably sure their messages are received only by those intended?
5. Encoding ease—can sender easily and quickly use this channel?
6. Decoding ease—can receiver easily and quickly decode messages?
7. Time-space constraint—do senders and receivers need to communicate at the same time and in the same space?
8. Cost—how much does it cost to use this method?
9. Interpersonal warmth—how well does this method convey interpersonal warmth?
10. Formality—does this method have the needed amount of formality?
11. Scanability—does this method allow the message to be easily browsed or scanned for relevant information?
12. Time of consumption—does the sender or receiver exercise the greater control over when to deal with the message?

Exhibit 11.2 provides a comparison of the various communication methods on these 12 criteria. Which method a manager ultimately chooses should reflect the needs of the sender, the attributes of the message, the attributes of the channel, and the needs of the receiver. For instance, if you need to communicate to an employee the changes being made in her job, face-to-face communication would be a better choice than a memo since you want to be able to address immediately any questions and concerns that she might have.

Criteria / Channel	Feed-back Potential	Complexity Capacity	Breadth Poten-tial	Confiden-tiality	En-coding Ease	De-coding Ease	Time-Space Constraint	Cost	Personal Warmth	Form-ality	Scan-ability	Consump-tion Time
Face-to-face	1	1	1	1	1	1	1	2	1	4	4	S/R
Telephone	1	4	2	2	1	1	3	3	2	4	4	S/R
Group meetings	2	2	2	4	2	2	1	1	2	3	4	S/R
Formal presentations	4	2	2	4	3	2	1	1	3	3	5	Sender
Memos	4	4	2	3	4	3	5	3	5	2	1	Receiver
Postal mail	5	3	3	2	4	3	5	3	4	1	1	Receiver
Fax	3	4	2	4	3	3	5	3	3	3	1	Receiver
Publications	5	4	2	5	5	3	5	2	4	1	1	Receiver

Bulletin boards	4	5	1	5	3	2	2	4	5	3	1	Receiver
Audio/ videotapes	4	4	3	5	4	2	3	2	3	3	5	Receiver
Hot lines	2	5	2	2	3	1	4	2	3	3	4	Receiver
E-mail	3	4	1	2	3	2	4	2	4	3	4	Receiver
Computer conference	1	2	2	4	3	2	3	2	3	3	4	S/R
Voice mail	2	4	2	1	2	1	5	3	2	4	4	Receiver
Tele- conference	2	3	2	5	2	2	2	2	3	3	5	S/R
Video- conference	3	3	2	4	2	2	2	1	2	3	5	S/R

Exhibit 11.2 **Comparison of Communication Methods**

Note: Ratings are on a 1–5 scale where 1 = high and 5 = low. Consumption time refers to who controls the reception of communication. S/R means the sender and receiver share control.

Source: P.G. Clampitt, *Communicating for Managerial Effectiveness* (Newbury Park, CA: Sage Publications, 1991), p. 136.

We can't leave the topic of interpersonal communication methods without looking at the role of nonverbal communication—that is, communication transmitted without words. Some of the most meaningful communications are neither spoken nor written. A loud siren or a red light at an intersection tells you something without words. When a college instructor is teaching a class, she doesn't need words to tell her that her students are bored when their eyes are glassed over or they begin to read the school newspaper. Similarly, when students start putting their papers, notebooks, and book away, the message is clear: Class time is about over. The size of a person's office or the clothes he or she wears also conveys messages to others. These are all forms of nonverbal communication. The best-known types of nonverbal communication are body language and verbal intonation.

Body language refers to gestures, facial expressions, and other body movements that convey meaning. A person frowning "says" something different from one who's smiling. Hand motions, facial expressions, and other gestures can communicate emotions or temperaments such as aggression, fear, shyness, arrogance, joy, and anger. (See Exhibit 11.3.)

Exhibit 11.3 | **Facial Expressions Convey Emotions**

Each picture portrays a different emotion. Try to identify them before looking at the answers. (Top, left to right: neutral, surprise, happiness. Bottom: fear, sadness, anger.)

Verbal intonation refers to the emphasis someone gives to words or phrases that conveys meaning. To illustrate how intonations can change the meaning of a message, consider the student who asks the instructor a question. The instructor replies, "What do you mean by that?" The student's reaction will vary, depending on the tone of the instructor's response. A soft, smooth vocal tone conveys interest and creates a different meaning from one that is abrasive and puts a strong emphasis on saying the last word. Most of us would view the first intonation as coming from someone sincerely interested in clarifying the student's concern, whereas the second suggests that the person is defensive or aggressive.

The fact that every oral communication also has a nonverbal message can't be overemphasized. Why? Because the nonverbal component usually carries the greatest impact. "It's not *what* you said, but *how* you said it." People respond to *how* something is said as well as *what* is said. Managers should remember this as they communicate.

click here to explore now

video example

Do PCs, faxes, cell phones, personal digital assistants, and similar communication devices enhance or hinder interpersonal communication?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Barriers to Effective Interpersonal Communication

In our discussion of the interpersonal communication process, we noted the continual potential for distortion. What causes distortion? In addition to the general distortions identified in the communication process, managers face other barriers to effective communication.

Filtering

Filtering is the deliberate manipulation of information to make it appear more favorable to the receiver. For example, when a person tells his or her manager what the manager wants to hear, that individual is filtering information. Does this happen much in organizations? Yes, it does! As information is communicated up through organizational levels, it's condensed and synthesized by senders so those on top don't become overloaded with information. Those doing the condensing filter communications through their personal interests and perceptions of what is important.

The extent of filtering tends to be a function of the number of vertical levels in the organization and the organizational culture. The more vertical levels there are in an organization, the more opportunities there are for filtering. As organizations become less dependent on strict hierarchical arrangements and instead use more collaborative, cooperative work arrangements, information filtering may become less of a problem. In addition, the ever-increasing use of e-mail to communicate in organizations reduces filtering because communication is more direct as intermediaries are bypassed. 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 that managers will be motivated to filter communications in their favor.

Selective Perception

Selective perception is when people selectively interpret what they see or hear on the basis of their interests, background, experience, and attitudes. The receiver in the communication process selectively sees and hears communications depending on his or her needs, motivations, experience, background, and other personal characteristics. The receiver also projects his or her interests and expectations into communications as they are decoded. An employment interviewer who expects female job applicants to put family before career is likely to *see* that in female candidates, regardless of whether the applicants actually feel that way.

Emotions

How a receiver feels when a message is received influences how he or she interprets it. You'll often interpret the same message differently, depending on whether you're happy or distressed. 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. It's best to avoid reacting to a message when you're upset because you're not likely to be thinking clearly.

Information Overload

A marketing manager goes on a week-long sales trip to Spain where he doesn't have access to his e-mail and is faced with 600 messages on his return. It's not possible to fully read and respond to each and every one of those messages without facing information overload—when the information we have to work with exceeds our processing capacity. Today's typical executive frequently complains of information overload. The demands of keeping up with e-mail, phone calls, faxes, meetings, and professional reading create an onslaught of data that is nearly impossible to process and assimilate. What happens when individuals have more information than they can sort and use? They tend to select out, ignore, pass over, or forget information. Or they may put off further processing until the overload situation is over. Regardless, the result is lost information and less effective communication.

Defensiveness

When people feel that they're being threatened, they tend to react in ways that reduce their ability to achieve mutual understanding. That is, they become defensive—engaging in behaviors such as verbally attacking others, making sarcastic remarks, being overly judgmental, and questioning others' motives.[6] When individuals interpret another's message as threatening, they often respond in ways that hinder effective communication.

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 he or she gives to words. Author/journalist William F. Buckley and rap artist Dr. Dre both speak English, but the language each uses is vastly different.

In an organization employees typically come from diverse backgrounds (think back to our chapter-opening Manager's Dilemma) 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.

Keep in mind that while we may speak the same language, our use of that language is far from uniform. Senders tend to assume that the words and phrases they use mean the same to the receiver as they do to them. This, of course, is incorrect and creates communication barriers. Knowing how each of us modifies the language would help minimize those barriers.

National Culture

As the chapter-opening Manager's Dilemma pointed out, communication differences can also arise from the different languages that individuals use to communicate and the national culture of which they are a part. Interpersonal communication isn't conducted the same way around the world. For example, let's compare countries that place a high value on individualism (such as the United States) with countries where the emphasis is on collectivism (such as Japan).[7]

In the United States, communication patterns tend to be oriented to the individual and clearly spelled out. U.S. managers rely heavily on memoranda, announcements, position papers, and other formal forms of communication to state their positions on issues. U.S. supervisors may hoard information in an attempt to make themselves look good and as a way of persuading their employees to accept decisions and plans. And for their own protection, lower-level employees also often engage in this practice.

In collectivist countries, such as Japan, there's more interaction for its own sake and a more informal manner of interpersonal contact. The Japanese manager, in contrast to the U.S. manager, engages in extensive verbal consultation with subordinates over an issue first and draws up a formal document later to outline the agreement that was made. The Japanese value decisions by consensus, and open communication is an inherent part of the work setting. Also, face-to-face communication is encouraged.

Cultural differences can affect the way a manager chooses to communicate. And these differences undoubtedly can be a barrier to effective communication if not recognized and taken into consideration.

Overcoming the Barriers to Effective Interpersonal Communication

Given these barriers to communication, what can managers do to overcome them? The following suggestions should help you make your interpersonal communication more effective.

Use Feedback

Many communication problems can be directly attributed to misunderstandings and inaccuracies. These problems are less likely to occur if the manager uses the feedback loop in the communication process. This feedback can be verbal or nonverbal.

If a manager asks a receiver, "Did you understand what I said?" the response represents feedback. Good feedback should include more than yes-and-no answers. The manager can ask a set of questions about a message to determine whether or not the message was received and understood as intended. Better yet, the manager can ask the receiver to restate the message in his or her own words. If the manager hears what was intended, understanding and accuracy should improve. Feedback includes subtler methods than directly asking questions or having the receiver summarize the message. General comments can give a manager a sense of the receiver's reaction to a message.

Of course, feedback doesn't have to be conveyed in words. Actions *can* speak louder than words. A sales manager sends an e-mail to his or her staff describing a new monthly sales report that all sales representatives will need to complete. If some of them don't turn in the new report, the sales manager has received feedback. This feedback suggests that the sales manager needs to clarify further the initial communication. Similarly, when you're talking to others, you watch their eyes and look for other nonverbal clues to tell you whether they're getting your message or not.

Simplify Language

Because language can be a barrier, managers should choose words and structure their messages in ways that will make those messages clear and understandable to the receiver. The manager needs to simplify his or her language and consider the audience to whom the message is directed so that the language can be tailored to the receivers. Remember, effective communication is achieved when a message is both received and *understood*. Understanding is improved by simplifying the language used in relation to the audience intended. This means, for example, that a hospital administrator should always try to communicate in clear, easily understood terms and that the language used in messages to the surgical staff should be purposefully different from that used with office employees. Jargon can facilitate understanding when it's used within a group of those who know what it means, but it can cause many 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, two people are engaged in thinking: the sender *and* the receiver.

Many of us are poor listeners. Why? Because it's difficult and it's usually more satisfying to be on the offensive. Listening, in fact, is often more tiring than talking. It demands intellectual effort. 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.[8] The difference obviously leaves lots of idle time for the brain and opportunities for the mind to wander.

Active listening is enhanced by developing empathy with the sender—that is, by placing yourself in the sender's position. Because senders differ in attitudes, interests, needs, and expectations, empathy makes it easier to understand the actual content of a message. An empathetic listener reserves judgment on the message's content and carefully listens to what is being said. The goal is to improve your ability to receive the full meaning of a communication without having it distorted by premature judgments or interpretations. Other specific behaviors that active listeners demonstrate are listed in Exhibit 11.4.

Exhibit 11.4 **Active Listening Behaviors**

Source: Based on P.L. Hunsaker, *Training in Management Skills* (Upper Saddle River, NJ: Prentice Hall, 2001).

Constrain Emotions

It would be naive to assume that managers always communicate in a rational manner. We know that emotions can severely cloud and distort the transference of meaning. A manager who is emotionally upset over an issue is more likely to misconstrue incoming messages and fail to communicate his or her outgoing messages clearly and accurately. What can the manager do? The simplest answer is to refrain from communicating until he or she has regained composure.

Watch Nonverbal Cues

If actions speak louder than words, then it's important to watch your actions to make sure they align with and reinforce the words that go along with them. The effective communicator watches his or her nonverbal cues to ensure that they convey the desired message.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> Organizational Communication

An understanding of managerial communication isn't possible without looking at the fundamentals of organizational communication. In this section, we look at several important aspects of organizational communication including formal versus informal communication, the flow patterns of communication, and formal and informal communication networks.

Formal Versus Informal Communication

Communication within an organization is often described as formal or informal. Formal communication refers to communication that follows the official chain of command or is part of the communication required to do one's job. For example, when a manager asks an employee to complete a task, he or she is communicating formally. So is the employee who brings a problem to the attention of his or her manager. Any communication that takes place within prescribed organizational work arrangements would be classified as formal.

Informal communication is organizational communication that is 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 exercise facility, that's informal communication. 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 Communication Flow

Organizational communication can flow downward, upward, laterally, or diagonally. Let's look at each.

Downward

Any communication that flows downward from a manager to employees is downward communication. Downward communication is used to inform, direct, coordinate, and evaluate employees. When managers assign goals to their employees, they're using downward communication. Managers are also using downward communication by providing employees with job descriptions, informing them of organizational policies and procedures, pointing out problems that need attention, or evaluating their performance. Downward communication can take place through any of the communication methods we described earlier.

Upward Communication

Managers rely on their employees for information. Reports are given to managers to inform them of progress toward goals and any current problems. Upward communication is communication that flows upward from employees to managers. It keeps managers aware of how employees feel about their jobs, their co-workers, 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, suggestion boxes, employee attitude surveys, grievance procedures, manager-employee discussions, and informal group sessions in which employees have the opportunity to identify and discuss problems with their manager or even representatives of top-level management.

The extent of upward communication depends on the organizational culture. If managers have created a climate of trust and respect and use participative decision making or empowerment, there will be considerable upward communication as employees provide input to decisions. However, in a highly mechanistic and authoritarian environment, upward communication still takes place but will be limited both in style and content.

Lateral Communication

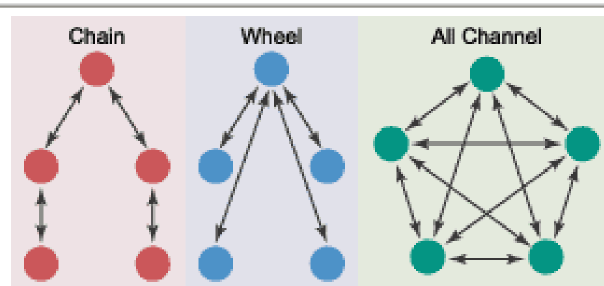
Communication that takes place among any employees on the same organizational level is called lateral communication. In today's often chaotic and rapidly changing environment, horizontal communications are frequently needed to save time and facilitate coordination. Cross-functional teams, for instance, rely heavily on this form of communication interaction. However, it can create conflicts 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 cuts across both work areas *and* organizational levels. When a credit analyst in the credit department communicates directly with a regional marketing manager—note the different department and different organizational level—about a customer problem, that's diagonal communication. In the interest of efficiency and speed, diagonal communication can be beneficial. And the increased use of e-mail facilitates diagonal communication. In many organizations, any employee can communicate by e-mail with any other employee, regardless of organizational work area or level. However, just as with lateral communication, diagonal communication has the potential to create problems if employees don't keep their managers informed.

Organizational Communication Networks

The vertical and horizontal flows of organizational communication can be combined into a variety of patterns called communication networks. Exhibit 11.5 illustrates three common communication networks.



Criteria	Chain	Wheel	All Channel
Speed	Moderate	Fast	Fast
Accuracy	High	High	Moderate
Emergence of leader	Moderate	High	None
Member satisfaction	Moderate	Low	High

Exhibit 11.5	Three Common Organizational Communication Networks and How They Rate on Effectiveness Criteria

Types of Communication Networks

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.

As a manager, which network should you use? The answer depends on your goal. Exhibit 11.5 also summarizes the effectiveness of the various networks 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. If you are concerned with high member satisfaction, the all-channel network is best; if having a strong and identifiable leader is important, the wheel facilitates this; and if accuracy is most important, the chain and wheel networks work best.

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 reported that 75 percent of employees hear about matters first through rumors on the grapevine.[9]

What are the implications for managers? Certainly, the grapevine is an important part of any group or organization communication network and well worth understanding.[10] It identifies for managers those bewildering issues that employees consider important and anxiety producing. It acts as both a filter and a feedback mechanism, picking up on the issues employees consider relevant. More importantly, from a managerial point of view, it *is* possible to analyze what is happening on the grapevine—what information is being passed, how information seems to flow along the grapevine, and which individuals seem to be key conduits of information on the grapevine. By being aware of the grapevine's flow and patterns, managers can stay on top of issues that concern employees and, in turn, can use the grapevine to disseminate important information. Since the grapevine can't be eliminated, managers should "manage" it as an important information network.

Rumors that flow along the grapevine also can never be eliminated entirely. What managers can do, however, is minimize the negative consequences of rumors by limiting their range and impact. How? By communicating openly, fully, and honestly with employees, particularly in situations in which employees may not like proposed or actual managerial decisions or actions.

click here to explore now

video example

If I'm a manager, how am I going to get "plugged into" the grapevine?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

> Understanding Information Technology

Technology is changing the way we live and work. Take the following four examples: Japanese employees and managers, housewives, and teens use wireless interactive Web phones to send e-mail, surf the Web, swap photos, and play computer games. At Postnet, the Swedish postal service's Internet subsidiary, employees work at tables with electrical and data-connection cables to plug in their laptop computers. Postnet's CEO spends her days walking around the office carrying her mobile phone, which is connected to the postal system's main switchboard. Over 75 percent of IBM's 316,000 employees regularly use instant messaging software for communicating and for workplace collaboration. At Chevron's worldwide headquarters in San Francisco, employees often meet to share information and to exchange ideas in "visualization centers" where data and graphics can be displayed on enormous screens.[11]

The world of managerial communication is not what it used to be! Managers are challenged to keep their organizations functioning smoothly while continually improving work operations *and* staying competitive even though both the organization and the environment are changing rapidly. Although changing technology has been a significant source of the environmental uncertainty facing organizations, these same technological advances have enabled managers to coordinate the work efforts of employees in ways that can lead to increased efficiency and effectiveness. Information technology now touches every aspect of almost every company's business. The implications for managerial communication are profound.

How Technology Affects Managerial Communication

Technology, and more specifically information technology, has radically changed the way organizational members communicate. For example, it has significantly improved a manager's ability to monitor individual or team performance, it has allowed employees to have more complete information to make faster decisions, and it has provided employees more opportunities to collaborate and share information. In addition, information technology has made it possible for people in organizations to be fully accessible, any time, regardless of where they are. Employees don't have to be at their desk with their computer turned on in order to communicate with others in the organization. Two developments in information technology seem to be having the most significant impact on current managerial communication: networked computer systems and wireless capabilities.

Networked Computer Systems

In a networked computer system, an organization links its computers together through compatible hardware and software, creating an organizational network. Organizational members can then communicate with each other and tap into information whether they're down the hall, across town, or halfway across the world. Although we won't get into the mechanics of how a network system works, we will address some of its communication applications including e-mail, instant messaging, voice mail, fax, electronic data interchange, teleconferencing and videoconferencing, intranets and extranets, and the talking Internet.

E-mail is the instantaneous transmission of written messages on computers that are linked together. Messages wait at the receiver's computer and are read at the receiver's convenience. E-mail is fast and cheap and can be used to send the same message to numerous people at the same time. It's a quick and convenient way for organizational members to share information and communicate.

Some organizational members who find e-mail slow and cumbersome are using instant messaging (IM). This is interactive real-time communication that takes place among computer users who are logged onto the computer network at the same time. IM first became popular among teens and preteens who wanted to communicate with their friends online. Now, it's moving to the workplace. With IM, there's no waiting around for a colleague to read e-mail. Whatever information needs to be communicated can be done so instantaneously. However, there are a couple of drawbacks to instant messaging. It requires groups of users to be logged on to the organization's computer network at the same time. This leaves the network open to security breaches. Also, IM software is currently incompatible with important business applications software.[12] However, as new versions of IM software are created, these drawbacks are likely to be addressed.

A voice-mail system digitizes a spoken message, transmits it over the network, and stores the message on disk for the receiver to retrieve later.[13] This capability allows information to be transmitted even though a receiver may not be physically present to take the information. Receivers can choose to save the message for future use, delete it, or route it to other parties.

Fax machines allow the transmission of documents containing both text and graphics over ordinary telephone lines. A sending fax machine scans and digitizes the document. A receiving fax machine reads the scanned information and reproduces it in hard copy form. Information that is best viewed in printed form can be easily and quickly shared by organizational members.

Electronic data interchange (EDI) is a way for organizations to exchange standard business transaction documents, such as invoices or purchase orders, using direct computer-to-computer networks. Organizations often use EDI with vendors, suppliers, and customers because it saves time and money. How? Information on transactions is transmitted from one organization's computer system to another through a telecommunications network. The printing and handling of paper documents at one organization are eliminated as is the inputting of data at the other organization.

Meetings—one-on-one, team, divisional, or organization-wide—have always been one way to share information. The limitations of technology used to dictate that meetings take place among people in the same physical location, but that's no longer the case! Teleconferencing allows a group of people to confer simultaneously using telephone or e-mail group communications software. If meeting participants can see each other over video screens, the simultaneous conference is called videoconferencing. Work groups, large and small, which might be in different locations, can use these communication network tools to collaborate and share information.

Networked computer systems have allowed the development of organizational intranets and extranets. An intranet is an organizational communication network that uses Internet technology and is accessible only by organizational employees. Many organizations are using intranets as ways for employees to share information and collaborate on documents and projects from different locations. For example, through the intranet at Buckman Laboratories International, a manufacturer of specialty chemicals based in Memphis, Tennessee, employees find information about products, markets, and customers that's easily accessible and easily shared. They contribute information to and pull information from this knowledge network known as K'Netix®. An extranet is an organizational communication network that uses Internet technology and allows authorized users inside the organization to communicate with certain outsiders such as customers or vendors. For instance, Harley-Davidson has developed an extranet that allows faster and more convenient communications with dealers.

Finally, we're all aware of the tremendous impact that the Internet has had and continues to have on organizations. Now, instead of being a communication medium just for text, colorful graphics, and the occasional music and video clip, the Internet is being used for voice communication. Popular Web sites such as Yahoo! and Exite@Home let users chat verbally with each other. America Online has introduced a Web browser that lets users click on a button to talk to others. Many companies are moving to Internet-based voice communication. For instance, in the New Jersey offices of Merrill Lynch & Co., 6,500 Internet phones have been installed for employees to use in conference calls or for instant messaging communication. On Compaq Computer Corporation's Web site, visitors can click on an icon and speak live to a company representative.[14]

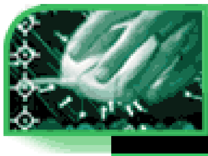
Wireless Capabilities

While the communication possibilities for a manager in a networked world are exciting, the real potential is yet to come! Networked computer systems require organizations (and organizational employees) to be connected by wires. Wireless communication depends on signals sent through air or space without any physical connection using things such as microwave signals, satellites, radio waves and radio antennas, or infrared light rays. Wireless smart phones, notebook computers, and other pocket communication devices have spawned a whole new way for managers to "keep in touch." In Japan and Europe, over 9 million users have wireless technology that allows them to send and receive information from anywhere.[15] Employees don't have to be at their desks with their computers plugged in and turned on in order to communicate with others in the organization. As technology continues to improve in this area, we'll see more and more organizational members using wireless communication as a way to collaborate and share information.

How Information Technology Affects Organizations

Employees—working in teams or as individuals—need information to make decisions and do their work. After describing the communications capabilities managers have at their disposal, it's clear that technology *can* significantly affect the way that organizational members communicate, share information, and do their work.

Communications and the exchange of information among organizational members are no longer constrained by geography or time. Collaborative work efforts among widely dispersed individuals and teams, sharing of information, and integration of decisions and work throughout an entire organization have the potential to increase organizational efficiency and effectiveness. And while the economic benefits of information technology are obvious, managers must not forget to address the psychological drawbacks.[16] For instance, what is the psychological cost of an employee being constantly accessible? Will there be increased pressure for employees to "check in" even during their off-hours? How important is it for employees to separate their work lives and their personal lives? While there are no easy answers to these questions, they are issues that managers will have to face.



click here to explore now

active example

What's my face-to-face communication style?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 << previous | next >>

> Chapter Wrap-Up

You had a chance to voice your opinion about Tom Frainier's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Michael J. Stabile, Ph.D.
Principal
Nagel Middle School, Cincinnati, Ohio

Not working? Get Quicktime

Sometimes the "antidote can become the poison." Tom's leadership style, as effective and successful as it has been in the past, may not be practical for the type of employees he currently has. Open management style is not the issue—it is the communication process and perception of his employees. I would suggest he try the following:

Jeff Sneed
Customer Service Manager
LaserWorks, Inc., Springfield, Missouri

Not working? Get Quicktime

If I were Tom, I would definitely make some changes in order to communicate with my employees. Without question, their efficiency will be greatly reduced if they didn't understand the message I was trying to relay.

What I would do first is pick out the employees that I felt spoke the best English and try to communicate with them individually. By getting the

• He needs to talk the language(s) of his employees through memorandums and other written directives. By communicating in his employees' native languages, he shows that he is interested in them. • He needs to understand the culture(s) of his workers and what they value and what motivates them. Again, this type of personal interest in employees can be beneficial for Tom when he needs to communicate changes to them. • He needs to find individuals with leadership potential from the diverse work group who could communicate and translate company goals and plans. By involving capable employees, Tom can improve the total communication in the work situation.	employees in a more one-on-one situation, I think they would be more comfortable and more likely to actually understand and not just say they do. These individuals could then act as team leaders and explain the information to other employees who speak the same language, making sure that they comprehend it. Another possibility would be to use a language translator—there are many Web sites with this capability. Tom could type a memo stating what he was trying to communicate and the Web site would translate the memo into the necessary languages.

end-of-chapter resources

go to page: 1 2 3 4 5 6 << previous

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter Outline

Go to Student View

Table of Contents

Chapter Contents

Search

Rate the Difficulty

In the News

Internet Exercises

Robbins OnLine Learning System (R.O.L.L.S.)

Faculty Resources

Misc. Resources

Chapter 12: Human Resource Management

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Executive Education Programs and Budget Cuts (06/12/02)
	Executive Education Programs and Budget Cuts (06/12/02)
	The Nurse Staffing Dilemma (06/12/02)
	Recruitment In The Big Five (05/23/02)
	Branding Yourself (05/17/02)
	Who is Answering the Customer Service Number? (02/07/02)
	Business Schools Expand MBA's for Executive (01/30/02)
	Labor Troubles Add to Airline Difficulties (07/31/01)

Labor Troubles Add to Airline Difficulties (07/31/01)

Mystified by Training? Here Are Some Cues (07/26/01)

Mystified by Training? Here Are Some Cues (07/26/01)

Footing the Bill for the Patients' Bill of Rights (07/18/01)

Footing the Bill for the Patients' Bill of Rights (07/18/01)

Salary Secrecy: Should Compensation Be Confidential? (06/20/01)

The New Workplace (06/20/01)

Too Many Frosty Ones Equals a Frosted One (06/14/01)

Is the ADA Working? (05/17/01)

You're Not the Only One who Doesn't Like Being Graded on a Curve! (05/15/01)

Just Because You're Paranoid ... (04/13/01)

…And Professional Wrestling is Scripted! (03/19/01)

The World White Web: Internet Recruiting is Not the Way to Pursue Diversity (03/15/01)

Rising Prescription Drug Costs: The Detriment of a Benefit (03/07/01)

Managers Are Starting To Gain More Clout Over Their Employees (03/05/01)

The Peter Principle Strikes Again (02/08/01)

Drug Testing Depressant: Labor Markets and Drug Testing (02/07/01)

As Leaders, Women Rule (01/18/01)

When Workers Just Can't Cope: New Rulings About ADA (12/28/00)

Employers and Employees Sing the Blues Regarding Telecommuting (12/13/00)

Referred Employees are 'Stickier' (12/05/00)

Why You're Sick of the Office (12/05/00)

Following the Bouncing Ball: Bobby Knight and Employment Rights (11/28/00)

As Leaders, Women Rule (11/20/00)

Safety in the Air: Flight Attendants (11/03/00)

The New Pay Paradigm (10/05/00)

Proposed OSHA Regulations Could Be Painful to Employers (10/03/00)

Firms Dropping Traditional Testing (08/28/00)

Why Don't You Have a Job? (08/11/00)

The Secret Wild Card: Employees Want Jobs That Help Caregivers (07/17/00)

Motivating Employees In a Volatile Era Means Managing Expectations - One Company's Strategy (07/10/00)

Corporate Universities (05/12/00)

Workforce Management in the Face of the 'Baby Bust' (03/27/00)

Outsourcing from the New Silicon Valley (03/21/00)

….Until the Ax Fell (03/01/00)

Look for Clues to Avoid Hiring Someone Who Hates Teamwork (02/28/00)

Technology, Human Resource Management, and Regulation all Affect Telecommuting (01/11/00)

The Changing Face of Unions (01/04/00)

Why Johnny May Learn To Add (01/04/00)

Gender Differences May Muddy Communictions (06/15/99)

Cupid's Cubicles (03/09/99)

If Your Career Needs More Attention, Maybe You Should Get an Agent (01/15/99)

100 Best Companies to Work for in America (01/04/99)

Currents in Compensation and Benefits (11/09/98)

Help to Avoid a Failure: Learn the Company Culture (11/09/98)

Other Unions Could Follow Pilots' Lead (10/27/98)

Integration: the Newest Buzzword in Family Friendliness (03/02/98)

Two for the Road (11/03/97)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Managing Diversity Today and Tomorrow (05/23/02)

Questions to Ask to Make Sure that Training Pays Off (04/11/01)

Willing and Able (02/07/01)

Job Descriptions on the Web (12/19/00)

Weight Discrimination: A New Type of Corporate Downsizing? (10/05/00)

Internet Recruiting (08/31/00)

Building Knowledge and Skills Through Professional Organization Membership (08/29/00)

When the CEO Needs a Job (06/15/00)

Crossing America's Borders (01/04/00)

Examination of the Regulation of Employment Discrimination By States (10/14/99)

Information About Sexual Harassment (04/01/99)

Preparing Successful Expatriate Managers (01/04/99)

Handling Intergroup and Interorganizational Conflict (11/12/98)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap12.doc

Lecture Presentation - chap12.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Modules - modules.doc
	Preface - preface.doc
	Self Assessment Library 2.0 - selfas.doc
	Table of contents - toc.doc

Add to...	Just for Students
	Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 12

go to page: 1

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> What's Ahead

A Manager's Dilemma

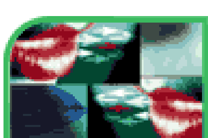
As a new breed of entrepreneur in Europe, Eric Perbos-Brinck gave up a promising management career at the large French retailer, Promodes, to start an Internet company called Bravonestor.com.[1] Like any new entrepreneur, Perbos-Brinck has struggled to get his business up and running.

One challenge Perbos-Brinck faced was the traditional inward-looking French culture. Although France is a member of the European Union (EU) and supports free trade among EU members, it remains a very nationalistic and proud country. A growing class of rebels, including Perbos-Brinck, has an outlook that embraces the globe, not just France or Europe. These new thinkers are independent, favor individual enterprise, question authority, and are using the realities of the new economy to shake up the way French business traditionally has been conducted. One tradition, though, has been hard to change, and it's creating quite a problem for Perbos-Brinck's business.

That tradition is the European mentality about immigration. Historically, Europeans have been passionately opposed to immigrants. However, the strong European economy, with declining unemployment levels and business leaders pushing to catch up with the United States in high technology, has created a situation where this parochialistic attitude may no longer be realistic.

When Perbos-Brinck launched his business in November 1999, the only employees were himself and another person. Six months later, that number had grown to 10 with five more individuals hired in early summer 2000. To fill the jobs with employees who have the necessary skills for working in an e-business, Perbos-Brinck has had to cast a wide net. One of his programmers is Moroccan. His search engine designer is Senegalese. Perbos-Brinck found these two, who were studying in France as part of an exchange program, after an intense employee search. As Perbos-Brinck continues to bring highly skilled people from various countries on board, he needs an effective employee orientation program to help them assimilate into his company as well as the French culture. Put yourself in his position. What should this orientation program include?

What Would You Do?



click here to explore now

active poll

Before you begin reading this chapter, try a short warm-up activity.

Take a moment to familiarize yourself with the key objectives of this chapter.

go to page: 1 2 3 4 5 6 7 8 9 10 11 12 13 next >>

The challenge facing Eric Perbos-Brinck of orienting his diverse employees to his company and to the French culture reflects only a small aspect of the human resource management (HRM) challenges facing today's managers. If an organization doesn't take its HRM responsibilities seriously, work performance and goal accomplishment may suffer. The quality of an organization is, to a large degree, merely the summation of the quality of people it hires and keeps. Getting and keeping competent employees are critical to the success of every organization, whether the organization is just starting or has been in business for years. Therefore, part of every manager's job in the organizing function is human resource management.

> Why Human Resource Management Is Important

"Our people are our most important asset." Many organizations are using this phrase, or something close to it, to acknowledge the important role that employees play in organizational success. These organizations also recognize that *all* managers must engage in some human resource management activities—even in large organizations that have a specialized HRM department. These managers interview job candidates, orient new employees, and evaluate their employees' work performance.

Can HRM be an important strategic tool? *Can* it help establish an organization's sustainable competitive advantage? The answers to these questions seem to be yes. Various studies have concluded that an organization's human resources can be a significant source of competitive advantage.[2]

Achieving competitive success through people requires a fundamental change in how managers think about their employees and how they view the work relationship. It involves working with and through people and seeing them as partners, not just as costs to be minimized or avoided. That's what organizations such as Southwest Airlines, Cisco Systems, and Timberland are doing. In addition to their potential importance as part of organizational strategy and contribution to competitive advantage, an organization's HRM practices have been found to have a significant impact on organizational performance.

Studies that have looked at the link between HRM policies and practices and organizational performance have found that certain policies and practices have a positive impact on performance.[3] What type of positive impact? One study reported that significantly improving an organization's HRM practices could increase its market value by as much as 30 percent.[4] The term used to describe these practices that lead to such results is high-performance work practices. High-performance work practices can lead to both high individual and high organizational performance. Exhibit 12.1 lists examples of high-performance work practices. The common thread in these practices seems to be a commitment to improving the knowledge, skills, and abilities of an organization's employees, increasing their motivation, reducing loafing on the job, and enhancing the retention of quality employees while encouraging nonperformers to leave.

- Self-directed work teams
- Job rotation
- High levels of skills training
- Problem-solving groups
- Total quality management procedures and processes
- Encouragement of innovative and creative behavior
- Extensive employee involvement and training
- Implementation of employee suggestions
- Contingent pay based on performance
- Coaching and mentoring
- Significant amounts of information sharing
- Use of employee attitude surveys
- Cross-functional integration
- Comprehensive employee recruitment and selection procedures

Exhibit 12.1 **Examples of High-Performance Work Practices**

Source: Based on M. Huselid, "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," Academy of Management Journal, June 1995, p. 635; and B. Becker and B. Gerhart, "The Impact of Human Resource Management on Organizational Performance: Progress and Prospects," Academy of Management Journal, August 1996, p. 785.

Whether an organization chooses to implement high-performance work practices or not, there are certain HRM activities that must be completed in order to ensure that the organization has qualified people to perform the work that needs to be done. These activities constitute the human resource management process.

Management (activebook), 7/e

Stephen P. Robbins Mary Coulter

> The Human Resource Management Process

Exhibit 12.2 introduces the key components of an organization's human resource management process, which consists of eight activities necessary for staffing the organization and sustaining high employee performance. The first three activities ensure that competent employees are identified and selected; the next two activities involve providing employees with up-to-date knowledge and skills; and the final three activities entail making sure that the organization retains competent and high-performing employees who are capable of sustaining high performance.

Exhibit 12.2 The Human Resource Management Process

Notice in Exhibit 12.2 that the entire HRM process is influenced by the external environment. We elaborated on the constraints that the environment puts on managers in Chapter 3, but let's briefly review those environmental factors that most directly influence the HRM process—employee labor unions and governmental laws and regulations.

A labor union is an organization that represents workers and seeks to protect their interests through collective bargaining. In unionized organizations, many HRM decisions are regulated by the terms of collective agreements. These agreements usually define such things as recruitment sources; criteria for hiring, promotions, and layoffs; training eligibility; and disciplinary practices. Although only about 13.9 percent of the workforce in the United States is unionized, that percentage is higher in other countries. In Japan and Germany, respectively, 24.1 percent and 32.1 percent of the labor force belong to a union. And in Mexico an estimated 25 percent of workers belong to a union.[5] Although labor unions can significantly affect an organization's HRM practices, no environmental constraint can match the influence of governmental laws and regulations, especially in North America.

The federal government has greatly expanded its influence over HRM by enacting a number of laws and regulations (see Exhibit 12.3 for examples). As a result, today's employers must ensure that equal employment opportunities exist for job applicants and current employees. Decisions regarding who will be hired, for instance, or which employees will be chosen for a management training program must be made without regard to race, sex, religion, age, color, national origin, or disability. Exceptions can occur only when special circumstances exist. For instance, a community fire department can deny employment to a firefighter applicant who is confined to a wheelchair, but if that same individual is applying for a desk job, such as a fire department dispatcher, the disability cannot be used as a reason to deny employment. The issues involved, however, are rarely that clear-cut. For example, employment laws protect most employees whose religious beliefs require a specific style of dress—robes, long shirts, long hair, and the like. However, if the specific style of dress may be hazardous or unsafe in the work setting (e.g., when operating machinery), a company could refuse to hire a person who won't adopt a safer dress code.[6]

Year	**Law or Regulation**	**Description**
1963	Equal Pay Act	Prohibits pay differences based on sex for equal work
1964	Civil Rights Act, Title VII (amended in 1972)	Prohibits discrimination based on race, color, religion, national origin, or sex
1967	Age Discrimination in Employment Act	Prohibits age discrimination against employees between 40 and 65 years of age
1973	Vocational Rehabilitation Act	Prohibits discrimination on the basis of physical or mental disabilities
1974	Privacy Act	Gives employees the legal right to examine personnel files and letters of reference concerning them
1978	Mandatory Retirement Act	Prohibits the forced retirement of most employees before the age of 70; upper limit on age was removed in 1986
1986	Immigration Reform and Control Act	Prohibits unlawful employment of aliens and unfair immigration-related employment practices
1988	Polygraph Protection Act	Limits an employer's ability to use lie detectors
1988	Worker Adjustment and Retraining Notification Act	Requires employers with 100 or more employees to provide 60 days' notice before a facility closing or mass layoff
1990	Americans with Disabilities Act	Prohibits employers from discriminating against individuals with physical or mental disabilities or the chronically ill; also requires organizations to reasonably accommodate these individuals

1991	Civil Rights Act of 1991	Reaffirms and tightens prohibition of discrimination; permits individuals to sue for punitive damages in cases of intentional discrimination
1993	Family and Medical Leave Act of 1993	Permits employees in organizations with 50 or more workers to take up to 12 weeks of unpaid leave each year for family or medical reasons

Exhibit 12.3 **Major U.S. Federal Laws and Regulations Related to HRM**

Trying to balance the "shoulds and should-nots" of these laws often falls within the realm of affirmative action. Many organizations have affirmative action programs to ensure that decisions and practices enhance the employment, upgrading, and retention of members from protected groups such as minorities and females. That is, the organization not only refrains from discrimination but actively seeks to enhance the status of members from protected groups.

Managers are not completely free to choose whom they hire, promote, or fire. Although these laws and regulations have significantly helped to reduce employment discrimination and unfair employment practices, they have, at the same time, reduced managers' discretion over human resource decisions.

click here to explore now

video example

Don't current laws in the United States tie managers' hands in terms of personnel issues like hiring, promotions, and terminations?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> Human Resource Planning

Human resource planning is the process by which managers ensure that they have the right number and kinds of people in the right places, and at the right times, who are capable of effectively and efficiently performing assigned tasks. HR planning can be condensed into two steps: (1) assessing current human resources and (2) assessing future human resource needs and developing a program to meet those future needs.

Current Assessment

Managers begin HR planning by reviewing the organization's current human resource status, usually through a *human resource inventory*. This information is derived from forms filled out by employees, which includes items such as name, education, training, prior employment, languages spoken, special capabilities, and specialized skills. The availability of sophisticated databases makes keeping and getting this information quite easy.

Another part of the current assessment is the job analysis, which is an assessment that defines jobs and the behaviors necessary to perform them. For instance, what are the duties of a purchasing specialist, level 3, who works for Boise Cascade? What minimal knowledge, skills, and abilities are necessary to be able to adequately perform this job? How do these requirements compare with those for a level 2 purchasing specialist, or for a purchasing manager? Information for a job analysis can be gathered through the following methods: directly observing or filming individuals on the job, interviewing employees individually or in a group, having employees complete a structured questionnaire, having job "experts" (usually managers) identify a job's specific characteristics, and having employees record their daily activities in a diary or notebook.

With information from the job analysis, managers develop or revise job descriptions and job specifications. A job description is a written statement of what a jobholder does, how it is done, and why it is done. It typically describes job content, environment, and conditions of employment. A job specification states the minimum qualifications that a person must possess to perform a given job successfully. It identifies the knowledge, skills, and attitudes needed to do the job effectively. Both the job description and specification are important documents when managers begin recruiting and selecting.

Meeting Future Human Resource Needs

Future human resource needs are determined by the organization's goals and strategies. Demand for employees is a result of demand for the organization's products or services. On the basis of its estimate of total revenue, managers can attempt to establish the number and mix of employees needed to reach that revenue. In some cases, however, that situation may be reversed. When particular skills are necessary but in short supply, the availability of appropriate human resources determines revenues.

Conditions of employment, such as the number of hours worked per week, are an important part of most job descriptions. The French government recently passed a law requiring companies in France to reduce the workweek to 35 hours. The move was protested by some who fear it will reduce productivity instead of accomplishing its intended purpose, helping to lower France's unemployment rate.

After they have assessed both current capabilities and future needs, managers are able to estimate HR shortages—both in number and in type—and to highlight areas in which the organization will be understaffed or overstaffed. With this information, managers are ready to proceed to the next step in the HRM process.

> Recruitment and Decruitment

Once managers know their current human resource status and their future needs, they can begin to do something about any inconsistencies. If one or more vacancies exist, they can use the information gathered through job analysis to guide them in recruitment—that is, the process of locating, identifying, and attracting capable applicants.[7] On the other hand, if HR planning shows a surplus of employees, management may want to reduce the organization's workforce through decruitment.[8]

Recruitment

Potential job candidates can be found by using several sources, including the Internet. Exhibit 12.4 explains these sources. The source that's used is influenced by three factors: (1) the local labor market—it's generally easier to recruit in large labor markets; (2) the type or level of position—the more specialized the position, the more that recruitments efforts might have to be regional or national searches; and (3) the size of the organization—in general, the larger the organization, the easier it is to recruit.

Source	Advantages	Disadvantages
Internal search	Low cost; builds employee morale; candidates are familiar with organization	Limited supply; may not increase proportion of employees from protected groups
Advertisements	Wide distribution; can be targeted to specific groups	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
Public employment agencies	Free or nominal cost	Candidates tend to be unskilled or minimally trained
Private employment agencies	Wide contacts; careful screening; short-term guarantees often given	High cost

School placement	Large, centralized body of candidates	Limited to entry-level positions
Temporary help services	Fills temporary needs	Expensive; may have limited understanding of organization's overall goals and activities
Employee leasing and independent contractors	Fills temporary needs, but usually for more specific, longer-term projects	Little commitment to organization other than current project
Web-based advertising	Reaches large numbers of people; can get immediate feedback	Generates many unqualified candidates

Exhibit 12.4 **Major Sources of Potential Job Candidates**

Do certain recruiting sources produce superior candidates? The answer is generally "yes." The majority of studies have found that employee referrals generally produce the best candidates.[9] The explanation is intuitively logical. First, applicants referred by current employees are prescreened by these employees. Because the recommenders know both the job and the person being recommended, they tend to refer applicants who are well qualified. Also, because current employees often feel that their reputation is at stake with a referral, they tend to refer others only when they are reasonably confident that the referral will not make them look bad.

Decruitment

The other approach to controlling labor supply is the process of decruitment. In the last decade, many large U.S. corporations, government agencies, and small businesses have reduced the size of their workforce or restructured their skill base.[10] Downsizing is a way to meet the demands of a dynamic environment. For instance, through mergers designed to make themselves more competitive globally, companies such as DaimlerChrysler and ExxonMobil have cut thousands of jobs.

Decruitment is not a pleasant task for any manager. The decruitment options are shown in Exhibit 12.5. Obviously people can be fired, but other choices may be more beneficial to the organization. Keep in mind that, regardless of the method used to reduce the number of employees in the organization, there is no easy way to do it, even though it may be absolutely necessary.

Exhibit 12.5	Decruitment Options

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 8 9 10 11 12 13 << previous | next >>

> Selection

Once the recruiting effort has developed a pool of candidates, the next step in the HRM process is to determine who is best qualified for the job. This step is called the selection process, the process of screening job applicants to ensure that the most appropriate candidates are hired.

What Is Selection?

Selection is an exercise in prediction. It seeks to predict which applicants will be successful if hired. Successful in this case means performing well on the criteria the organization uses to evaluate employees. In filling a sales position, for example, the selection process should be able to predict which applicants will generate a high volume of sales; for a position as a network administrator, it should predict which applicants will be able to effectively install, debug, and manage the organization's computer network.

Consider, for a moment, that any selection decision can result in four possible outcomes. As shown in Exhibit 12.6, two of these outcomes would be correct, and two would indicate errors.

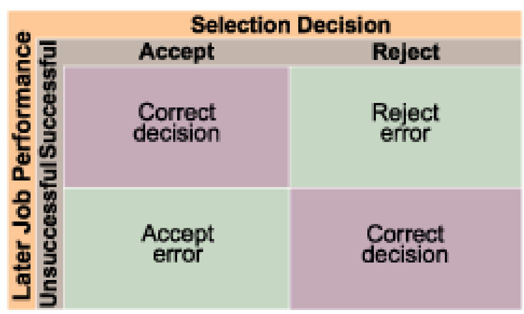


Exhibit 12.6 Selection Decision Outcomes

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 would perform accordingly if hired. In the first case, we have successfully accepted; in the second case, 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). These problems can be significant. Given today's HR laws and regulations, reject errors can cost more than the additional screening needed to find acceptable candidates. They can expose the organization to charges of discrimination, especially if applicants from protected groups are disproportionately rejected. 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 selection screening. The major thrust of any selection activity should be to reduce the probability of making reject errors or accept errors while increasing the probability of making correct decisions. Managers do this by using selection procedures that are both valid and reliable.

Validity and Reliability

Any selection device that a manager uses should demonstrate validity. That is, there must be a proven relationship between the selection device and some relevant criterion. For example, the law prohibits managers from using a test score as a selection device unless there is clear evidence 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 related to job performance.

In addition to being valid, a selection device must also demonstrate reliability, which indicates whether the device measures the same thing consistently. For example, if a test is reliable, any single individual's score should remain fairly consistent over time, assuming that the characteristics the test is measuring are also stable. No selection device can be effective if it is low in reliability. Using such a device would be like weighing yourself every day on an erratic scale. If the scale is unreliable—randomly fluctuating, say 10 to 15 pounds every time you step on it—the results will not mean much. To be effective predictors, selection devices must possess an acceptable level of consistency.

Types of Selection Devices

Managers can use a number of selection devices to reduce accept and reject errors. The best-known devices include an analysis of the applicant's completed application form, written and performance-simulation tests, interviews, background investigations, and in some cases, a physical examination. Let's briefly review each of these devices. Exhibit 12.7 lists the strengths and weaknesses of each.[11]

The Application Form

Strengths:

- Relevant biographical data and facts that can be verified have been shown to be valid performance measures for some jobs.
- When items on the form have been weighted to reflect job relatedness, this device has proved to be a valid predictor for diverse groups.

Weaknesses:

- Usually only a couple of items on the form prove to be valid predictors of job performance and then only for a specific job.
- Weighted-item applications are difficult and expensive to create and maintain.

Written Tests

Strengths:

- Tests of intellectual ability, spatial and mechanical ability, perceptual accuracy, and motor ability are moderately valid predictors for many semiskilled and unskilled lower-level jobs in industrial organizations.
- Intelligence tests are reasonably good predictors for supervisory positions.

Weaknesses:

- Intelligence and other tested characteristics can be somewhat removed from actual job performance, thus reducing their validity.

Performance-Simulation Tests

Strengths:

- Based on job analysis data and easily meet the requirement of job relatedness.
- Have proven to be valid predictors of job performance.

Weaknesses:

- Expensive to create and administer.

The Interview

Strengths:

- Must be structured and well organized to be effective predictors.
- Interviewers must use common questioning to be effective predictors.

Weaknesses:

- Interviewers must be aware of legality of certain questions.
- Subject to potential biases, especially if interviews are not well structured and standardized.

Background Investigations

Strengths:

- Verifications of background data are valuable sources of information.

Weaknesses:

- Reference checks are essentially worthless as a selection tool.

Physical Examination

Strengths:

- Has some validity for jobs with certain physical requirements.
- Done primarily for insurance purposes.

Weaknesses:

- Must be sure that physical requirements are job related and do not discriminate.

Exhibit 12.7 **Selection Devices**

The Application Form

Almost all organizations require job candidates to fill out an application. It may be only a form on which the person gives his or her name, address, and telephone number. Or it might be a comprehensive personal history profile, detailing the person's activities, skills, and accomplishments.

Written Tests

Typical types of written tests include tests of intelligence, aptitude, ability, and interest. Such tests have been used for years, although their popularity tends to run in cycles. Today, personality, behavioral, and aptitude assessment tests are popular among businesses. Managers need to be careful regarding their use, however, since legal challenges against the use of such tests have been successful when they're not job related or when they elicit information concerning sex, race, age, or other areas protected by equal employment opportunity laws.[12]

Managers are aware that poor hiring decisions are costly and that properly designed tests can reduce the likelihood of making poor decisions. In addition, the cost of developing and validating a set of written tests for a specific job has decreased significantly.

Performance-Simulation Tests

What better way is there to find out whether an applicant for a technical writing position at Matsushita can write technical manuals than by having him or her do it? Performance-simulation tests are made up of actual job behaviors. The best-known performance-simulation tests are work sampling and assessment centers.

Work sampling involves presenting applicants with a miniature model of a job and having them perform a task or set of tasks central to it. Applicants demonstrate that they have the necessary skills and abilities by actually doing the tasks. This type of test is appropriate for routine jobs.

Assessment centers are places in which job candidates undergo performance-simulation tests that evaluate managerial potential. In assessment centers, executives, supervisors, or trained psychologists evaluate candidates for managerial positions as they go through extensive exercises that simulate real problems they would confront on the job.[13] Activities might include interviews, in-basket problem-solving exercises, group discussions, and business decision games.

The Interview

The interview, like the application form, is an almost universal selection device.[14] Not many of us have ever gotten a job without one or more interviews. However, the value of the interview as a selection device has been widely debated.[15] Managers can make interviews more valid and reliable by following the suggestions listed in Exhibit 12.8.

1. Structure a *fixed set of questions* for all applicants.
2. Have *detailed information about the job* for which applicants are interviewing.
3. *Minimize any prior knowledge* of applicants' background, experience, interests, test scores, or other characteristics.
4. *Ask behavioral questions* that require applicants to give detailed accounts of actual job behaviors.
5. Use a *standardized evaluation form.*
6. *Take notes* during the interview.
7. *Avoid short interviews* that encourage premature decision making.

Exhibit 12.8 **Suggestions for Interviewing**

Source: Based on D.A. DeCenzo and S.P. Robbins, *Human Resource Management*, 6th ed. (New York: Wiley, 1999, pp. 205–06.)

Another important factor in interviewing job candidates is the legality of certain interview questions. Employment law attorneys caution managers to be extremely cautious in the types of questions they ask candidates. Exhibit 12.9 lists some examples of typical interview questions that managers *shouldn't* ask because they could expose the organization to lawsuits by job applicants.

- What is your date of birth?
- Have you ever filed a workers' compensation claim?
- What is your place of birth?
- Do you own a home?
- What is your native language?
- Do you have children? Plan to have children? Have child care?
- Do you have a physical or mental disability that would prevent you from doing this job?
- What religion do you practice?

Exhibit 12.9 **Examples of Interview Questions Managers Shouldn't Ask**

Source: Based on J.S. Pauliot, "Topics to Avoid with Applicants," *Nation's Business*, July 1992, pp. 57–58; and L.M. Litvan, "Thorny Issues in Hiring," *Nation's Business*, April 1996, pp. 34–36.

Background Investigations

Background investigations are of two types: verifications of application data and reference checks. The first type has proved to be a valuable source of selection information while the latter is essentially worthless as a selection tool because applicants' references tend to be almost universally positive. After all, a person isn't going to ask someone to write a reference if that person is likely to write a negative one.

Physical Examination

This device would be useful only for a small number of jobs that have certain physical requirements. Instead, the physical examination is mostly used for insurance purposes because organizations want to be sure that new hires will not submit insurance claims for injuries or illnesses they had before being hired.

What Works Best and When?

Many selection devices are of limited value to managers in making selection decisions. Exhibit 12.10 summarizes the validity of these devices for particular types of jobs. Managers should use those devices that effectively predict for a given job.

	Position			
Selection Device	**Senior Management**	**Middle and Lower Management**	**Complex Nonmanagerial**	**Routine Work**
Application form	2	2	2	2
Written tests	1	1	2	3
Work samples	—	—	4	4
Assessment center	5	5	—	—
Interviews	4	3	2	2
Verification of application data	3	3	3	3
Reference checks	1	1	1	1
Physical exam	1	1	1	2

Exhibit 12.10 **Quality of Selection Devices as Predictors**

Note: Validity is measured on a scale from 5 (highest) to 1 (lowest). A dash means "not applicable."

In addition, managers who treat the recruiting and hiring of employees as if the applicants must be sold on the job and exposed only to an organization's positive characteristics are likely to have a workforce that is dissatisfied and prone to high turnover.[16]

During the hiring process, every job applicant develops a set of expectations about the company and about the job for which he or she is interviewing. When the information an applicant receives is excessively inflated, a number of things happen that have potentially negative effects on the company. First, mismatched applicants are less likely to withdraw from the selection process. Second, because inflated information builds unrealistic expectations, new employees are likely to become quickly dissatisfied and to leave the organization. Third, new hires are prone to becoming disillusioned and less committed to the organization when they face the unexpected harsh realities of the job. In many cases, these individuals may feel that they were misled during the hiring process and may become problem employees.

To increase job satisfaction among employees and reduce turnover, you should consider providing a realistic job preview (RJP). An RJP 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 that there are limited opportunities to talk to co-workers during work hours, that promotional advancement is slim, or that work hours fluctuate so erratically that employees may be required to work during what are usually off-hours (nights and weekends). Research indicates that applicants who have been given a realistic job preview hold lower and more realistic job expectations for the jobs they will be performing and are better able to cope with the frustrating elements of the job than are applicants who have been given only inflated information. The result is fewer unexpected resignations by new employees.

click here to explore now

active example

PRISM: Scenario 11 - Active Listening and Interviewing

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> Orientation

Did you participate in some type of organized "introduction to college life" when you started school? If you did, you may have been told about your school's rules and regulations, the procedures for activities such as applying for financial aid or cashing a check 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 his or her job and the organization. This introduction is called orientation.

There are two types of orientation. *Work unit orientation* familiarizes the employee with the goals of the work unit, clarifies how his or her job contributes to the unit's goals, and includes an introduction to his or her new co-workers. *Organization orientation* informs the new employee about the organization's objectives, history, philosophy, procedures, and rules. This should include relevant human resource policies and benefits such as work hours, pay procedures, overtime requirements, and fringe benefits. In addition, a tour of the organization's work facilities is often part of the organization orientation.

Many organizations, particularly large ones, have formal orientation programs, which might include a tour of the work facilities, a film describing the history of the organization, and a short discussion with a representative from the human resources department who describes the organization's benefit programs. Other organizations use a more informal orientation program in which, for instance, the manager assigns the new employee to a senior member of the work group who introduces the new employee to immediate co-workers and shows him or her the locations of the copy room, coffee machine, rest rooms, cafeteria, and the like.

Managers have an obligation to make the integration of the new employee into the organization as smooth and as free of anxiety as possible. They need to openly discuss employee beliefs regarding mutual obligations of the organization and the employee.[17] It is in the best interests of the organization and the new employee to get the person up and running in the job as soon as possible. Successful orientation, whether formal or informal, results in an outsider-insider transition that makes the new member feel comfortable and fairly well adjusted, lowers the likelihood of poor work performance, and reduces the probability of a surprise resignation by the new employee only a week or two into the job.

> Employee Training

Using fun techniques such as safety fairs, games of safety Jeopardy, and forklift rodeos, employees at Motorola's Network Solutions Sector learn about safety on the job.[18] Employee safety training is only one of many types of training that organizations provide employees. As job demands change, employee skills have to be altered and updated. It's been estimated that U.S. business firms spend $54 billion on formal courses and training programs to build workers' skills.[19] Managers, of course, are responsible for deciding what type of training employees need, when they need it, and what form that training should take.

click here to explore now

video example <

Why has employee training become such a big deal in recent years?

Skill Categories

Employee skills can be grouped into three categories: technical, interpersonal, and problem solving. Most employee training activities seek to modify an employee's skills in one or more of these areas.

Most training is directed at upgrading and improving an employee's *technical* skills, including basic skills—the ability to read, write, and do math computations—as well as job-specific competencies.[20] The majority of jobs today have become more complex than they were a decade or two ago. Computerized factories and offices, digital equipment, and other types of sophisticated technology require that employees have math, reading, and computer skills. How, for example, can employees master statistical process control or the careful measurement and self-inspection needed for tool changes in flexible manufacturing systems if they can't perform basic math calculations or read detailed operating manuals? Or how can clerical employees do their jobs effectively without the ability to understand word processing, database management, or e-mail programs?

Almost every employee belongs to a work group or unit. To some degree, work performance depends on an employee's ability to interact effectively with his or her co-workers and manager. Some employees have excellent *interpersonal* skills while other employees require training to improve theirs. This type of training often includes learning how to be a better listener, how to communicate ideas more clearly, and how to reduce conflict. For instance, employees at Big Y Foods in Springfield, Massachusetts, learned to develop cooperation, teamwork, and trust through an experience-based interpersonal skills training program.

Many employees have to solve problems on their job, particularly in nonroutine jobs. When the *problem-solving* skills of employees are deficient, managers might want to improve them through training. This would include participating in activities to sharpen logic, reasoning, and skills at defining problems; assessing causation; being creative in developing alternatives; analyzing alternatives; and selecting solutions. For example, managers at fabric supplier F. Schumacher receive training in problem solving and conflict resolution.

Training Methods

Most training takes place on the job because this approach is simple to implement and is usually inexpensive. However, on-the-job training can disrupt the workplace and result in an increase in errors while learning takes place. Also, some skill training is too complex to learn on the job. In such cases, it should take place outside the work setting. Exhibit 12.11 summarizes the more popular training methods, both on-the-job and off-the-job types.

Sample On-the-Job Training Methods	
Job rotation	Lateral transfers allowing employees to work at different jobs. Provides good exposure to a variety of tasks.
Understudy assignments	Working with a seasoned veteran, coach, or mentor. Provides support and encouragement from an experienced worker. In the trades industry, this may also be an apprenticeship.
Sample Off-the-Job Training Methods	
Classroom lectures	Lectures designed to convey specific technical, interpersonal, or problem-solving skills.
Films and videos	Using media to explicitly demonstrate technical skills that are not easily presented by other training methods.
Simulation exercises	Learning a job by actually performing the work (or its simulation). May include case analyses, experiential exercises, role playing, and group interaction.
Vestibule training	Learning tasks on the same equipment that one actually will use on the job but in a simulated work environment.

Exhibit 12.11 **Employee Training Methods**

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

> Employee Performance Management

Managers need to know whether their employees are performing their jobs efficiently and effectively or whether there is need for improvement. Evaluating employee performance is part of a performance management system, which is a process of establishing performance standards and appraising employee performance in order to arrive at objective human resource decisions as well as to provide documentation to support those decisions. The performance appraisal is a critical part of a performance management system. Let's look at some different methods of doing performance appraisal.

Performance Appraisal Methods

Managers can choose from seven performance appraisal methods. The advantages and disadvantages of each of these methods are shown in Exhibit 12.12.

Method	Advantage	Disadvantage
Written essay	Simple to use	More a measure of evaluator's writing ability than of employee's actual performance
Critical incidents	Rich examples; behaviorally based	Time-consuming; lack quantification
Graphic rating scales	Provide quantitative data; less time- consuming than others	Do not provide depth of job behavior assessed
BARS	Focus on specific and measurable job behaviors	Time-consuming; difficult to develop
Multiperson comparisons	Compares employees with one another	Unwieldy with large number of employees
MBO	Focuses on end goals; results oriented	Time-consuming
360 degree appraisal	Thorough	Time-consuming

Exhibit 12.12 **Advantages and Disadvantages of Performance Appraisal Methods**

Written Essays

The written essay is a performance appraisal technique in which an evaluator writes out a description of an employee's strengths and weaknesses, past performance, and potential. The evaluator would also make suggestions for improvement.

Critical Incidents

The use of critical incidents focuses the evaluator's attention on those critical or key behaviors that separate effective from ineffective job performance. The appraiser writes down anecdotes that describe what the employee did that was especially effective or ineffective. The key here is that only specific behaviors, not vaguely defined personality traits, are cited.

Graphic Rating Scales

One of the oldest and most popular performance appraisal methods is graphic rating scales. This method lists a set of performance factors such as quantity and quality of work, job knowledge, cooperation, loyalty, attendance, honesty, and initiative. The evaluator then goes down the list and rates the employee on each factor using an incremental scale. The scales typically specify five points; for instance, a factor such as job knowledge might be rated from 1 ("poorly informed about work duties") to 5 ("has complete mastery of all phases of the job").

Behaviorally Anchored Rating Scales

One increasingly popular performance appraisal approach is behaviorally anchored rating scales (BARS). These scales combine major elements from the critical incident and graphic rating scale approaches. The appraiser rates an employee according to items along a numerical scale, but the items are examples of actual behavior on a job rather than general descriptions or traits.

Multiperson Comparisons

Multiperson comparisons compare one individual's performance with that of one or more others. It's a relative, not an absolute, measuring device. The three most popular approaches to multiperson comparisons include group order ranking, individual ranking, and paired comparison. The group order ranking requires the evaluator to place employees into a particular classification such as "top one-fifth" or "second one-fifth." The individual ranking approach requires the evaluator merely to list the employees in order from highest to lowest. In the paired comparison approach, each employee is compared with every other employee in the comparison group and rated as either the superior or weaker member of the pair. After all paired comparisons are made, each employee is assigned a summary ranking based on the number of superior scores he or she received.

Objectives

We previously introduced management by objectives (MBO) as we discussed planning in Chapter 7. MBO is also a mechanism for appraising performance. In fact, it's the preferred method for assessing managers and professional employees.[21] With MBO, employees are evaluated by how well they accomplish a specific set of goals that has been determined to be critical in the successful completion of their jobs.

360 Degree Feedback

360 degree feedback is a performance appraisal method that utilizes feedback from supervisors, employees, and co-workers. In other words, this type of review utilizes information from the full circle of people with whom the manager interacts. Companies such as Alcoa, Pitney Bowes, AT&T, DuPont, Levi Strauss, and UPS are using this innovative approach. Users of this approach caution that, although it's effective for career coaching and helping a manager recognize his or her strengths and weaknesses, it's not appropriate for determining pay, promotions, or terminations.

click here to explore now

video exercise

Take a moment to apply what you've learned.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 8 9 10 11 12 13 << previous | next >>

> Compensation and Benefits

Would you work 40 hours a week (or more) for an organization for no pay and no benefits? Although we might consider doing so for some "social cause" organization, most of us expect to receive some compensation from our employer. Developing an effective and appropriate compensation system is an important part of the HRM process.[22] An effective and appropriate compensation system can help attract and retain competent and talented individuals who can help the organization accomplish its mission and goals. In addition, an organization's compensation system has been shown to have an impact on its strategic performance.[23]

Managers must develop a compensation system that reflects the changing nature of work and the workplace in order to keep people motivated. Organizational compensation can include many different types of rewards and benefits such as base wages and salaries, wage and salary add-ons, incentive payments, and other benefits and services.

How do managers determine who receives $9 an hour and who receives $350,000 a year? Several factors influence the differences in compensation and benefit packages for different employees. Exhibit 12.13 summarizes these factors, which are both job based and business or industry based. Many organizations today, however, are using an alternative approach to determining compensation called skill-based pay.

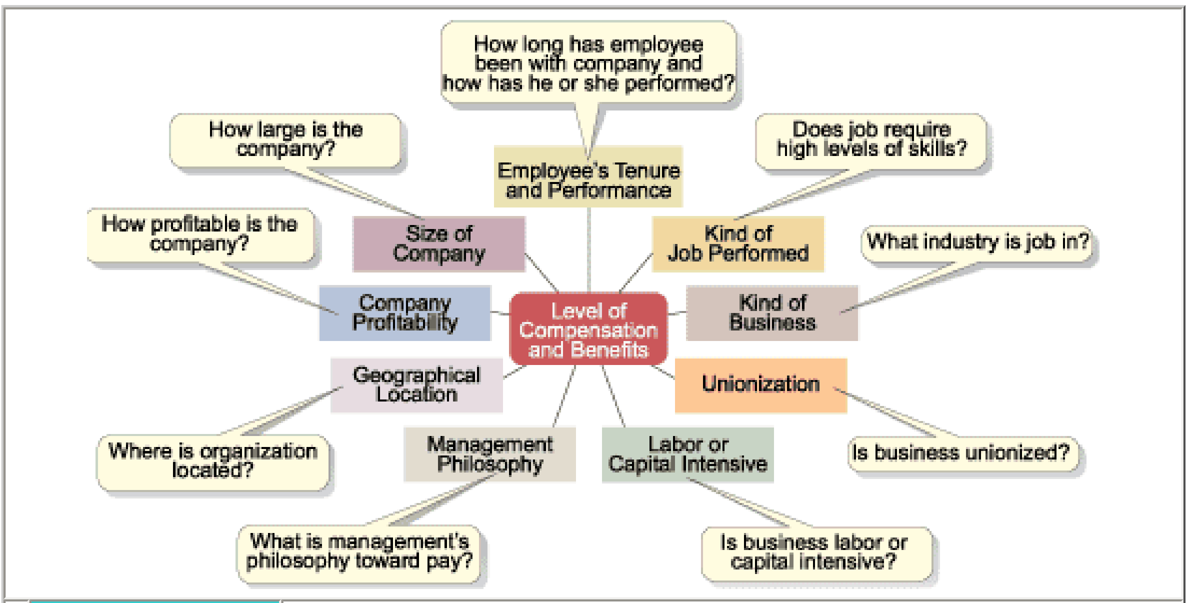


Exhibit 12.13 Factors That Influence Compensation and Benefits

Because employees' levels of skills tend to affect work efficiency and effectiveness, many organizations have implemented skill-based pay systems, which reward employees for the job skills and competencies they can demonstrate. In a skill-based pay system, an employee's job title doesn't define his or her pay category; skills do.[24] For example, the highest pay a machine operator at Polaroid Corporation can earn is $14 an hour. However, because the company has a skill-based pay plan, machine operators can earn up to a 10 percent premium if they broaden their skills and perform tasks such as material accounting, equipment maintenance, and quality inspection.[25] Skill-based pay systems seem to mesh nicely with the changing nature of jobs and today's work environment. As one expert noted, "Slowly, but surely, we're becoming a skill-based society where your market value is tied to what you can do and what your skill set is. In this new world where skills and knowledge are what really count, it doesn't make sense to treat people as jobholders. It makes sense to treat them as people with specific skills and to pay them for these skills."[26]

Although many factors influence the design of an organization's compensation system, flexibility is becoming a key consideration. The traditional approach to paying people reflected a time of job stability when an employee's pay was largely determined by seniority and job level. Given the dynamic environments that many organizations face in which the employee skills that are absolutely critical to organizational success can change in a matter of months, the trend is to make pay systems more flexible and to reduce the number of pay levels. However, whatever approach managers take, they must establish a fair, equitable, and motivating compensation system that allows the organization to recruit and keep a productive workforce.

go to page: 1 2 3 4 5 6 7 8 9 10 11 12 13 << previous | next >>

> Career Development

The term *career* has several meanings. In popular usage, it can mean advancement ("she is on a management career track"), a profession ("he has chosen a career in accounting"), or a lifelong sequence of jobs ("his career has included 12 jobs in six organizations"). For our purposes, we define a career as the sequence of positions held by a person during his or her lifetime.[27] Using this definition, it's apparent that we all have, or will have, a career. Moreover, the concept is as relevant to unskilled laborers as it is to software designers or physicians. But career development isn't what it used to be![28]

The Way It Was

Although career development has been an important topic in management courses for years, we've witnessed some dramatic changes in the concept. Career development programs were typically designed by organizations to help employees advance their work lives within a specific organization. The focus of such programs was to provide the information, assessment, and training needed to help employees realize their career goals. Career development was also a way for organizations to attract and retain highly talented people. Those purposes have all but disappeared in today's workplace. Widespread organizational changes have led to uncertainty and chaos concerning the concept of a traditional organizational career. Down-sizing, restructuring, and other organizational adjustments have brought us to one significant conclusion about career development: The individual—not the organization—is responsible for his or her own career! You, therefore, must be prepared to do what is necessary to advance your career. You must take responsibility for designing, guiding, and developing your own career. Your career will be managed by you, not by the organization.[29] Both organizations and individuals are adjusting to the notion that organizational members have to look out for themselves and become more self-reliant.

You and Your Career Today

The idea of increased personal responsibility for one's career has been described as a *boundaryless career* in which individuals rather than organizations define career progression, organizational loyalty, important skills, and marketplace value.[30] The challenge for individuals is that there are no norms and few rules to guide them in these new circumstances. Instead, individuals assume primary responsibility for career planning, career goal setting, and education and training.[31]

One of the first career decisions you have to make is career choice. The optimum career choice is one that offers the best match between what you want out of life and your interests, abilities, and market opportunities. Good career choice outcomes should result in a series of positions that give you an opportunity to be a good performer, make you want to maintain your commitment to your career, lead to highly satisfying work, and give you the proper balance between work and personal life. A good career match, then, is one in which you are able to develop a positive self-concept, to do work that you think is important, and to lead the kind of life you desire.[32] Exhibit

12.14 provides the results of a survey of college graduates regarding what is important to them in their first jobs. How would you have ranked these items?

(ranked in order of importance)

1. Enjoying what they do
2. Opportunity to use skills and abilities
3. Opportunity for personal development
4. Feeling what they do matters
5. Benefits
6. Recognition for good performance
7. Friendly co-workers
8. Job location
9. Lots of money
10. Working on teams.

Exhibit 12.14 **Top 10 Important Job Factors for College Graduates**

Source: Based on V. Frazee, "What's Important to College Grads in Their First Jobs?" *Personnel Journal*, July 1996, p. 21.

Once you have identified a career choice, it's time to initiate the job search. We aren't going to get into the specifics of job hunting, writing a résumé, or interviewing successfully, although those career actions are important. Let's fast forward through all that and assume that your job search was successful. It's time to go to work! How do you survive and excel in your career? Exhibit 12.15 lists some suggestions for a successful management career.[33] By taking an active role in managing your career, your work life can be more exciting, enjoyable, and satisfying.

Exhibit 12.15 **Some Suggestions for a Successful Management Career**

go to page: 1 2 3 4 5 6 7 8 9 10 11 12 13 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

Current Issues in Human Resource Management

We'll conclude this chapter by looking at some contemporary HRM issues facing today's managers. These include managing workforce diversity, sexual harassment, and work-life balance.

Managing Workforce Diversity

We've discussed the changing makeup of the workforce in several places throughout the book. Let's look at how workforce diversity affects such basic HRM concerns as recruitment, selection, and orientation and training.

Recruitment

To improve workforce diversity, managers need to widen their recruiting net. For example, the popular practice of relying on employee referrals as a source of job applicants tends to produce candidates who are similar to present employees. However, some organizations, such as Exabyte of Boulder, Colorado, have been able to recruit and hire diverse individuals by relying on their current employees. The company's successful experience with a hearing-impaired employee led to hiring other nonhearing employees through employee referrals. But not every organization has the employee resources needed to achieve workforce diversity through employee referrals. So managers may have to look for job applicants in places where they might not have looked before. To increase diversity, managers are turning to nontraditional recruitment sources such as women's job networks, over-50 clubs, urban job banks, training centers for the physically challenged, ethnic newspapers, and gay rights organizations. This type of outreach should enable the organization to broaden its pool of diverse applicants.

Selection

Once a diverse set of applicants exists, efforts must be made to ensure that the selection process does not discriminate. Moreover, applicants need to be made comfortable with the organization's culture and be made aware of management's desire to accommodate their needs. For instance, although only a small percentage of women apply for Microsoft's technical jobs, the company makes every effort to hire a high percentage of the female applicants and strives to make sure that these women have a successful experience once they are on the job.[34]

Orientation and Training

The outside-insider transition is often more challenging for women and minorities than for white males. Many organizations provide special workshops to raise diversity awareness issues. For example, at a Kraft manufacturing facility in Missouri, managers developed an ambitious diversity program reflecting the increased value the organization had placed on incorporating diverse perspectives. One thing they did was to reward "diversity champions," individual employees who supported and promoted the benefits of diversity. They also added diversity goals to employee evaluations, encouraged nontraditional promotions, sponsored six ethnic meal days annually, and trained over half of the plant's employees in diversity issues.[35]

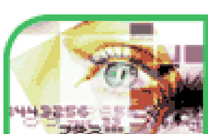
Sexual Harassment

Sexual harassment is a serious issue in both public and private sector organizations. More than 16,000 complaints are filed with the Equal Employment Opportunity Commission (EEOC) each year.[36] Data indicate that almost all *Fortune* 500 companies in the United States have had complaints lodged by employees, and about a third of them have been sued.[37] Not only were the settlements in these cases very costly for the companies in terms of litigation, it is estimated that sexual harassment costs a "typical *Fortune* 500 company $6.7 million per year in absenteeism, low productivity, and turnover."[38] Sexual harassment, however, isn't just a problem in the United States. It's a global issue. For instance, sexual harassment charges have been filed against employers in such countries as Japan, Australia, the Netherlands, Belgium, New Zealand, Sweden, Ireland, and Mexico.[39] Even though discussions of sexual harassment cases often focus on the large awards granted by a court, there are other concerns for employers. Sexual harassment creates an unpleasant work environment and undermines workers' ability to perform their job.

Sexual harassment is defined as any unwanted activity of a sexual nature that affects an individual's employment. It can occur between members of the opposite sex or of the same sex. Although such activity is generally covered under employment discrimination laws, in recent years this problem has gained more recognition. By most accounts, prior to the mid-1980s this problem was generally viewed as isolated incidents, with the individual at fault being solely responsible (if at all) for his or her actions.[40] Yet, charges of sexual harassment continue to appear in today's headlines on a regular basis.

Much of the problem associated with sexual harassment is determining exactly what constitutes this illegal behavior. The EEOC cites three situations in which sexual harassment can occur. These are instances in which verbal or physical conduct toward an individual (1) creates an intimidating, offensive, or hostile environment; (2) unreasonably interferes with an individual's work; or (3) adversely affects an employee's employment opportunities. For many organizations, it's the offensive or hostile environment issue that is problematic. Managers must be aware of what constitutes such an environment. The key is being attuned to what makes fellow employees uncomfortable—and if we don't know, we should ask![41]

If sexual harassment carries with it potential costs to the organization, what can a company do to protect itself?[42] The courts want to know two things: Did the organization know about, or should it have known about, the alleged behavior? And what did management do to stop it? With the number and dollar amounts of the awards against organizations increasing, there is a greater need for management to educate all employees on sexual harassment matters and have mechanisms available to monitor employees.



click here to explore now

video example

Is it possible for a single person in a company to ask another single person in the company for a date without being charged with sexual harassment?

Work-Life Balance

What kinds of work-life balance issues can arise that might affect an employee's job performance? Here are some examples:

- Is it OK for workers to bring their babies to work because of an emergency crisis with normal child care arrangements?
- Should a manager praise an employee for flying to Singapore on business the day after his wife gives birth? Should a manager discipline an employee who refuses to go for the same reason?
- A manager has an assignment that requires a lot of travel. In deciding whom to give it to, should the manager consider which workers have young children?
- Is it OK for workers to cover their work areas with pictures of their newborn babies or drawings scrawled by their young children?

Organizations are beginning to recognize that employees can't (and don't) leave their families and personal lives behind when they walk into work. An organization hires a person who has feelings, a personal life outside the office, personal problems, and family commitments. Although managers can't be sympathetic with every detail of an employee's family life, we *are* seeing organizations more attuned to the fact that employees have sick children, elderly parents who need special care, and other family issues that may require special arrangements. To accommodate employees' needs for work-life balance, many companies are offering family-friendly benefits that include a wide range of work and family programs to help employees. These might include such benefits as flextime, child care, part-time employment, relocation programs, summer camps for employees' children, parental leave, and adoption benefits.[43] Companies such as CompUSA, Excalibur Hotel, Barnes & Noble, and Summit Systems currently offer such benefits.[44] At the heart of such programs are increasing child and elder care benefits. In addition, another work-life concern arises with the large number of dual-career couples— couples in which both partners have professional, managerial, or administrative occupations. An organization's HRM policies should reflect the special needs this situation creates.

As we've seen, getting and keeping quality employees is critical because the quality of an organization's human resources directly influences how well the organization performs. Therefore, managers at all organizational levels must take their HRM responsibilities seriously.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

go to page: 13

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Chapter Wrap-Up

You had a chance to voice your opinion about Eric Perbos-Brinck's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Marvin Fisher
Regional Recruiting Manager
Toys "R" Us, Joliet, Illinois

Not working? Get Quicktime

It's important to spend a few hours orienting a new hire to the company's history and culture. This process lessens the anxiety and stress of starting a new job. Another important process is personally introducing foreign new hires to the current staff. These introductions should be administered in a fun and informative way to help foster open communication.

Orienting someone to a new culture should be an ongoing process. It would also be beneficial to move some company events outside of the office. Have meetings at a neutral site to increase everyone's exposure to the French culture. Arrange for lunch or dinner at different restaurants. Plan for corporate outings to different events. This process helps the foreign employees become familiar with the culture in a comfortable environment and builds rapport within the team.

Finally, establish a mentor program with the new hires. Not only can a mentor help the new person learn the French culture, but the mentor can also

Stacy Renee Unger
Media Specialist
Edward Jones, St. Louis, Missouri

Not working? Get Quicktime

There are several challenges to this situation. First, there are the rapid changes taking place in the online world. Second, Perbos-Brinck also must deal with bringing in new hires who may be highly skilled but who are unfamiliar with the company and with the French culture.

I would suggest that all new employees should have a French mentor in the company for the first six months. This mentor could provide some security in terms of being there to answer questions, to give advice, and to just be a sounding board.

Also, Perbos-Brinck might want to have these new hires take training classes at a French university. For example, at Edward Jones, all of our London headquarters associates from the United States go to a two-month training class at the London Business School. This class lets them experience business cultural barriers and gives individuals who are new to a culture opportunities to see what challenges they might face and how to

learn about the culture and uniqueness of the new hires.	deal with them.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log on: Internet Based Exercise
- Working Together: Team-Based Exercise
- Case Application
- Mastering Management

Management (activebook), 7/e

Stephen P. Robbins Mary Coulter

Chapter Outline

Chapter 13: Managing Change and Innovation

[Chapter Wrap-Up](#)

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Symphonic Cooperation (05/08/02)
	A New Agent of Change (03/20/02)
	Aviation Choices for Business Travel Managers (02/07/02)
	Finding Ways To Keep A Partner's Job Stress From Hitting Home (01/26/01)
	Computer Woes Unhinge Furniture Maker: What Happens When You Don't Know Which End is Up? (01/11/01)
	Three Keys To Worldwide Admiration: Innovate, Innovate, Innovate (11/10/00)
	Who Moved My Cheese? (11/06/00)
	Getting There is Challenge for Latin America E-tailing (08/31/00)
	Dynamic Stability and Managing Change (08/30/00)
	GM Proposes Online Site for Car Sales (08/29/00)
	TV's Monoliths Learn That the Web is a Fragmented World (08/29/00)

Alliances With Grand Designs (08/28/00)

Internet Users Take Hard Line on Their Privacy (08/28/00)

Saks Shops for Customers Online (08/28/00)

The Shipping News (08/28/00)

Dictionary Publishers Going Digital (08/24/00)

As Innovation Lags Behind and the Mainstream Moves in, Net Entrepreneurs Look for Ways Out (08/16/00)

Learning For a Change (08/10/00)

And the debate continues… (07/05/00)

Order Out of Chaos: An Examination of Innovation in a Changing Environment (06/30/00)

The B2B Revolution (05/16/00)

The Transformation Officer (03/27/00)

Jack Welch as a Change Agent (12/15/99)

Microsoft Broadens Vision Statement Beyond PCs (08/20/99)

Learning for a Change (05/11/99)

[Workplace Violence](#) (07/01/98)

[Why Kodak Still Isn't Fixed](#) (05/04/98)

[Theory of Creativity](#) (11/17/97)

[Two for the Road](#) (11/03/97)

[Power to the People](#) (03/31/97)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

[A Substance Abuse Free Workplace](#) (07/02/02)

[Analyzing Approaches to Work/Life Programs](#) (05/23/02)

[Outsourcing Software Over the Internet using Application Service Providers](#) (03/03/00)

[Using the Internet to Influence Organizational Stakeholders](#) (12/02/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap13.doc

Lecture Presentation - chap13.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

Modules - modules.doc

Preface - preface.doc

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Add to... Just for Students

Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 13

go to page: 1

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> What's Ahead

A Manager's Dilemma

In a geographic region where currency crises, political upheavals, and natural disasters are an unavoidable fact of life, Panamerican Beverages Inc. has learned how to not only survive but thrive in a chaotic and unpredictable environment. Panamco is Latin America's largest Coca-Cola bottler and distributor and a vital part of Coke's global operations. Its sales account for about 6 percent of the worldwide unit case volume of Coca-Cola's soft-drink sales. Or put another way, just Panamco's sales are equivalent to one bottle in every case of Coca-Cola's global soft-drink sales.[1] In Latin America, Panamco sells a lot of Coke!

Francisco Sánchez-Loaeza, Panamco's chairman and CEO, is well aware of his company's strategic importance both to Coca-Cola and to numerous Latin American economies. He proclaims that his most important managerial responsibility is keeping the company's employees focused on successful performance in a sea of change. Sánchez-Loaeza says that adaptability is his company's core survival skill and the secret to its ever-expanding business. "Our organization is designed to shift gears rapidly. At all levels, we allow for immediate changes in direction." Other organizational factors he identifies as important to the company's success include its democratic and decentralized management philosophy, logistical expertise, innovative merchandising strategies, and excellent financial stewardship.

Sánchez-Loaeza has always encouraged managers at Panamco to focus on flexibility, good communication, and quick reaction. Local managers are given a lot of autonomy to make decisions and respond independently to market forces in their territories. They have the authority to implement their own programs and initiatives. Although Panamco's managers appreciate and support the need for continual adaptation to marketplace demands, regular nonmanagerial employees often don't understand why so much change is necessary. Put yourself in Sánchez-Loaeza's position. How would you educate your employees about the importance and necessity of change?

What Would You Do?

Before you begin reading this chapter, try a short warm-up activity.

Take a moment to familiarize yourself with the key objectives of this chapter.

go to page: 1 2 3 4 5 6 7 8 next >>

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

The managerial challenges facing Sánchez-Loaeza in educating his employees about the importance and necessity of change are certainly not unique. Big companies, small businesses, universities and colleges, state and city governments, and even the military are being forced to significantly change the way they do things. Although change has always been a part of the manager's job, it has become even more important in recent years. We'll describe why change is important and how managers can manage change in this chapter. We'll also discuss ways in which managers can nurture innovation and increase their organization's adaptability.

> What Is Change?

If it weren't for organizational change—that is, any alterations in people, structure, or technology—the 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 solved because the environment would be free from uncertainty and there would be no need to adapt. Similarly, decision making would be dramatically streamlined because the outcome of each alternative could be predicted with almost certain accuracy. It would, indeed, simplify the manager's job if, for example, competitors did not introduce new products or services, if customers didn't demand new and improved products, if governmental regulations were never modified, or if employees' needs never changed. But that's not the way it is. Change is an organizational reality. Managing change is an integral part of every manager's job. In this chapter, we address the key issues related to managing change.

click here to explore now
video example
If change is continual and constant, how can we ever hope to manage it effectively?

go to page: 1 2 3 4 5 6 7 8 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 13

go to page: 3

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Forces for Change

In Chapter 3, we pointed out that there are both external and internal forces that constrain managers. These same forces also bring about the need for change. Let's briefly look at the factors that can create the need for change.

External Forces

The external forces that create the need for change come from various sources. In recent years, the *marketplace* has affected firms such as Dell Computer as competition from Gateway, Apple, and Toshiba intensified in the battle for consumers' computer purchases. These companies must constantly adapt to changing consumer desires as they develop new PCs and improve marketing strategies. *Governmental laws and regulations* are a frequent impetus for change. For example, the passage of the Americans with Disabilities Act required thousands of organizations (for-profit and not-for-profit firms) to reconfigure restrooms, add ramps, widen doorways, and take other actions to improve accommodations for persons with disabilities. And the new law that gives electronic signatures the same legal weight as pen-and-ink signatures is bringing changes in many organizational areas.

Technology also creates the need for change. For example, technological improvements in expensive diagnostic equipment have created significant economies of scale for hospitals and medical centers. Assembly-line technology in other industries is changing dramatically as organizations replace human labor with robots. Even in the greeting card industry, electronic mail and the Internet have dramatically changed the way that people send greeting cards. The fluctuation in *labor markets* also forces managers to change. For instance, the demand for Web page designers and Web site managers made it necessary for organizations that need those kinds of employees to change their human resource management activities to attract and retain skilled employees in the areas of greatest need.

Economic changes, of course, affect almost all organizations. For instance, global recessionary pressures force organizations to become more cost-efficient. But even in a strong economy, uncertainties about interest rates, federal budget deficits, and currency exchange rates create conditions that may force organizations to change.

Internal Forces

In addition to the external forces we just described, internal forces also can stimulate the need for change. These internal forces tend to originate primarily from the internal operations of the organization or from the impact of external changes.

A redefinition or modification of an organization's *strategy* often introduces a host of changes. For instance, when Gordon Bethune took over as CEO of bankrupt Continental Airlines, he turned it into a well-run and profitable company with extremely committed employees by orchestrating a series of well-planned and dramatic strategic changes.[2] In addition, an organization's *workforce* is rarely static. Its composition changes in terms of age, education, ethnic background, sex, and so forth. In a stable organization with a large pool of seasoned executives, for instance, there might be a need to restructure jobs in order to retain younger managers at lower ranks. The compensation and benefits system might also need to be adapted to reflect the needs of an older workforce. The introduction of new *equipment* represents another internal force for change. Employees may have their jobs redesigned, need to undergo training on how to operate the new equipment, or be required to establish new interaction patterns within their work group. *Employee attitudes* such as increased job dissatisfaction may lead to increased absenteeism, more voluntary resignations, and even labor strikes. Such events will, in turn, often lead to changes in management policies and practices.

The Manager as Change Agent

Changes within an organization need a catalyst. People who act as catalysts and assume the responsibility for managing the change process are called change agents.

Any manager can be a change agent. As we discuss the information on change, we assume that it's initiated and coordinated by a manager within the organization. However, the change agent could be a nonmanager—for example, a change specialist from the human resources department or even an outside consultant whose expertise is in change implementation. For major systemwide changes, an organization will often hire outside consultants to provide advice and assistance. Because they're from the outside, they can offer an objective perspective that insiders may lack. However, outside consultants are usually at a disadvantage because they have an extremely limited understanding of the organization's history, culture, operating procedures, and people. Outside consultants are also prone to initiate more drastic change than insiders would (which can be either a benefit or a disadvantage) because they don't have to live with the repercussions after the change is implemented. In contrast, internal managers who act as change agents may be more thoughtful, and possibly overcautious, because they must live with the consequences of their decisions.

PRISM: Scenario 5—Acquiring Power and Managing Resistance to Change

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 8 << previous | next >>

Management (activebook), 7/e

Stephen P. Robbins Mary Coulter

> Two Views of the Change Process

We can use two very different metaphors to describe the change process.[3] 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 the other 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 eventual destination, and who, as if things weren't bad enough, are traveling at night. In the white-water rapids metaphor, change is a natural state, and managing change 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

Up until the late 1980s, the calm waters metaphor was fairly descriptive of the situation that managers faced. It's best illustrated by Kurt Lewin's three-step description of the change process.[4] (See Exhibit 13.1.)

Exhibit 13.1 **The Change Process**

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 can be considered an equilibrium state. To move from this equilibrium, unfreezing is necessary. Unfreezing can be thought of as preparing for the needed change. It can be achieved by increasing the *driving forces*, which are forces that drive change and direct behavior away from the status quo, by decreasing the *restraining forces*, which are forces that resist change and push behavior toward the status quo, or by combining the two approaches.

Once unfreezing has been accomplished, the change itself can be implemented. However, merely introducing change doesn't ensure that the change 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 the change will be short-lived as employees 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.

Note how Lewin's three-step process treats change simply as a break in the organization's equilibrium state. The status quo has been disturbed and change is necessary to establish a new equilibrium state. This calm waters view no longer appropriately describes the kind of environment that managers in today's organizations face.

White-Water Rapids Metaphor

The white-water rapids metaphor is consistent with our discussion of uncertain and dynamic environments in Chapter 3. It's also consistent with the dynamics of a world that's increasingly dominated by information, ideas, and knowledge.

To get a feeling of what managing change might be like when you have to continually maneuver in uninterrupted rapids, consider attending a college that had the following rules: Courses vary in length. Unfortunately, when you sign up, you don't know how long a course will run. It might go for two weeks or 30 weeks. Furthermore, the instructor can end a course at any time with no prior warning. If that isn't bad enough, the length of the class changes each time it meets: Sometimes the class lasts 20 minutes; other times it runs for three hours. And the time of the next class meeting is set by the instructor during this class. 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 college environment, you would have to be incredibly flexible and able to respond quickly to changing conditions. Students who were overly structured, "slow" to respond, or uncomfortable with change would not survive.

Growing numbers of managers are coming to accept that their job is much like what a student would face in such a college. The stability and predictability of the calm waters metaphor do not 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. They face constant change, bordering on chaos. These managers must play a game that they've never played before, and the game is governed by rules that are created as the game progresses.[5]

Is the white-water rapids metaphor an exaggeration? No! Although you'd expect this type of chaotic and dynamic environment in high-tech industries, even organizations in non-high-tech industries are faced with constant change. Take the case of Converse Inc., an athletic shoe manufacturer based in Massachusetts.[6] In the intensely competitive athletic shoe business, a company has to be prepared for any possibility. Kids (a major target market) are no longer content with new sneaker styles every season. They want new and unique styles more often. Large megaretailers who sell the shoes are demanding more from manufacturers such as holding more inventory, replenishing supplies faster, and helping to find ways to sell more shoes. And competition is hot! Industry leaders Adidas, Reebok, and Nike keep the pressure on. Managers at Converse knew that if they wanted to remain in business and be successful, they had to change. They decided on a series of changes: reviving the once-popular Chuck Taylor line of canvas basketball shoes, signing new spokespersons, making shoes for mountain biking and skateboarding, and implementing a company-wide quality management program. These types of significant organizational changes were essential for Converse to survive the white-water rapids environment in which it operates.

click here to explore now

video example

Why isn't Lewin's three-step change process appropriate for the white-water rapids metaphor of change?

Putting the Two Views in Perspective

Does *every* manager face a world of constant and chaotic change? No, but the number who don't is dwindling rapidly. Managers in such businesses as wireless telecommunications, computer software, and women's high-fashion clothing have long confronted a world of white-water rapids. These managers used to envy their counterparts in industries such as banking, publishing, oil exploration, and air transportation where the environment was historically more stable and predictable. However, those days of stability and predictability are long gone!

Today, an organization that treats change as the occasional disturbance in an otherwise calm and stable world is running a great risk. Too much is changing too fast for any organization or its managers to be complacent. It's no longer business as usual. And managers must be ready to efficiently and effectively manage the changes facing their organization or their work area. How? That's what we'll discuss next.

> Managing Change

Managers at Hallmark, the world's largest greeting card company, recognized that buyers of greeting cards were changing even though the reasons they sent cards were still the same. What organizational changes might these managers have to make to accommodate customers' changing needs? As change agents, managers should be motivated to initiate change because they are committed to improving their organization's performance. Initiating change involves identifying what organizational areas might need to be changed and putting the change process in motion. For instance, those managers at Hallmark made some important changes including developing its Web site to market all kinds of Hallmark products and offering alternative cards for serious subjects including job loss and drug rehabilitation and a whole line of pet greeting cards. But that's not all there is to managing change. Managers must manage employee resistance to change. Here we look at the types of change that managers can make and at how managers can deal with resistance to change.

Types of Change

What *can* a manager change? The manager's options for change essentially fall into three categories: structure, technology, and people. (See Exhibit 13.2.) Changing *structure* includes any alteration in authority relations, coordination mechanisms, degree of centralization, job redesign, or similar structural variables. Changing *technology* encompasses modifications in the way work is performed or the methods and equipment that are used. Changing *people* refers to changes in employee attitudes, expectations, perceptions, and behavior.

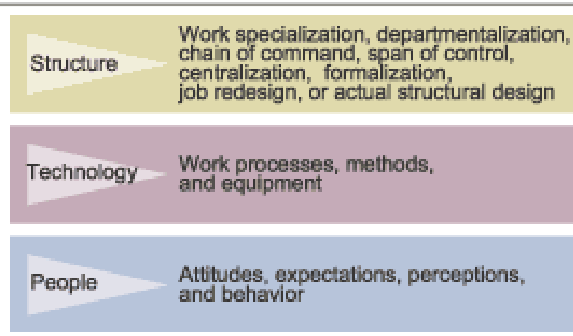


Exhibit 13.2 Three Categories of Change

Changing Structure

We discussed structural issues in Chapter 10. Managers' organizing responsibilities include such activities as choosing the organization's formal design, allocating authority, and determining the degree of formalization. Once those structural decisions have been made, however, they aren't final. Changing conditions or changing strategies bring about the need to make changes in structure. As a result, the manager, in his or her role as change agent, might need to modify the structure.

What options does the manager have for changing structure? Essentially the manager has the same options we introduced in our discussion of structure and design. A few examples should make them clearer. Recall from Chapter 10 that an organization's structure is defined in terms of work specialization, departmentalization, chain of command, span of control, centralization and decentralization, and formalization. Managers can alter one or more of these *structural components*. For instance, departmental responsibilities could be combined, organizational levels eliminated, or spans of control widened to make the organization flatter and less bureaucratic. Or more rules and procedures could be implemented to increase standardization. An increase in decentralization can be used to make decision making faster. Even organizational downsizing efforts involve changes in structure.

Another option would be to make major changes in the actual *structural design*. For instance, the merger between Southwestern Bell Corporation and Pacific Telesis Group (now called SBC Communications Inc.) involved structural design changes in which a number of employees' duties were expanded. Or structural design changes might include a shift from a functional to a product structure or the creation of a project structure design. Polaroid Corporation, for example, has replaced its traditional functional structure with a new design that arranges work around cross-functional teams.

Changing Technology

Managers can also change the technology used to convert inputs into outputs. Most early studies in management—such as the work of Taylor and the Gilbreths—dealt with efforts aimed at technological change. If you recall, scientific management sought to implement changes that would increase production efficiency based on time-and-motion studies. Today, major technological changes usually involve the introduction of new equipment, tools, or work methods; automation; or computerization.

Competitive factors or new innovations within an industry often require managers to introduce *new equipment, tools*, or *work methods*. For example, coal mining companies in New South Wales have updated work methods, installed more efficient coal-handling equipment, and made changes in work practices to be more productive. Even the U.S. Army applied sophisticated technology to its operations, including such advancements as three-dimensional shootout training devices and e-mail capability among troops on the battlefield.[7]

Automation is a technological change that replaces certain tasks done by people with machines. It began during the Industrial Revolution and continues today as one of a manager's options for structural change. Automation has been introduced (and sometimes resisted) in organizations such as the U.S. Postal Service where automatic mail sorters are used, or in automobile assembly lines, where robots are programmed to do jobs that blue-collar workers used to perform.

Probably the most visible technological changes in recent years, though, have come through managers' efforts to expand *computerization*. Most organizations now have sophisticated information systems. For instance, grocery stores and other retailers use scanners linked to computers that provide instant inventory information. Also, it's very uncommon for an office not to be computerized. At BP Amoco, employees had to learn how to deal with the personal visibility and accountability brought about by the implementation of an enterprise-wide information system. The integrative nature of this system meant that what any employee did on his or her computer automatically affected other computer systems on the internal network.[8] Or take, for example, Bennetton Group SpA, which uses computers to link together its manufacturing plants outside Treviso, Italy, with the company's various sales outlets and a highly automated warehouse that employs only 19 people to handle 30,000 boxes a day.[9]

Changing People

For well over 30 years now, academic researchers and actual managers have been interested in helping individuals and groups within organizations work together more effectively. The term organizational development (OD), though occasionally referring to all types of change, essentially focuses on techniques or programs to change people and the nature and quality of interpersonal work relationships.[10] The most popular OD techniques are described in Exhibit 13.3. The common thread in these techniques is that each seeks to bring about changes in or among the organization's people. For example, George Fisher, former CEO of Eastman Kodak, applied various forms of organizational development to boost employee morale. While past Kodak CEOs tended to be autocratic and inaccessible, Fisher rebuilt the company through respect for people, trust and support, openness, the sharing of power, and participation.

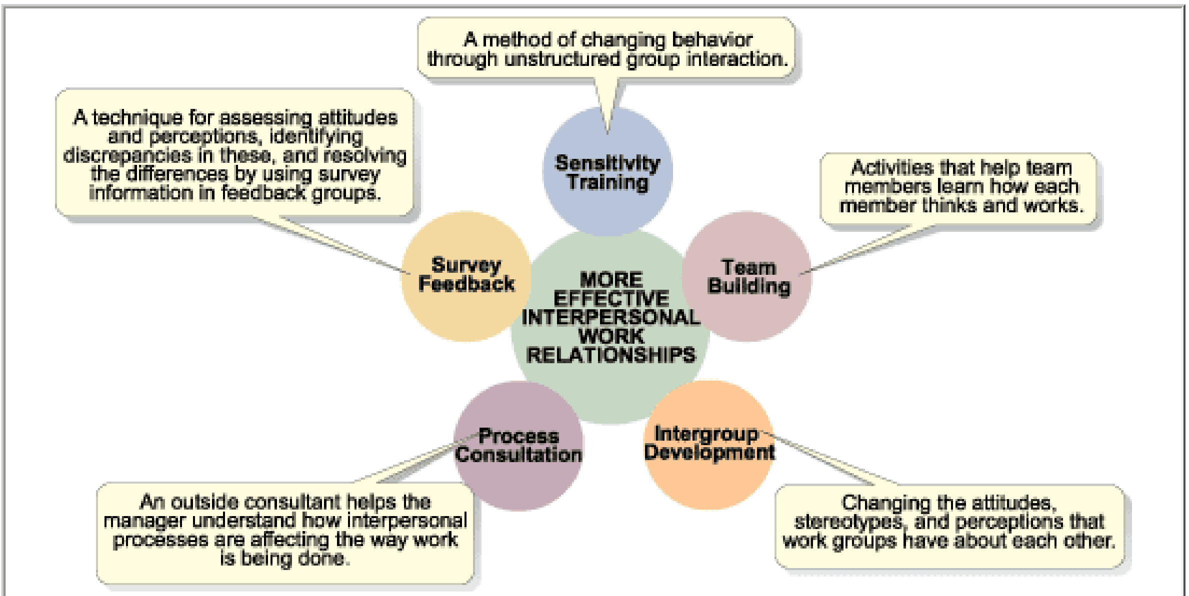


Exhibit 13.3 Organizational Development Techniques

Dealing with Resistance to Change

Change can be a threat to people in an organization. Organizations can build up inertia that motivates people to resist changing their status quo, even though change might be beneficial. Why do people resist change and what can be done to minimize their resistance?

Why People Resist Change

It's often said that most people hate any change that doesn't jingle in their pockets. This resistance to change is well documented.[11] Why *do* people resist change? An individual is likely to resist change for three reasons: uncertainty, concern over personal loss, and the belief that the change is not in the organization's best interest.[12]

Change replaces the known with ambiguity and uncertainty. Regardless of how much you may dislike attending college, at least you know what to do. You know what's expected of you. When you leave college for the world of full-time employment, regardless of how eager you are to get out of college, you'll trade the known for the unknown. Employees in organizations are faced with similar uncertainty. For example, when quality control methods based on sophisticated statistical models are introduced into manufacturing plants, many quality control inspectors have to learn the new methods. Some inspectors may fear that they will be unable to do so and may, therefore, develop a negative attitude toward the change or behave poorly if required to use new methods.

The second 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 that people have invested in the current system, the more they resist change. Why? They fear the loss of status, money, authority, friendships, personal convenience, or other benefits that they value. This helps explain why older workers tend to resist change more than younger workers. Older employees have generally invested more in the current system and, thus, have more to lose by changing.

A final cause of resistance is a person's belief that the change is incompatible with the goals and interests of the organization. An employee who believes that a new job procedure proposed by a change agent will reduce product quality or productivity can be expected to resist the change. If the employee expresses his or her resistance positively (perhaps by directly and clearly expressing it to the change agent, along with substantiation), this type of resistance can be beneficial to the organization.

Techniques for Reducing Resistance

When managers see resistance to change as dysfunctional, what actions can they take? There are six actions they can use to deal with resistance to change.[13] These six actions described in Exhibit 13.4 include education and communication, participation, facilitation and support, negotiation, manipulation and cooptation, and coercion. Depending on the type and source of the resistance, managers might choose to use any of these actions.

Education and Communication

- Communicate with employees to help them see the logic of change.
- Educate employees through one-on-one discussions, memos, group meetings, or reports.
- Appropriate if source of resistance is either poor communication or misinformation.
- Must be mutual trust and credibility between managers and employees.

Participation

- Allows those who oppose a change to participate in the decision.
- Assumes that they have expertise to make meaningful contributions.
- Involvement can reduce resistance, obtain commitment to seeing change succeed, and increase quality of change decision.

Facilitation and Support

- Provide supportive efforts such as employee counseling or therapy, new skills training, or short paid leave of absence.
- Can be time consuming and expensive.

Negotiation

- Exchange something of value to reduce resistance.
- May be necessary when resistance comes from a powerful source.
- Potentially high costs and likelihood of having to negotiate with other resisters.

Manipulation and Cooptation

- Manipulation is covert attempts to influence such as twisting or distorting facts, withholding damaging information, or creating false rumors.
- Cooptation is a form of manipulation and participation.
- Inexpensive and easy ways to gain support of resisters.
- Can fail miserably if targets feel they've been tricked.

Coercion

- Using direct threats or force.
- Inexpensive and easy way to get support.
- May be illegal. Even legal coercion can be perceived as bullying.

Exhibit 13.4	Managerial Actions to Reduce Resistance to Change

go to page: 1 2 3 4 5 6 7 8 << previous | next >>

> Contemporary Issues in Managing Change

Today's change issues—changing organizational cultures, continuous quality improvement versus process reengineering, and handling employee stress—are critical concerns for managers. What can managers do to change an organization's culture when that culture no longer supports the organization's mission? How do managers effectively implement continuous incremental change or how do they implement radical change? And what can managers do to handle the stress created by today's dynamic environment? We'll look at each of these issues in this section and discuss the actions managers should consider in dealing with them.

Changing Organizational Culture

The fact that an organization's culture is made up of relatively stable and permanent characteristics (see Chapter 3) tends to make that culture very resistant to change.[14] A culture takes a long time to form and, once established, it tends to become entrenched. Strong cultures are particularly resistant to change because employees have become so committed to them. For instance, Durk I. Jager, former CEO of Procter & Gamble, worked hard to make over the company's deep-rooted culture hoping that the changes would help the company respond better to the changing demands of its markets. He wasn't successful and was replaced by A.G. Lafley in June 2000.[15] If, over time, a certain culture becomes inappropriate to an organization and a handicap to management, there might be little a manager can do to change it, especially in the short run. Even under the most favorable conditions, cultural changes have to be viewed in years, not weeks or even months.

Understanding the Situational Factors

What are the favorable conditions that might facilitate cultural change? The evidence suggests that cultural change is most likely to take place when most or all of the following conditions exist:

- *A dramatic crisis occurs*. This can be the shock that weakens the status quo and makes people start thinking about the relevance of the current culture. Examples are a surprising financial setback, the loss of a major customer, or a dramatic technological innovation by a competitor.
- *Leadership changes hands*. New top leadership, who can provide an alternative set of key values, may be perceived as more capable of responding to the crisis than the former leaders were. Top leadership includes the organization's chief executive and also might include all senior managers.
- *The organization is young and small*. The younger the organization, the less entrenched its culture. Similarly, it is easier for managers to communicate new values in a small organization than in a large one.
- *The culture is weak*. The more widely held the values and the higher the agreement among

members on those values, the more difficult it will be to change. Conversely, weak cultures are more receptive to change than are strong ones.[16]

These situational factors help to explain why a company such as Procter & Gamble faced challenges in reshaping its culture. For the most part, employees liked the old ways of doing things and didn't see the company's problems as critical.

How Can Cultural Change Be Accomplished?

Now we ask the question: If conditions are right, how do managers go about changing culture? The challenge is to show the ineffectiveness of the current culture, implement the new "ways of doing things," and reinforce those new values. No single action is likely to have the impact necessary to change something that's so ingrained and highly valued. Thus, there needs to be a comprehensive and coordinated strategy for managing cultural change, as shown in Exhibit 13.5.

- Conduct a cultural analysis to identify cultural elements needing change.
- Make it clear to employees that the organization's survival is legitimately threatened if change is not forthcoming.
- Appoint new leadership with a new vision.
- Initiate a reorganization.
- Introduce new stories and rituals to convey the new vision.
- Change the selection and socialization processes and the evaluation and reward systems to support the new values.

Exhibit 13.5 **The Road to Cultural Change**

As you can see, these suggestions focus on specific actions that managers can take to change the ineffective culture. Following these suggestions, however, is no guarantee that a manager's 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. Managers must, therefore, be patient. Change, if it comes, will be slow. And managers must stay constantly alert to protect against any return to old, familiar practices and traditions.

Continuous Quality Improvement Programs Versus Process Reengineering

We know that quality management is important to managers since having quality products and services is essential to organizational success in today's global economy. Achieving desired levels of quality involves making changes in the way people work. Managers can make those changes either by using continuous quality improvement programs or by using a more radical process reengineering approach. Exhibit 13.6 summarizes the key differences between the two approaches.

Continuous Quality Improvement	Reengineering
• Continuous, incremental change	• Radical change
• Fixing and improving	• Redesigning—starting over
• Mostly "as is"	• Mostly "what can be"
• Works from bottom up in organization	• Initiated by top management

Exhibit 13.6 **Continuous Quality Improvement Versus Reengineering**

Continuous Quality Improvement Programs

Many quality management programs rely on continuous, small, and incremental changes. These programs are compatible with the calm waters metaphor because they recognize that organizations must continuously find ways to navigate the problems that arise as they strive to improve. In these types of quality programs, the change efforts are focused on fixing and improving current work activities. They're about continually improving activities that are basically OK. As continuous quality improvement is focused on individuals continually looking for ways to improve the way they work, participative decision making from the bottom levels up is important in both planning and implementing this type of program.

Process Reengineering

In today's white-water rapids world, however, where long-term marketplace success increasingly belongs to the flexible and adaptive organization, there's a need for a different approach to change. Turbulent times require revolutionary, not orderly, change. And process reengineering is about dramatic and radical shifts in the way the organization performs its work—that is, its work processes.[17] It focuses on quantum changes by throwing out the old ways of doing things and starting over in redesigning the way work is done. It involves defining customer needs and then designing work processes to best meet those needs. For instance, Eaton Corporaýion reengineered its new-product-development process to help the company reach aggressive growth goals. The managers' and workers' redesign of the product innovation process led to a doubling of revenues and profits dur-ing a five-year period. At Sweden's ICA Handlarnas, reengineering work processes resulted in linking all the company's more than 3,300 retail stores to a single mainframe database so that inventory information was instantly available to managers. Because of the extensive nature of process reengineering, it's initiated by top management. However, because the process itself requires significant hands-on input from managers and workers, participative decision making is an important element.

Handling Employee Stress

For many employees, change creates stress. A dynamic and uncertain environment characterized by mergers, restructurings, process reengineering efforts, forced retirements, and downsizing has created a large number of employees who are overworked and stressed out.[18] In this section, we review what stress is, what causes it, how to identify it, and what managers can do to reduce it.

What Is Stress?

Stress is a dynamic condition a person faces when confronted with an opportunity, constraint, or demand related to what he or she desires and for which the outcome is perceived to be both uncertain and important.[19] This is a complicated definition, so let's look at its components more closely.

Stress, in and of itself, is not necessarily bad. Although stress is often discussed in a negative context, it also has a positive value, particularly when it offers a potential gain. Functional stress allows an athlete, stage performer, or employee to perform at his or her highest level in crucial situations.

However, stress is more often associated with constraints and demands. A constraint prevents you from doing what you desire; demands refer to the loss of something desired. When you take a test at school or have your annual performance review at work, you feel stress because you confront opportunity, constraints, and demands. A good performance review may lead to a promotion, greater responsibilities, and a higher salary. But a poor review may keep you from getting the promotion. An extremely poor review might lead to your being fired.

Just because the conditions are right for stress to surface doesn't always mean it will. Two conditions are necessary for *potential* stress to become *actual* stress.[20] There must be uncertainty over the outcome, and the outcome must be important. Regardless of the conditions, a stressful condition exists only when there is doubt or uncertainty regarding whether the opportunity will be seized, whether the constraint will be removed, or whether the loss will be avoided. That is, stress is highest for individuals who are uncertain whether they will win or lose and lowest for individuals who think that winning or losing is a certainty. The importance of the outcome is also a critical factor. If winning or losing is unimportant, there is no stress. An employee who feels that keeping a job or earning a promotion is unimportant will experience no stress before a performance review.

Causes of Stress

As shown in Exhibit 13.7, the causes of stress can be found in issues related to the organization or in personal factors that evolve out of the employee's private life. Clearly, change of any kind has the potential to cause stress. It can present opportunities, constraints, or demands. Moreover, changes are frequently created in a climate of uncertainty and around issues that are important to employees. It's not surprising, then, that change is a major stressor.

Exhibit 13.7 **Causes of Stress**

Signs of Stress

What signs indicate that an employee's stress level might be too high? Stress shows itself in a number of ways. For instance, an employee who is experiencing high stress may become depressed, accident prone, or argumentative; may have difficulty making routine decisions; may be easily distracted, and so on. As Exhibit 13.8 shows, stress symptoms can be grouped under three general categories: physiological, psychological, and behavioral. Of these, the physiological symptoms are least relevant to managers. Of greater importance are the psychological and behavioral symptoms since these directly affect an employee's work.

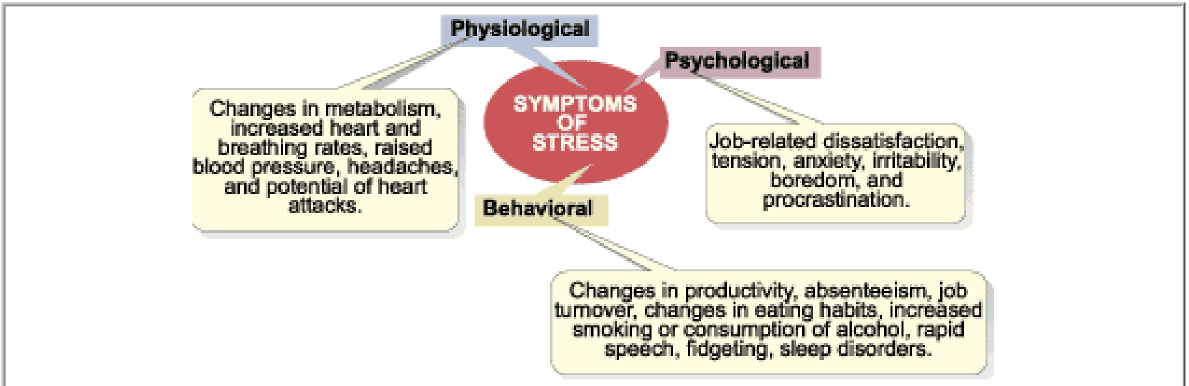


Exhibit 13.8 **Symptoms of Stress**

Reducing Stress

As we mentioned earlier, not all stress is dysfunctional. Since stress can never be totally eliminated from a person's life, either off the job or on, managers are concerned with reducing the kind of stress that leads to dysfunctional behavior. This can occur through controlling certain organizational factors to reduce organizational stress, and to a more limited extent, offering help for personal stress.

Things that managers can do in terms of organizational factors begin with employee selection. Managers need to make sure that an employee's abilities match the job requirements. When employees are in over their heads, their stress levels typically will be high. A realistic job preview during the selection process can also minimize stress by reducing ambiguity over job expectations. Improved organizational communications will keep ambiguity-induced stress to a minimum. Similarly, a performance planning program such as MBO will clarify job responsibilities, provide clear performance goals, and reduce ambiguity through feedback. Job redesign is also a way to reduce stress. If stress can be traced to boredom or to work overload, jobs should be redesigned to increase challenge or to reduce the workload. Redesigns that increase opportunities for employees to participate in decisions and to gain social support have also been found to lessen stress.[21]

Stress from an employee's personal life raises two problems. First, it's difficult for the manager to control directly. Second, there are ethical considerations. Specifically, does the manager have the right to intrude—even in the most subtle ways—in an employee's personal life? If a manager believes it's ethical and the employee is receptive, there are a few approaches the manager can consider. Employee *counseling* can provide stress relief. Employees often want to talk to someone about their problems, and the organization—through its managers, in-house human resource counselors, or free or low-cost outside professional help—can meet that need. Companies such as Citicorp, AT&T, and Johnson & Johnson provide extensive counseling services for their employees. A *time management program* can help employees whose personal lives suffer from a lack of planning that, in turn, creates stress. Such a program may help employees sort out their priorities.[22] For instance, Honeywell provides such a service. Still another approach is organizationally sponsored *wellness programs*. Mutual of Omaha, for example, has a Wellness Center in its Omaha offices. Other companies such as Coors Brewing Company in Golden, Colorado, the Quaker Oats Company in Chicago, and HBO in New York have set up on-site exercise centers for employees.[23] And at Philadelphia-based Cigna

Corporation, employees are encouraged to take up to 15 minutes for a stress break when and where they need it. The company's philosophy is that "a few minutes of stretching or deep breathing can enhance personal health as well as attitudes, work performance, and overall teamwork."[24]

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> Stimulating Innovation

"Winning in business today demands innovation."[25] Such is the stark reality facing today's managers. In the dynamic, chaotic world of e-business and global competition, organizations must create new products and services and adopt state-of-the-art technology if they are to compete successfully. Coors, for instance, has long been known for its technical innovations; it was the first beer company to use aluminum cans for packaging its products and was also the first to produce cold-filtered beer. However, the company isn't resting on its past successes. It continues to innovate products and processes.

What companies come to mind when you think of successful innovators? Maybe Sony Corporation, with its Walkman, PlayStation, Aibo robot pets, and Vaio PCs. Maybe 3M Corporation with its Post-it notes, Scotch-Guard protective coatings, and cellophane tape. Maybe Intel Corporation with its continual advancements in chip designs and new product introductions. What's the secret to the success of these innovator champions? What, if anything, can other managers do to make their organizations more innovative? In the following pages, we'll try to answer those questions as we discuss the factors behind innovation.

Creativity Versus Innovation

Creativity refers to the ability to combine ideas in a unique way or to make unusual associations between ideas.[26] An organization that stimulates creativity develops unique ways to work or novel solutions to problems. Innovation is the process of taking a creative idea and turning it into a useful product, service, or work method. Thus, the innovative organization is characterized by its ability 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. Sony, 3M, and Intel are aptly described as innovative because they take novel ideas and turn them into profitable products and work methods.

Stimulating and Nurturing Innovation

By using the systems model we introduced in Chapter 1, we can better understand how organizations become more innovative.[27] (See Exhibit 13.9.) We see from the model that to get our desired output (creative products and work methods), we have to look at the inputs and the transformation of those inputs. Inputs include creative people and groups within the organization. But just having creative people isn't enough. It takes the right environment for the innovation process to take hold and prosper, just as a flower requires the proper soil, nutrients, water, and light to grow. What does this "right" environment look like? We've identified three sets of variables that have been found to stimulate innovation: the organization's structure, culture, and human resource practices. (See Exhibit 13.10.)

Exhibit 13.9 Systems View of Innovation

Exhibit 13.10 Innovation Variables

Structural Variables

Research into the effect of structural variables on innovation shows three things.[28] First, organic structures positively influence innovation. Because this type of organization is low in formalization, centralization, and work specialization, organic structures facilitate the flexibility, adaptability, and cross-fertilization necessary in innovation. Second, the easy 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. Finally, frequent interunit communication helps break down barriers to innovation.[29] Cross-functional teams, task forces, and other such organizational designs facilitate interaction across departmental lines and are widely used in innovative organizations. 3M, for instance, is highly decentralized and takes on many of the characteristics of small, organic organizations. The company also has the "deep pockets" needed to support its policy of allowing scientists and engineers to use up to 15 percent of their time on projects of their own choosing.[30]

Cultural Variables

Innovative organizations tend to have similar cultures.[31] They encourage experimentation, reward both successes and failures, and celebrate mistakes. An innovative culture is likely to have the following characteristics.

- *Acceptance of ambiguity*. Too much emphasis on objectivity and specificity constrains creativity.
- *Tolerance of 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.
- *Low external controls*. Rules, regulations, policies, and similar organizational controls are kept to a minimum.
- *Tolerance of risk*. Employees are encouraged to experiment without fear of consequences should they fail. Mistakes are treated as learning opportunities.
- *Tolerance of 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 there might be several right answers to any given problem.
- *Open-system focus*. Managers closely monitor the environment and respond to changes as they occur.

Human Resource Variables

Within the human resource category, we find that innovative organizations actively promote the training and development of their members so that 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 "champions" of change. Idea champions actively and enthusiastically support new ideas, build support, overcome resistance, and ensure that innovations are implemented. Research finds that these idea champions have common personality characteristics: extremely high self-confidence, persistence, energy, and a tendency toward risk taking. Champions 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. They're also good at gaining the commitment of others to support their mission. In addition, champions have jobs that provide considerable decision-making discretion. This autonomy helps them introduce and implement innovations in organizations.[32] For instance, the tiny, self-powered, self-guided rover vehicle named *Sojourner* that explored the surface of Mars never would have been built had it not been for an idea champion by the name of Donna L. Shirley. As the head of Mars exploration at NASA's Jet Propulsion Laboratory in Pasadena, California, Shirley had been working since the early 1980s on the idea of putting roving vehicles on Mars. Despite ongoing funding and management support problems, she continued to champion the idea until it was approved in the early 1990s. The successful Mars Pathfinder mission with *Sojourner's* roving over Mars's surface attests to the power of an idea champion.[33]

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter 13

go to page: 8

[Go to Student View](#)
[Table of Contents](#)
[Chapter Contents](#)
[Search](#)
[Add Annotation](#)
[View Annotations](#)
[Rate the Difficulty](#)

> Chapter Wrap-Up

You had a chance to voice your opinion about Francisco Sánchez-Loaeza's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Rick Allen Gladden
Manager, IT
FedEx Services, Collierville, Tennessee

[Not working? Get Quicktime](#)

Helping those who work for and with me to remember that it's through change that we all succeed is a management function of highest priority. In Francisco's situation, I would attempt to head off all doubt and skepticism by sharing what truths are self-evident about the changes to my managers and I expect them to do the same with their staff. I find shared knowledge of the decisions and its process helps the staff to feel part of the decision, to take ownership, and to embrace the change. Management must take the initiative by sharing their vision and reinforcing how these changes fit the overall team mission as it relates to the staff. Changes that require training and development need to be scoped, budgeted, and planned for before the announcement of the changes. Lastly, I would follow up with

Adam Ferguson
Data Resource Coordinator
Cox Health Systems, Springfield, Missouri

[Not working? Get Quicktime](#)

As a computer professional in the ever-changing world of health care, I'm constantly confronted with changes—in the technical arena and in interoffice work flow. The manipulation of data provides a steady stream of small to system-wide changes.

When confronting the obstacle of changing the way people do things, or the form in which they are used to getting information, I try to focus as much attention as I can on the "why" instead of the "what." I have found it beneficial to look at changes from the viewpoint of *why* the change is needed. When I pass that angle on to my co-workers, while projecting a positive and enthusiastic attitude, the transition becomes much smoother. I also believe that people appreciate this type of explanation and

my management team to make sure the changes were being implemented smoothly and efficiently.	excitement; they feel that they are "in the loop" of what's going on. With the "why" firmly in place and understood, it's been my experience that the "what" naturally follows with little or no resistance.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log On: Internet-Based Exercise
- Working Together: Team-Based Exercise
- Case Application
- Mastering Management
- Managing Entrepreneurial Ventures

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter Outline

Go to Student View
Table of Contents
Chapter Contents
Search
Rate the Difficulty
In the News
Internet Exercises
Robbins OnLine Learning System (R.O.L.L.S.)
Faculty Resources
Misc. Resources

Chapter 14: Foundations of Behavior

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...

Anger Can Power the Creation of New Companies (07/17/02)

The Self-Directed Employee (06/27/02)

If You're Thinking Of Hiring A New CEO, The First Thing You Should Do Is Send Them To A Shrink! (02/09/01)

America's Talent Battle - Real Meaning of Empowerment (04/05/00)

Come Back Company Man! (03/23/00)

Emotional Intelligence Helps Managers Succeed (01/12/00)

Gender Differences May Muddy Communictions (06/15/99)

If Your Career Needs More Attention, Maybe You Should Get an Agent (01/15/99)

By the Way - Your Staff Hates You (01/05/99)

The Most Valuable Quality in a Manager (12/22/97)

Where Coke Goes From Here (12/01/97)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

The Effects of Perception and Attitudes on Personnel Recruitment (03/01/00)

Identifying and Correcting Unsafe Employee Attitudes and Behaviors (01/12/00)

Virtual Coaches- The New Managers? (02/24/99)

Preparing Successful Expatriate Managers (01/04/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap14.doc

[Lecture Presentation - chap14.ppt]

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Modules - modules.doc
	Preface - preface.doc
	Self Assessment Library 2.0 - selfas.doc
	Table of contents - toc.doc

Add to...	Just for Students
	Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter 14

go to page: 1

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

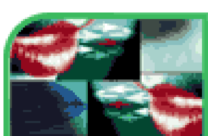
> What's Ahead

A Manager's Dilemma

How would you feel if you were a new employee, your boss asked you to do something, and you had to admit that you didn't know how to do it? Most of us would feel inadequate and incompetent. Now imagine how strange and uncomfortable it would be if, after experiencing such an incident, you went home with the boss because you two are roommates and have been friends since fourth grade. This, in fact, is a situation faced by John Kim, an employee at Plumtree Software and his boss, Glen Kelman, co-founder and vice president of product management and marketing. A third roommate, Conan Reidy, also works at Plumtree.[1] The three roommates are finding that mixing work and friendships can be tricky!

At home, the roommates are equals. They share a single bathroom and housework. However, at work, equality is out the door! For instance, a problem with office assignments erupted when Plumtree moved into new headquarters. As part of the four-person management team, Kelman has a corner office with windows. Reidy, who works in a cubicle, was annoyed at Kelman for not standing up for him when offices were assigned. However, Reidy didn't complain because he didn't want to get an office only because of his closeness with Kelman. Another problem brewing is that the roommates compete to outlast one another working late. Reidy's boss worries that he's going to burn out. Other awkward situations arise whenever the company's performance is being discussed. Often Kelman wants to complain about work but has to stop himself. When the company's president calls, Kelman goes into his bedroom and shuts the door. And, if the company decides to sell stock to the public, Kelman's financial wealth could increase dramatically, creating some interesting emotional issues for the roommates. Although it might seem easy to say "move," it's too expensive and these guys are his good friends. Put yourself in Kelman's position. How could he use information about emotions and attitudes to handle this situation?

What Would You Do?



click here to explore now

active poll <

Before you begin reading this chapter, try a short warm-up activity.

click here to explore now

objectives <

Take a moment to familiarize yourself with the key objectives of this chapter.

Management (activebook), 7/e

Stephen P. Robbins Mary Coulter

You're probably already well aware of the fact that people differ in their attitudes and behavior. For instance, you interact daily with people who have different types of personalities. And haven't you seen family members or friends behave in ways that prompted you to wonder: Why did they do that? As the chapter-opening case illustrates, effective managers need to understand behavior. This chapter introduces several psychological factors that influence employee behavior and then considers the implications of each for management practice.

> Why Look at Individual Behavior?

The material in this and the next three chapters draws heavily on the field of study that is known as *organizational behavior (OB)*. Although it's concerned with the subject of behavior—that is, the actions of people—organizational behavior is concerned more specifically with the actions of people at work.

One of the challenges in understanding organizational behavior is that it addresses issues that aren't obvious. Like an iceberg, OB has a small visible dimension and a much larger hidden portion. (See Exhibit 14.1.) What we see when we look at organizations is their visible aspects: strategies, goals, policies and procedures, structure, technology, formal authority relationships, and chain of command. But under the surface are other elements that managers need to understand—elements that also influence how employees work. As we'll show, OB provides managers with considerable insights into these important, but hidden, aspects of the organization.

Exhibit 14.1	The Organization as an Iceberg

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. Unfortunately, the behavior of a group of employees can't be understood by merely summing up the actions of the individuals in the group because individuals in a group setting behave differently from individuals acting alone. You see this characteristic at its extreme, for instance, when a street gang harasses innocent people. The gang members, acting individually, might never engage in such behavior. Therefore, because employees in an organization are both individuals and members of groups, we need to study them at two levels. In this chapter, we'll provide the foundation for understanding individual behavior. Then, in the next chapter, we'll introduce the basic concepts related to understanding group behavior.

Goals of Organizational Behavior

The goals of OB are to *explain*, *predict*, and *influence* behavior. Why do managers need to be able to do these? Simply, in order to manage their employees' behavior. We know that a manager's success depends on getting things done through people. To do this, the manager needs to be able to explain why employees engage in some behaviors rather than others, predict how employees will respond to various actions the manager might take, and influence how employees behave.

What employee behaviors are we specifically concerned about explaining, predicting, and influencing? We'll emphasize employee productivity, absenteeism, and turnover. We'll also look at job satisfaction. Although job satisfaction is an attitude rather than a behavior, it is an outcome that concerns many managers. In the following pages, we'll address how an understanding of employee attitudes, personality, perception, and learning can help us predict, explain, and influence employee productivity, absenteeism and turnover rates, and job satisfaction.

click here to explore now

video example

Even if managers can control behavior, is it ethical for them to do so?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> Attitudes

Attitudes are evaluative statements—either favorable or unfavorable—concerning objects, people, or events. They reflect how an individual feels about something. When a person says, "I like my job," he or she is expressing an attitude about work.

To better understand the concept of attitudes, we should look at an attitude as being made up of three components: cognition, affect, and behavior.[2] The cognitive component of an attitude is made up of the beliefs, opinions, knowledge, or information held by a person. The belief that "discrimination is wrong" illustrates a cognition. 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 Jon 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 Jon because of my feelings about him. Looking at attitudes as being made up of three components—cognition, affect, and behavior—helps show the complexity of attitudes. But for the sake of clarity, keep in mind that the term *attitude* usually refers only to the affective component.

Naturally, managers aren't interested in every attitude an employee might hold. They're especially interested in job-related attitudes. The three most popular of these are job satisfaction, job involvement, and organizational commitment.[3] Job satisfaction is an employee's general attitude toward his or her job. A person with a high level of job satisfaction holds positive attitudes toward the job, while a person who is dissatisfied with the job holds negative attitudes. When people speak of employee attitudes, they usually are referring to job satisfaction. Job involvement is the degree to which an employee identifies with his or her job, actively participates in it, and considers his or her job performance to be important to his or her self-worth. Organizational commitment represents an employee's orientation toward the organization in terms of his or her loyalty to, identification with, and involvement in the organization.

Another job-related concept that managers may find important in understanding employee attitudes is that of organizational citizenship behavior (OCB), which is discretionary behavior that is not part of an employee's formal job requirements but that nevertheless promotes the effective functioning of the organization.[4] Examples of good OCB 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. In today's workplace, where teamwork and cooperation are increasingly relied on to get things done, organizations are likely to prefer having employees who exhibit organizational citizenship behavior.

In recent years, all of these—job satisfaction, job involvement, organizational commitment, and organizational citizenship behavior—have been popular topics for organizational researchers.[5]

click here to explore now
active concept check
Testing...Testing...1, 2, 3

Attitudes and Consistency

Did you ever notice that people change what they say so it doesn't contradict what they do? Perhaps a friend of yours has repeatedly argued that she thinks joining a sorority is an important part of college life, but then she goes through rush and doesn't get accepted. All of a sudden, she's saying that she thinks sororities are dumb and sorority life isn't all that it's cracked up to be.

Research has generally concluded that people seek consistency among their attitudes *and* between their attitudes and behavior.[6] This means that individuals try to reconcile differing attitudes and align their attitudes and behavior so they appear rational and consistent. When there is an inconsistency, individuals will take steps to make it consistent either by altering the attitudes or the behavior or by developing a rationalization for the inconsistency.

For example, a campus recruiter for R&S Company, who visits college campuses, identifies qualified job candidates, and sells them on the advantages of R&S as a good place to work, would experience conflict if he personally believed that R&S had poor working conditions and few opportunities for promotion. This recruiter could, over time, find his attitudes toward R&S becoming more positive. He may, in effect, convince himself by continually articulating the merits of working for the company. Another alternative is that the recruiter could become openly negative about R&S and the opportunities within the company for prospective applicants. The original enthusiasm that the recruiter might have shown would dwindle, probably to be replaced by outright cynicism toward the company. Finally, the recruiter might acknowledge that R&S is an undesirable place to work but, as a professional recruiter, realize that his obligation is to present the positive aspects of working for the company. He might further rationalize that no workplace is perfect and that his job is not to present both sides of the issue but to present a favorable picture of the company.

Cognitive Dissonance Theory

Can we assume from this consistency principle that an individual's behavior can always be predicted if we know his or her attitude on a subject? The answer, unfortunately, is more complex than merely "yes" or "no." The reason is cognitive dissonance theory.

Cognitive dissonance theory sought to explain the relationship between attitudes and behavior.[7] Cognitive dissonance is any incompatibility or inconsistency between attitudes or between behavior and attitudes. The theory argued that any form of inconsistency is uncomfortable and that individuals will try to reduce the dissonance and, thus, the discomfort. In other words, individuals seek stability with a minimum of dissonance.

Of course, no one can completely avoid dissonance. You know that cheating on your tax return is wrong, but you "fudge" the numbers a bit every year and hope that you won't be audited. Or you tell your children to brush their teeth after every meal, but you don't do it yourself. In each of these instances, there's an inconsistency between attitude and behavior. How do people cope with cognitive dissonance? The theory proposed that the desire to reduce dissonance is determined by the *importance* of the factors creating the dissonance, the degree of *influence* the individual believes he or she has over those factors, and 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. For instance, say that a corporate manager—Mrs. Sanchez—believes strongly that no company should treat assembly-line employees unfairly or inhumanely. Unfortunately, Mrs. Sanchez because of job requirements is placed in the position of having to make decisions that would trade off her company's profitability against her attitudes on compassionate treatment of employees. She knows that running an efficient manufacturing facility is in her company's best interest. What will she do? Clearly, Mrs. Sanchez will be experiencing a high degree of cognitive dissonance. Because of the importance of the issue to Mrs. Sanchez, we can't expect her to ignore the inconsistency, but there are several paths that she can follow to deal with her discomfort. She can change her behavior by using her authority to order that employees be treated fairly and humanely. Or she can reduce dissonance by concluding that the dissonant behavior isn't so important after all ("I've got to have a job, and in my role as a corporate decision maker, I often have to place the good of my company above that of society"). A third alternative would be for Mrs. Sanchez to change her attitude ("There's nothing wrong with the way our employees are treated. After all, they do have a job"). Still another choice would be for her to identify compatible factors that outweigh the dissonant ones ("The benefits to society from our giving people jobs more than offset the cost to society of not always treating employees compassionately").

The degree of influence that individuals believe they have over the factors also will affect their reaction to the dissonance. If they perceive the dissonance to be an uncontrollable result—something about which they have no choice—they are not likely to be receptive to attitude change or to feel a need for it. 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 would exist, it could be rationalized and justified by the need to follow the manager's orders—that is, the individual has no choice and 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 inherent in the dissonance, by motivating the individual to believe that there is consistency.

These moderating factors suggest that just because individuals experience dissonance, they will not necessarily move toward consistency—that is, attempting to reduce the dissonance. If the issues contributing to the dissonance are of minimal importance, if an individual perceives that the dissonance is externally imposed and is substantially uncontrollable by him or her, or if rewards are significant enough to offset the dissonance, the individual will not be pressured to reduce the dissonance.

Attitude Surveys

Many organizations regularly survey their employees about their attitudes. Exhibit 14.2 shows what an attitude survey might look like. 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 job groups, departments, divisions, or the organization as a whole. For instance, Trident Precision Manufacturing of Webster, New York, administers a twice-yearly employee satisfaction survey to gauge their employees' overall satisfaction with the company and its practices.[8]

Please answer each of the following statements using the following rating scale:

5 = Strongly agree

4 = Agree

3 = Undecided

2 = Disagree

1 = Strongly disagree

Statement	Rating
1. This company is a pretty good place to work.	____
2. I can get ahead in this company if I make the effort.	____
3. This company's wage rates are competitive with those of other companies.	____
4. Employee promotion decisions are handled fairly.	____
5. I understand the various fringe benefits the company offers.	____
6. My job makes the best use of my abilities.	____
7. My workload is challenging but not burdensome.	____
8. I have trust and confidence in my boss.	____
9. I feel free to tell my boss what I think.	____
10. I know what my boss expects of me.	____

Exhibit 14.2 **Sample Attitude Survey**

Source: Based on T. Lammers, "The Essential Employee Survey," *Inc*., December 1992, pp. 159–61.

The Satisfaction-Productivity Controversy

For a good part of the twentieth century, it was widely believed that happy workers were productive workers. As a result of the Hawthorne Studies (discussed in Chapter 2), managers generalized that if their employees were satisfied with their jobs, that satisfaction would translate to working hard. Many of the paternalistic actions by managers—things such as forming company bowling teams and credit unions, having company picnics, and training supervisors to be sensitive to the concerns of employees—were supposed to make workers happy. But belief in the happy worker idea was based more on wishful thinking than on hard evidence.

A careful review of research indicates that if satisfaction does have a positive effect on productivity, it's quite small.[9] However, looking at contingency variables has improved the relationship.[10] For example, the relationship is strongest when the employee's behavior isn't constrained or controlled by outside factors. An employee's productivity on machine-paced jobs, for instance, is going to be more heavily influenced by the speed of the machine than by his or her level of satisfaction. Another important contingency variable seems to be job level. The satisfaction-performance correlations are strongest for higher-level employees. Thus, we might expect the relationship to be more relevant for individuals in professional, supervisory, and managerial positions than for regular employees.

Unfortunately, most studies on the relationship between satisfaction and productivity used research designs that could not prove cause and effect. Studies that controlled for a causal relation indicated that a more valid conclusion was that productivity led to satisfaction rather than the other way around.[11] If you do a good job, you intrinsically feel good about it. In addition, assuming that the organization rewards productivity, your higher productivity should increase verbal recognition, your pay level, and promotion opportunities. These rewards, in turn, increase your level of satisfaction with the job.

click here to explore now

video example

What's the relationship between an employee's job satisfaction and his or he work behavior?

Implications for Managers

What are the implications for managers of what we know about attitudes? One implication concerns managing cognitive dissonance. We 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 minimized when employees perceive that the dissonance is externally imposed and uncontrollable. The pressure is 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 activity about which workers may have some dissonance. Or the manager can provide rewards that workers desire in order to decrease their attempts to eliminate the dissonance.

Another implication for managers is that there is relatively strong evidence that committed and satisfied employees have low rates of turnover and absenteeism.[12] Given that managers want to keep resignations and absences down—particularly among their most productive employees—they will want to do those things that will generate positive job attitudes. Measuring employee satisfaction through attitude surveys can alert managers to any significant changes. In addition, research has shown that job satisfaction influences organizational citizenship behavior, primarily through perceptions of fairness. What does this mean? If employees don't feel that their supervisors or the organization's procedures or pay policies are fair, their job satisfaction is likely to suffer significantly. However, when employees perceive organizational processes and outcomes to be fair, trust is developed. And when employees trust their employer, they're more willing to voluntarily engage in behaviors that go beyond the formal job requirements.[13]

Finally, the findings about the satisfaction-productivity relationships have important implications for managers. They suggest that the goal of making employees happy on the assumption that their being happy will lead to high productivity is probably misdirected. Managers who follow this strategy could end up with a very content, but very unproductive, group of employees. Managers would get better results by directing their attention primarily to what will help employees become more productive. Then successful job performance should lead to feelings of accomplishment, increased pay, promotions, and other rewards—all desirable outcomes—that then lead to job satisfaction.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> Personality

Some people are quiet and passive; 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 categorizing them in terms of personality traits. An individual's personality is the unique combination of the psychological traits we use to describe that person.

Personality Traits

How would you describe your personality? There are dozens of personality traits you could use; for instance, aggressive, shy, ambitious, loyal, and lazy. Over the years, researchers have attempted to focus specifically on which traits would lead to identifying one's personality. Two of the most widely recognized efforts include the Myers-Briggs Type Indicator and the five-factor model of personality.

Myers-Briggs Type Indicator

Personality assessment tests are commonly used to reveal an individual's personality traits. One of the most popular personality tests is the Myers-Briggs Type Indicator (MBTI). It consists of more than a hundred questions that ask people how they usually act or feel in different situations.[14] The way you respond to these questions puts you at one end or another of four dimensions:

1. *Social interaction*: Extrovert or Introvert (E or I) An extrovert is someone who is outgoing, dominant, and often aggressive and who wants to change the world. Extroverts need a work environment that is varied and action oriented, that lets them be with others, and that gives them a variety of experiences. An individual who's shy and withdrawn and focuses on understanding the world is described as an introvert. Introverts 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.

2. *Preference for gathering data*: Sensing or Intuitive (S or N) Sensing types dislike new problems unless there are standard ways to solve them; they like an established routine, have a high need for closure, show patience with routine details, and tend to be good at precise work. On the other hand, intuitive types are 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.

3. *Preference for decision making*: Feeling or Thinking (F or T) Individuals who are feeling types are 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. Thinking types are unemotional and uninterested in people's feelings, like 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.

4. *Style of making decisions*: Perceptive or Judgmental (P or J) Perceptive types are curious, spontaneous, flexible, adaptable, and tolerant. They focus on starting a task, postpone decisions, and want to find out all about the task before starting it. Judgmental types are decisive, good planners, purposeful, and exacting. They focus on completing a task, make decisions quickly, and want only the information necessary to get a task done.

Combining these preferences provides descriptions of 16 personality types. Exhibit 14.3 summarizes a few of them.

Type	Description
INFJ (introvert, intuitive, feeling, judgmental)	Quietly forceful, conscientious, and concerned for others. Such people succeed by perseverance, originality, and the desire to do whatever is needed or wanted. They are often highly respected for their uncompromising principles.
ESTP (extrovert, sensing, thinking, perceptive)	Blunt and sometimes insensitive. Such people are matter-of-fact and do not worry or hurry. They enjoy whatever comes along. They work best with real things that can be assembled or disassembled.
ISFP (introvert, sensing, feeling, perceptive)	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.
ENTJ (extrovert, intuitive, thinking, judgmental)	Warm, friendly, candid, and decisive; also usually skilled in anything that requires reasoning and intelligent talk, but may sometimes overestimate what they are capable of doing.

Exhibit 14.3 **Examples of MBTI Personality Types**

Source: Based on I. Briggs-Myers, *Introduction to Type* (Palo Alto, CA: Consulting Psychologists Press, 1980), pp. 7–8.

How could the MBTI help managers? Proponents of the assessment believe that it's important to know these personality types because they influence the way people interact and solve problems. For instance, if your boss is an intuitive type and you're a sensing type, you'll gather information in different ways. An intuitive type prefers gut reactions, whereas a sensor prefers facts. To work well with your boss, you would have to present more than just facts about a situation and bring out how you feel about it. The MBTI has been used to help managers select employees who are well matched to certain types of jobs. All in all, the MBTI can be a useful tool for understanding personality and predicting people's behavior.

The Big-Five Model of Personality

Although the MBTI is very popular, it suffers from one major criticism. It lacks evidence to support its validity. That same criticism can't be applied to the five-factor model of personality, more often called the big-five model.[15] The big-five personality traits are:

1. *Extraversion*: The degree to which someone is sociable, talkative, and assertive.
2. *Agreeableness*: The degree to which someone is good-natured, cooperative, and trusting.

3. *Conscientiousness*: The degree to which someone is 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 is imaginative, artistically sensitive, and intellectual.

The big five provide more than just a personality framework. Research has shown that important relationships exist between these personality dimensions and job performance. For example, one study examined five categories of occupations: *professionals* (such as engineers, architects, attorneys), *police, managers, salespeople,* and *semiskilled and skilled employees*.[16] Job performance was defined in terms of employee performance ratings, training competence, and personnel data such as salary level. The results of the study showed that conscientiousness predicted job performance for all five occupational groups. Predictions for the other personality dimensions depended on the situation and on the occupational group. For example, extraversion predicted performance in managerial and sales positions—occupations in which high social interaction is necessary. Openness to experience was found to be important in predicting training competency. Ironically, emotional security wasn't positively related to job performance. Although one might expect calm and secure workers to perform better than nervous ones, that wasn't the case. Perhaps that result is a function of the likelihood that emotionally stable workers often keep their jobs while emotionally unstable workers often do not. Given that all the people who participated in the study were employed, the variance on that dimension was small and insignificant.

Emotional Intelligence

Research into the area of emotional intelligence has offered some new insights into personality.[17] Emotional intelligence (EI) is an assortment of noncognitive skills, capabilities, and competencies that influence a person's ability to succeed in coping with environmental demands and pressures. It's composed of five dimensions:

Self-awareness:	The ability to be aware of what you're feeling.
Self-management:	The ability to manage one's 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 Bell Lab 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 second study of Air Force recruiters generated similar findings. Top-performing recruiters exhibited high levels of EI. What can we conclude from these results? EI appears to be especially relevant to success in jobs that demand a high degree of social interaction.

Predicting Behavior from Personality Traits

Five personality traits have proved to be the most powerful in explaining individual behavior in organizations. They are *locus of control, Machiavellianism, self-esteem, self-monitoring*, and *risk propensity*.

Locus of Control

Some people believe that 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 that they control their own destiny. The locus of control in the second case is *external*; these people believe that their lives are controlled by outside forces.[18] Research evidence indicates that employees who rate high on externality are less satisfied with their jobs, more alienated from the work setting, and less involved in their jobs than are those who rate high on internality.[19] A manager might also expect externals to blame a poor performance evaluation on their boss's prejudice, their co-workers, or other events outside their control; internals would explain the same evaluation in terms of their own actions.

Machiavellianism

The second characteristic is called Machiavellianism (Mach) named after Niccolo Machiavelli, who wrote in the sixteenth century on how to gain and manipulate power. An individual who is high in Machiavellianism is pragmatic, maintains emotional distance, and believes that ends can justify means.[20] "If it works, use it" is consistent with a high Mach perspective. Do high Machs make good employees? That depends on the type of job and whether you consider ethical factors in evaluating performance. In jobs that require bargaining skills (such as a purchasing manager) or that have substantial rewards for winning (such as a salesperson working on commission), high Machs are productive. In jobs in which ends do not justify the means or that lack absolute measures of performance, it's difficult to predict the performance of high Machs.

Self-Esteem

People differ in the degree to which they like or dislike themselves. This trait is called self-esteem.[21] The research on self-esteem (SE) offers some interesting insights into organizational behavior. For example, self-esteem is directly related to expectations for success. High SEs believe that they possess the ability they need in order to succeed at work. Individuals with high self-esteem will take more risks in job selection and are more likely to choose unconventional jobs than are people with low self-esteem.

The most common finding on self-esteem is that low SEs are more susceptible to external influence than are 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 are 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 are high SEs.

Not surprisingly, 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 are low SEs.

Self-Monitoring

Another personality trait that has received increasing attention is called self-monitoring.[22] It refers to an individual's ability to adjust his or her behavior to external, situational factors. 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 cannot 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 is fairly new; thus, predictions are hard to make. However, preliminary evidence suggests that high self-monitors pay closer attention to the behavior of others and are more flexible than are low self-monitors.[23] We might also hypothesize that high self-monitors will be successful in managerial positions that require them to play multiple, and even contradictory, roles. The high self-monitor is capable of putting on different "faces" for different audiences.

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, a group of 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 did low risk-taking managers. Interestingly, the decision accuracy was the same for the two groups. To maximize organizational effectiveness, managers should try to align employee risk-taking propensity with specific job demands.[24] For instance, high risk-taking propensity may lead to effective performance for a commodities trader in a brokerage firm because this type of job demands rapid decision making. On the other hand, high risk-taking propensity might prove a major obstacle to accountants auditing financial statements.

Willingness to take risks differs widely among individuals. When Hiroshi Mikitani, 34, created a new online shopping mall a few years ago in Japan, only 5 million of his fellow Japanese used the Internet, and then mostly for sending e-mail. The odds that his company, Rakuten, Inc. would be a success, were against him. But today Rakuten houses 2,000 retailers, ranging from big department stores to fresh fish sellers and *sake* brewers, and it is profitable and growing fast thanks to a recent IPO. "I want to make Rakuten the most exciting place to buy, sell, or trade products and services," says Mikitani.

Personality Types in Different Cultures

We know that there are certainly no common personality types 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 can influence *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 that they can dominate their environment; other societies, such as those in Middle Eastern countries, believe that life is essentially predetermined. Notice how closely this distinction parallels the concept of internal and external locus of control. On the basis of this particularly cultural characteristic, we should expect a larger proportion of internals in the U.S. and Canadian workforces than in the workforces of Saudi Arabia and Iran.

As we have seen throughout this section, personality traits influence employees' behavior. For global managers, understanding how personality traits differ takes on added significance when looking at it from the perspective of national culture.

Implications for Managers

The major value in understanding personality differences probably lies in employee selection. 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 has been developed by psychologist John Holland.[25] His theory states that an employee's satisfaction with his or her job, as well as his or her likelihood of leaving that job, depends on the degree to which the individual's personality matches the occupational environment. Holland identified six basic personality types. Exhibit 14.4 describes each of the six types, their personality characteristics, and sample occupations.

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, fileclerk
Enterprising. Prefers verbal activities in which there are 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

Exhibit 14.4 **Holland's Typology of Personality and Sample Occupations**

Source: Based on J.L. Holland, *Making Vocational Choices*: *A Theory of Vocational Personalities and Work Environments*, 2d ed. (Upper Saddle River, NJ: Prentice Hall, 1985).

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. A realistic person in a realistic job will be more satisfied than a realistic person in an investigative job. The key points of this theory are that (1) there do appear to be intrinsic differences in personality among individuals; (2) there are different types of jobs; and (3) people in job environments compatible with their personality types should be more satisfied and less likely to resign voluntarily than should people in incongruent jobs.

In addition, there are other benefits to a manager's understanding of personality. By recognizing that people approach problem solving, decision making, and job interactions differently, a manager can better understand why, for instance, an employee is uncomfortable with making quick decisions or why another employee insists on gathering as much information as possible before addressing a problem. Or, for instance, managers can expect that individuals with an external locus of control may be less satisfied with their jobs than internals and also that they may be less willing to accept responsibility for their actions.

Finally, being a successful manager and accomplishing goals means working well together with others both inside and outside the organization. In order to work effectively together, you need to understand each other. This understanding comes, at least in part, from recognizing the ways in which people differ from each other—that is, from an appreciation of personality traits.

go to page: 1 2 3 4 5 6 7 << previous | next >>

> Perception

Perception is a process by which individuals give meaning to their environment by organizing and interpreting their 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 her 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 her 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.

Factors That Influence Perception

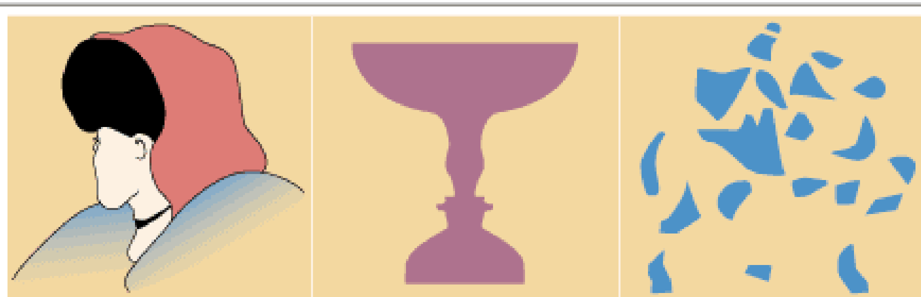
How do we explain the fact that people can perceive the same thing differently? A number of factors act to shape and sometimes distort perception. These factors can reside in the *perceiver*; in the object, or *target*, being perceived; or in the context of the *situation* in which the perception occurs.

The Perceiver

When an individual looks at a target and attempts to interpret what he or she sees, the individual's personal characteristics will heavily influence the interpretation. These personal characteristics include attitudes, personality, motives, interests, experiences, and expectations.

The Target

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. So, too, are extremely attractive or unattractive individuals. Because targets aren't looked at in isolation, 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 14.5. Notice how what you see changes as you look differently at each one.



Old woman or young woman? Two faces or an urn? A knight on a horse?

Exhibit 14.5 **Perception Challenges: What Do You See?**

The Situation

The context in which we see objects or events is also important. The time at which an object or event is seen can influence attention, as can location, light, heat, color, and any number of other situational factors.

Attribution Theory

Much of the research on perception is directed at inanimate objects. Managers, though, are more concerned with people. Our discussion of perception, therefore, should focus on how we perceive 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, therefore, will be significantly influenced by the assumptions we make about the person.

Attribution theory was developed to explain how we judge people differently depending on the meaning we attribute to a given behavior.[26] 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 that are believed to be under the personal control of the individual. Externally caused behavior results 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 a behavior in many situations or whether it's particular to one situation. Is the employee who arrived late today the same person that some employees are complaining is 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 (she hasn't been late in months), while for another employee, it's part of a routine pattern (she's 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 14.6 summarizes the key elements of attribution theory. It would tell us, for instance, that if an employee—let's call him Mr. Liu—generally performs at or about the same level on other related tasks as he does on his current task (low distinctiveness), if other employees frequently perform differently (better or worse) than Mr. Liu does on that current task (low consensus), and if Mr. Liu's performance on this current task is consistent over time (high consistency), his manager or anyone else who is judging Mr. Liu's work is likely to hold him primarily responsible for his task performance (internal attribution).

Exhibit 14.6	**Attribution Theory**

One of the most interesting findings drawn from attribution theory is that there are errors or biases that distort attributions. For instance, there's substantial evidence to support 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.[27] This tendency is called the fundamental attribution error and can explain why a sales manager may be prone to attribute the poor performance of her sales representative to laziness rather than to the innovative product line introduced by a competitor. There's also a tendency for individuals to attribute their 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 predictably distorted by them depending on whether it's positive or negative.

Shortcuts Frequently Used in Judging Others

We use a number of shortcuts when we judge others. Perceiving and interpreting what others do is a lot of work. As a result, individuals develop techniques for making the task more manageable. These techniques are frequently valuable; they let us make accurate perceptions rapidly and provide valid data for making predictions. However, they aren't perfect. They can and do get us into trouble. An understanding of these shortcuts can be helpful for recognizing when they can result in significant distortions.

Individuals cannot assimilate all they observe, so they engage in selectivity. They take in bits and pieces of the vast amounts of stimuli bombarding their senses. These bits and pieces aren't chosen randomly; they are selectively chosen depending on the interests, background, experience, and attitudes of the observer. Selective perception allows us to "speed read" others but not without the risk of being inaccurate.

It's easy to judge others if we assume that 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 most of the time they're wrong.

When we judge someone on the basis of our perception of a group he or she is part of, we're using the shortcut called stereotyping. For instance, "married people are more stable employees than single persons" and "union people expect something for nothing" are examples of stereotyping. To the degree that a stereotype is based on fact, it may produce accurate judgments. However, many stereotypes have no foundation in fact. In such cases, stereotyping distorts judgment.[28]

When we form a general impression about a person on the basis of a single characteristic, such as intelligence, sociability, or appearance, we're being 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 his classroom teaching style lacks enthusiasm, he might be rated lower on a number of other characteristics.

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 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 there is always the potential for perceptual distortion.

The message to managers should be clear: Pay close attention to how employees perceive both their jobs and management actions. Remember, the valuable employee who quits because of an inaccurate perception is just as great a loss to an organization as the valuable employee who quits for a valid reason.

click here to explore now

video exercise

Take a moment to apply what you've learned.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> Learning

The last individual behavior concept we're going to introduce is learning. It is included for the obvious reason that almost all complex behavior is learned. If we want to explain, predict, and influence behavior, we need to understand how people learn.

What is learning? Psychologists' definition of learning is considerably broader than the average person's view that "it's what we do in school." In actuality, each of us is constantly learning. Learning occurs all the time as we continuously learn from our experiences. A workable definition of learning is, therefore, any relatively permanent change in behavior that occurs as a result of experience. How do people learn, then? We're going to look at two learning theories relevant to understanding how and why individual behavior occurs: operant conditioning and social learning. Then we'll discuss how managers can use learning principles to shape employees' behaviors.

Operant Conditioning

Operant conditioning argues that 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 describes voluntary or learned behavior in contrast to reflexive or unlearned behavior. The tendency to repeat learned behavior is influenced by the reinforcement or lack of reinforcement that happens as a result of the behavior. Reinforcement, therefore, strengthens a behavior and increases the likelihood that it will be repeated.

Building on earlier work in the field, B. F. Skinner's research widely expanded our knowledge of operant conditioning.[29] Even his most outspoken critics admit that his operant concepts work.

Behavior is assumed to be determined from without—that is, *learned*—rather than from within—reflexive or unlearned. Skinner argued that creating pleasing and desirable consequences to follow some specific behavior would increase the frequency of that behavior. 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.

You see examples of operant conditioning everywhere. Any situation in which it's either explicitly stated or implicitly suggested that reinforcements (rewards) are contingent on some action on your part is an example of operant conditioning. Your instructor says that if you want a high grade in this course, you must perform well on tests by giving correct answers. A salesperson working on commission knows that earning a sizable income is contingent upon generating high sales in his or her territory. Of course, the linkage between behavior and reinforcement can also work to teach the individual to behave in ways that work against the best interests of the organization. Assume that your boss tells you that if you'll work overtime during the next three-week busy season, you'll be compensated for it at the next performance appraisal. Then, when performance appraisal time comes, you are given no positive reinforcements (such as being praised for pitching in and helping out when needed). What will you do the next time your boss asks you to work overtime? You'll probably refuse. Your behavior can be explained by operant conditioning: If a behavior isn't positively reinforced, the probability that the behavior will be repeated declines.

Social Learning

Individuals also can learn by observing what happens to other people and just by being told about something as well as by direct experiences. So, for example, 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 both through observation and direct experience is called social learning theory.

The influence of others is central to the social learning viewpoint. The amount of influence that these models will have on an individual is determined by four processes:

1. *Attentional processes*. People learn from a model only when they recognize and pay attention to its critical features. We tend to be most influenced by models who are attractive, repeatedly available, thought to be important, or are 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

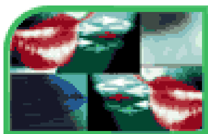
Because learning takes place on the job as well as prior to it, managers are concerned with how they can teach employees to behave in ways that most benefit the organization. Thus, managers will often attempt to "mold" individuals by guiding their learning in graduated steps. This process is called shaping behavior.

Consider the situation in which an employee's behavior is significantly different from that sought by his or her manager. If the manager reinforced the individual only when he or she showed desirable responses, there might be very little reinforcement taking place. In such a case, 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. 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.

There are four ways to shape behavior: positive reinforcement, negative reinforcement, punishment, or extinction. When a behavior is followed by something pleasant, such as when a manager praises an employee for a job well done, it's called *positive reinforcement*. Positive reinforcement will increase the likelihood of the desired behavior being repeated. Rewarding a response with the elimination or withdrawal of something unpleasant is called *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, gradually it 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 will disappear.

Both positive and negative reinforcement results 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; however, they weaken an undesired behavior and tend to decrease its frequency.



click here to explore now

active poll

What do you think? Voice your opinion and find out what others have to say.

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, seeing that marginal performance gets 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.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 14

go to page: 7

Go to Student View

Table of Contents

Chapter Contents

Search

Add Annotation

View Annotations

Rate the Difficulty

> Chapter Wrap-Up

You had a chance to voice your opinion about Francisco John Kim's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Karen Armstrong
Vice President
Human Resources, extendedcare.com, Northbrook, Illinois

Not working? Get Quicktime

The personal and work challenges these three individuals are facing are becoming more common in this world of overnight start-up dot-com companies. Although one peer getting promoted above another often happens, their situation is exacerbated because they live together.

It's important for all three to do an assessment of how they are feeling, what is causing them to feel that

Lee Lesser
Principal
Behavioral Momentum Associates, LLC, Parsippany, New Jersey

Not working? Get Quicktime

Kelman appears to be a high self-monitor personality. He is capable of portraying striking differences between his public (work) and private (at-home) personas. Kim and Reidy seem to have low self-esteem. Kim could not ask for help when he didn't know how to do something and Reidy chose not to complain about not getting the office he wanted. These significant differences in their personality

way, and what they can do to improve the situation. After their individual assessments, I would have all three sit down and discuss their perceptions and concerns as a team and establish ground rules for how they want to interact together—both on and off the job. Because of Kelman's leadership role, it would be helpful for him to recognize how important it is for him to listen to Kim and Reidy without judging or trying to defend himself. Sometimes simply acknowledging that there is a problem and getting it out in the open is a powerful first step forward. If all parties can approach the situation in a positive and mature manner, a workable solution can often be found.	traits represent the sources of their emotional and attitudinal issues. Kelman should use his ability as a high self-monitor to pay close attention to the behavior of others and to be more flexible. To handle the situation, Kelman should modify his behavior to be more like his two roommates. In addition, he should try to understand the low self-esteem behaviors of his roommates. By Kelman demonstrating more consistency between who he is and what he does, displaying his true disposition and attitude in more situations, the emotional friction and issues between he and his lifelong friends will be reduced.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log On: Internet-Based Exercise
- Working Together: Team-Based Exercise
- Case Application
- Mastering Management

go to page: 1 2 3 4 5 6 7 << previous

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter Outline

Chapter 15: Understanding Groups and Teams

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...

How Managers Can Keep from Being Ambushed by the Boss (06/04/02)

Managing In A Crisis Can Bring Better Ways To Conduct Business (12/19/01)

Managers Tell How to Spot "Gold Talent" in Old and New Hires (06/05/01)

Incidents of "Desk Rage" Disrupt America's Offices (04/11/01)

When I Stopped Yelling, Everybody Started Listening (08/29/00)

Internet in Japan is Riding a Wireless Wave (08/28/00)

Their Specialty? Teamwork. (02/28/00)

Designing Organizations For Competitive Advantage: The Power of Unlearning and Learning (01/12/00)

Powered by the People (08/24/99)

Teams at Work (07/14/99)

Other Unions Could Follow Pilots' Lead (10/27/98)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Group Activities in Colloquia (06/06/02)

Strategies For Motivating Teams (02/05/02)

[The Stanford Prison Experiment](#) (06/14/01)

[Facilitating Groups to Move Ahead](#) (07/07/99)

[Handling Intergroup and Interorganizational Conflict](#) (11/12/98)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

[Link to the R.O.L.L.S. Website with Self Assessment Library 2.0](#)

Faculty Resources

legend: add to favorites, provide feedback

Add to...

[Instructors Manual - chap15.doc](#)

[Lecture Presentation - chap15.ppt](#)

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

[Modules - modules.doc](#)

[Preface - preface.doc](#)

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Add to... Just for Students

Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 15

go to page: 1

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> What's Ahead

A Manager's Dilemma

"We're revolutionizing the world of international advertising." A pretty bold goal for a small ad agency with just 25 people in its offices in Amsterdam.[1] Yet, for Karen Drakenberg, the Swedish chief executive of StrawberryFrog, the goal is not only ambitious but, she feels, also achievable. "StrawberryFrog is dead set on not becoming or being just a local player."

The team at StrawberryFrog depends on a network of about 50 people around the globe who can pitch in when they're needed on various projects. With no cumbersome administrative bureaucracy to slow it down, the agency has landed some large ad campaigns—one for Pharmacia Corporation, another for Tektronics printers, and one to promote the online interactive version of *Elle* magazine. Other potential clients, though, have gone elsewhere for their global ad campaigns because they felt that bigger global agencies had the advantage in putting together sophisticated and integrated ad campaigns. The team at StrawberryFrog, however, feels that good global campaigns are found in big ideas, not in big bureaucracies.

The key to StrawberryFrog's approach is its new model of virtual work. By relying on a web of freelancers around the globe, the agency enjoys a network of talent without all the unnecessary overhead and complexity of work arrangements. The inspiration for this approach came from the film and construction industries. If you look at the film industry, people are essentially "free agents" who move from project to project applying their skills—directing, talent search, costuming, makeup, acting, set design—as needed. And the construction industry has mastered the art of managing multiskilled teams all working together on one shared vision. Those are the hallmarks of what Drakenberg is trying to do. However, managing such a loose configuration of talent creates some challenges in itself. Put yourself in Drakenberg's position. How can she effectively manage the virtual teams that work to develop successful ad campaigns for clients?

What Would You Do?

Virtual teams are one of the realities—and challenges—of managing in today's dynamic global environment. Thousands of organizations have made the move to restructure work around teams rather than individuals. Why? What do these teams look like? How can managers build effective teams? These are some of the types of questions we'll be answering in this chapter. First, however, let's begin by developing our understanding of group behavior.

> Understanding Group Behavior

The behavior of a group is not merely the sum total of the behaviors of all the individuals in the group. Why? Because individuals act differently in groups than they do when they are alone. Therefore, if we want to understand organizational behavior more fully, we need to study groups.

What Is a Group?

A group is defined as two or more interacting and interdependent individuals who come together to achieve particular goals. Groups can either be formal or informal. *Formal groups* are work groups established by the organization that have designated work assignments and specific tasks. In formal groups, appropriate behaviors are established by and directed toward organizational goals. Exhibit 15.1 provides some examples of different types of formal groups in today's organizations.

Command groups. These are the basic, traditional work groups determined by formal authority relationships and depicted on the organizational chart. They typically include a manager and those employees who report directly to him or her.

Cross-functional teams. These bring together the knowledge and skills of individuals from various work areas in order to come up with solutions to operational problems. Cross-functional teams also include groups whose members have been trained to do each other's jobs.

Self-managed teams. These are essentially independent groups that, in addition to doing their operating jobs, take on traditional management responsibilities such as hiring, planning and scheduling, and performance evaluations.

Task forces. These are temporary groups created to accomplish a specific task. Once the task is complete, the group is disbanded.

Exhibit 15.1 **Examples of Formal Groups**

In contrast, *informal groups* are social. These groups occur naturally in the workplace in response to the need for social contact. Informal groups tend to form around friendships and common interests.

Stages of Group Development

Group development is a dynamic process. Most groups are in a continual state of change. Even though groups probably never reach complete stability, there's a general pattern that describes how most groups evolve. Research shows that groups pass through a standard sequence of five stages.[2] As shown in Exhibit 15.2, these five stages are *forming*, *storming*, *norming*, *performing*, and *adjourning*.

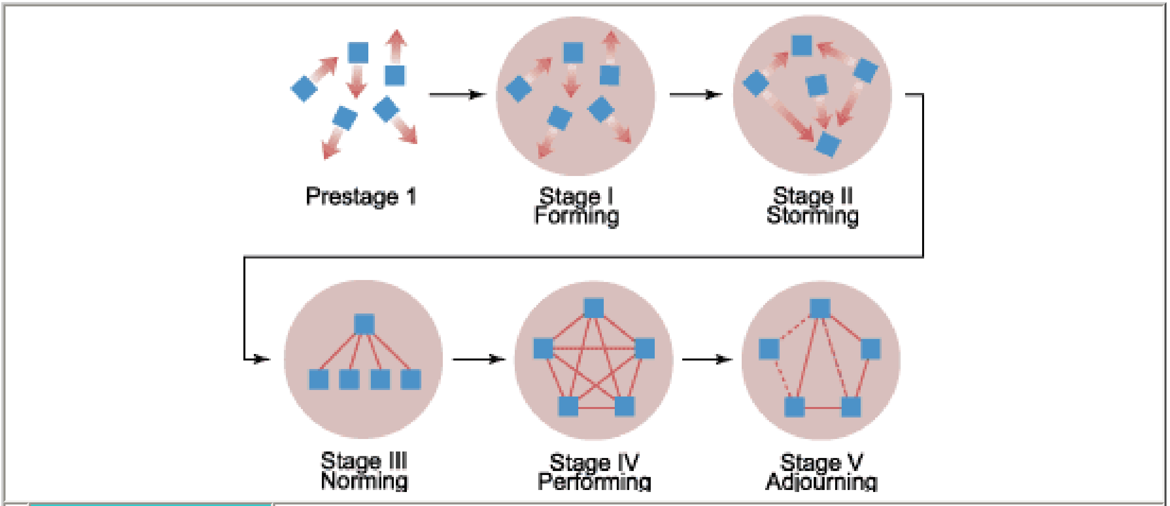


Exhibit 15.2 **Stages of Group Development**

The first stage, forming, has two aspects. First, people join the group either because of a work assignment, in the case of a formal group, or for some other benefit desired (such as status, self-esteem, affiliation, power, or security), in the case of an informal group.

Once the group's membership is in place, the second part of the forming stage begins: the task of defining the group's purpose, structure, and leadership. This phase is characterized by a great deal of uncertainty. Members are "testing 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.

The storming stage is one of intragroup conflict. Members accept the existence of the group but resist the control that the group imposes on individuality. Furthermore, there is conflict over who will control the group. When this stage is complete, there will be a relatively clear hierarchy of leadership within the group and agreement on the group's direction.

The third stage is one in which close relationships develop and the group demonstrates cohesiveness. There's now a strong sense of group identity and camaraderie. This norming stage is complete when the group structure solidifies and the group has assimilated a common set of expectations of what defines correct member behavior.

The fourth stage is performing. The group structure at this point is fully functional and accepted. Group energy has moved from getting to know and understand each other to performing the task at hand.

Performing is the last stage in the development of permanent work groups. Temporary groups—such as committees, task forces, and similar groups—that have a limited task to perform have a fifth stage, adjourning. In this stage, the group prepares to disband. High levels of task performance are no longer the group's top priority. Instead, attention is directed at wrapping up activities. Responses of group members vary at this stage. Some are upbeat, basking in the group's accomplishments. Others may be saddened by the loss of camaraderie and friendships gained during the work group's life.

Most of you have probably experienced each of these stages in working on a class group project. Group members are selected and then meet for the first time. There's a "feeling out" period to assess what the group is going to do and how it's going to do it. This is usually rapidly followed by a battle for control: Who's going to be in charge? Once this issue is resolved and a "hierarchy" agreed on, the group identifies specific aspects of the task, who's going to do them, and dates by which the assigned work needs to be completed. General expectations are established and agreed upon for each member. These decisions form the foundation for what you hope will be a coordinated group effort culminating in a project well done. Once the group project is complete and turned in, the group breaks up. Of course, some groups don't get much beyond the first or second stage; these groups typically turn in disappointing work and get lower grades.

Should you assume from the preceding discussion that a group becomes more effective as it progresses through the first four stages? Some researchers argue that effectiveness of work groups increases at advanced stages, but it's not that simple.[3] That assumption may be generally true, but what makes a group effective is a complex issue. Under some conditions, high levels of conflict are conducive to high levels of group performance. We might expect to find situations in which groups in Stage II outperform those in Stage III or IV. Similarly, groups don't always proceed clearly from one stage to the next. Sometimes, in fact, several stages may be going on simultaneously, as when groups are storming and performing at the same time. Groups even occasionally regress to previous stages. Therefore, one shouldn't always assume that all groups precisely follow this developmental process or that Stage IV is always the most preferable. It's better to think of this model as a general framework. It reminds you that groups are dynamic entities and can help you better understand the problems and issues that are most likely to surface during a group's life. Even virtual groups, like those described in our chapter-opening Manager's Dilemma, go through the various stages of group development as they perform their tasks.

Basic Group Concepts

In this section we introduce several concepts to help you begin to understand group behavior. These include *roles, norms, conformity, status systems, group size, group cohesiveness,* and *conflict management*.

Roles

We introduced the concept of roles in Chapter 1 when we discussed what managers do. (Remember Mintzberg's managerial roles.) Of course, managers are not the only individuals in an organization who play various roles. The concept of roles applies to all employees in organizations and to their life outside the organization as well.

A role refers to a set of expected behavior patterns attributed to someone who occupies a given position in a social unit. In a group, individuals are expected to perform certain roles because of their position in the group. These roles tend to be oriented toward either task accomplishment or maintaining group member satisfaction.[4] Think about groups that you've been in and the roles that you played. Were you continually trying to keep the group focused on getting its work done? If so, you were filling 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 performing a group member satisfaction role. Both roles are important to the ability of a group to function effectively and efficiently.

A general problem that arises in understanding role behavior is that individuals play multiple roles, adjusting their roles to the group to which they belong at the time. They read their job descriptions, get suggestions from their manager, and watch what their co-workers do. When that individual is confronted by different role expectations, he or she experiences *role conflict*. Employees often face role conflicts. A credit manager expects her credit analysts to process a minimum of 30 applications a week but the work group pressures members to restrict output to 20 so that everyone has work to do and no one gets laid off. A young college instructor's colleagues want him to give very few high grades in order to maintain the department's reputation for having tough standards, but students want him to give out high grades to enhance their grade point averages. To the degree that the instructor wants to satisfy the expectations of both his colleagues and his students, he faces role conflict.

click here to explore now

video example

Doesn't role theory suggest that we're all a bunch of phonies acting out different roles in different situations?

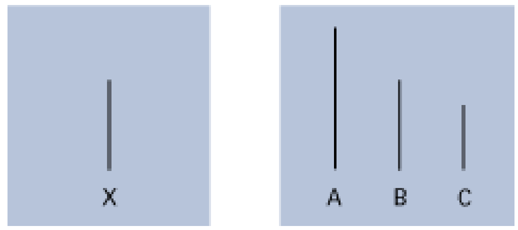
Norms and Conformity

All groups have established norms, or acceptable standards or expectations that are shared by the group's members. Norms dictate factors such as work output levels, absenteeism, promptness, and the amount of socializing allowed on the job.

Norms, for example, dictate the "arrival ritual" among office assistants at Coleman Trust and Realty. The workday begins at 8 a.m. Most employees typically arrive a few minutes before and put their coat, purse, lunch bag, and other personal items on their chair or desk so everyone knows they're "at work." They then go down to the company cafeteria to get coffee and chat. Employees who violate this norm by starting work sharply at 8 o'clock are teased and pressured to encourage behavior that conforms to the group's standard.

Although each group will have its own unique set of norms, there are common types of norms in most organizations. These focus on effort and performance, dress, and loyalty. Probably the most widespread norms are related to levels of effort and performance. Work groups typically provide their members with explicit cues on how hard to work, what level of output to have, when to look busy, when it's acceptable to goof off, and the like. These norms are very powerful in influencing an individual employee's performance. They're so powerful that performance predictions that are based solely on an employee's ability and level of personal motivation often prove to be wrong. And dress norms frequently dictate the kind of clothing that should be worn to work. Of course, what's acceptable dress in one organization may be very different from what is acceptable in another. Finally, loyalty norms will influence whether individuals work late, work on weekends, or move to locations they might not prefer to live.

Because individuals want to be accepted by groups to which they belong, they're susceptible to conformity pressures. The impact that group pressures for conformity can have on an individual member's judgment and attitudes was demonstrated in research by Solomon Asch.[5] In his conformity 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 15.3). The object was for each group member to announce aloud which of the three lines matched the single line. Asch wanted to know what would happen if members began to give incorrect answers. Would the pressures to conform cause individuals to align with the others? The experiment was "fixed" so that all but one of the members (the unsuspecting subject) had been told ahead of time to start giving obviously incorrect answers after one or two rounds of these matching exercises. Over many experiments and trials, the unsuspecting subject conformed over a third of the time; that is, the person gave answers he or she knew were wrong but that were consistent with the replies of other group members.



Ehibit 15.3 **Examples of Cards Used in the Asch Study**

What can we conclude from this study? The results suggest that there are group norms that push us toward conformity. We desire to be one of the group and to avoid being visibly different. We can generalize further to say that when an individual's opinion of objective data differs significantly from that of others in the group, he or she feels extensive pressure to align his or her opinion to conform with the opinions of others.

Status Systems

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 systems are an important factor in understanding behavior. Status is a significant motivator and has behavioral consequences when individuals see a disparity between what they perceive their status to be and what others perceive it to be.

Status in a group 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 that it's unimportant or that it is hard to determine who has it or who does not. Members of groups have no problem placing people into status categories, and they usually agree about who has high, middle, or low status.

Status is also formally conferred, and it's important for employees to believe that the organization's formal status system is congruent—that is, there's equity between the perceived ranking of an individual and the status symbols he or she is given by the organization. For instance, status incongruence would occur when a supervisor earns less than his or her 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 has and receives to be congruent with his or her status. When they're not, employees are likely to question the authority of their managers. Also, the motivational potential of promotions declines, and the general pattern of order and consistency in the organization is disturbed.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Group Size

Does the size of a group affect the group's overall behavior? The answer is a definite yes, but the effect depends on the outcomes on which you're focusing.[6] The evidence indicates, for instance, that small groups are faster at completing tasks than are larger ones. However, if the group is engaged in problem solving, large groups consistently get better results than smaller ones. Translating these findings into specific numbers is a bit more difficult, but we can offer some guidelines. Large groups—those with a dozen or more members—are good for getting diverse input. Thus, if the goal of the group is to find facts, a larger group should be more effective. On the other hand, smaller groups are better at doing something productive with those facts. Groups of approximately seven members tend to be more effective for taking action.

One of the more disturbing findings related to group size is that, as groups get incrementally larger, the contribution of individual members often tends to decrease.[7] The best explanation for this reduction of effort is a phenomenon known as the free rider tendency. The dispersion of responsibility within a group encourages individuals to slack off. When the results of the group can't be attributed to any one person, the relationship between an individual's input and the group's output is clouded. In such situations, individuals may be tempted to become "free riders" and coast on the group's efforts. In other words, efficiency will decline when individuals think that their contributions can't be measured. The obvious conclusion from this finding is that when managers use work teams they should also have a way to identify individual efforts.

Group Cohesiveness

Intuitively, it makes sense that groups in which there's a lot of internal disagreement and lack of cooperation are less effective in completing their tasks than are 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.

Research has generally shown that highly cohesive groups are more effective than are less cohesive ones.[8] The relationship between cohesiveness and effectiveness, however, is more 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.[9] The more cohesive a group is, 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, productivity decreases. If cohesiveness is low and 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, cohesiveness has no significant effect on productivity. These conclusions are illustrated in Exhibit 15.4.

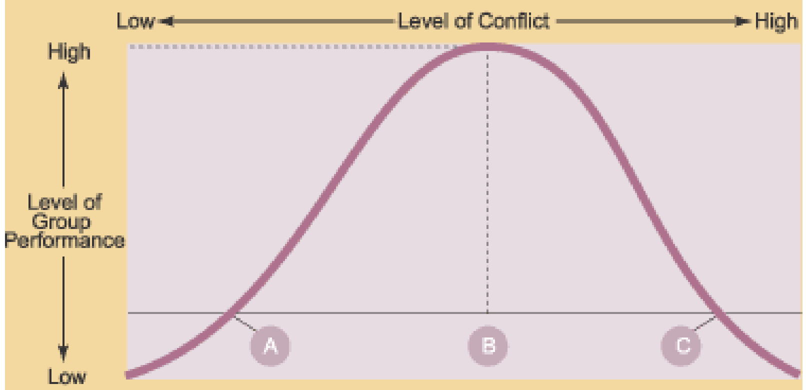
Exhibit 15.4 The Relationship Between Cohesiveness and Productivity

Conflict Management

As a group performs its assigned tasks, disagreements or conflicts inevitably will arise. When we use the term conflict, we're referring to *perceived* incompatible differences resulting in some form of interference or opposition. Whether the differences are real or not is irrelevant. If people in a group perceive that differences exist, then there is conflict. In addition, our definition includes the extremes—from subtle, indirect, and highly controlled forms of interferences to overt acts such as strikes, riots, or wars.

Over the years, three different views have evolved regarding conflict.[10] One view argues that conflict must be avoided, that it indicates a problem within the group. We call this the traditional view of conflict. A second view, the human relations view of conflict, argues that conflict is a natural and inevitable outcome in any group and need not be negative but, rather, has potential to be a positive force in contributing to a group's performance. The third and most recent perspective proposes that not only can conflict be a positive force in a group but also that some conflict is *absolutely necessary* for a group to perform effectively. This third approach is called the interactionist view of conflict.

The interactionist view is not suggesting that all conflicts are good. Some conflicts are seen as supporting the goals of the work group and improving its performance; these are functional conflicts of a constructive nature. Other conflicts are destructive and prevent a group from achieving its goals. These are dysfunctional conflicts. Exhibit 15.5 illustrates the challenge facing managers.



Situation	A	B	C
Level of Conflict	Low or none	Optimal	High
Type of Conflict	Dysfunctional	Functional	Dysfunctional
Group's Internal Characteristics	Apathetic Stagnant Unresponsive to Change Lack of New Ideas	Viable Self-Critical Innovative	Disruptive Chaotic Uncooperative
Level of Group Performance	Low	High	Low

Exhibit 15.5 **Conflict and Group Performance**

What differentiates functional from dysfunctional conflict? The evidence indicates that you need to look at the *type* of conflict.[11] Three types have been identified: task, relationship, and process.

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. Studies demonstrate that relationship conflicts are almost always dysfunctional. Why? It appears that the friction and interpersonal hostilities inherent in relationship conflicts increase personality clashes and decrease mutual understanding, thereby hindering the completion of organizational tasks. 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 kept to a mimimum. Intense arguments about who should do what become dysfunctional when they create uncertainty about task roles, increase the time to complete tasks, and lead to members working at cross-purposes. A low to moderate level of task conflict consistently demonstrates a positive effect on group performance because it stimulates discussions of ideas that help groups to perform better. Because we have yet to devise a sophisticated measuring instrument for assessing whether a given task, relationship, or process conflict level is optimal, too high, or too low, the manager must make intelligent judgments.

When the conflict level is too high, what techniques can managers use to reduce it? They can select from five conflict-resolution options: avoiding, accommodating, forcing, compromising, and collaborating.[12] (See Exhibit 15.6 for a description of each of these techniques.) Keep in mind that no one option is ideal for every situation. Which approach to use depends on the manager's desire to be more or less cooperative and more or less assertive.

Exhibit 15.6	Conflict-Resolution Techniques

Adapted from K.W. Thomas, "Conflict and Negotiation Processes in Organizations," in M.D. Dunnette and L.M. Hough (eds.), *Handbook of Industrial and Organizational Psychology*, vol. 3, 2d ed. (Palo Alto, CA: Consulting Psychologists Press, 1992), p. 668. With permission.

click here to explore now

active example

What's my preferred conflict-handling style?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Group Decision Making

Many organizational decisions are made by groups. It's a rare organization that doesn't at some time use committees, task forces, review panels, study teams, or similar groups to make decisions. In addition, studies show that managers may spend up to 70 percent of their time in group meetings.[13] Undoubtedly, a large portion of that time is spent formulating problems, developing solutions, and determining how to implement the solutions. It's possible, in fact, for groups to be assigned any of the eight steps in the decision-making process. (Refer to Chapter 6 for a review of the steps in the decision-making process.) In this section, we'll look at the advantages and disadvantages of group decision making, discuss when groups would be preferred, and review some techniques for improving group decision making.

Advantages and Disadvantages

What advantages do group decisions have over individual decisions?

1. *Provide more complete information*. There is truth to the saying that two heads are better than one. A group brings a diversity of experience and perspectives to the decision process that an individual cannot.

2. *Generate more alternatives*. Because groups have a greater amount and diversity of information, they can identify more alternatives than an individual. This advantage is particularly evident when group members represent different areas of expertise. For instance, a team made up of individuals from engineering, accounting, production, marketing, and human resources will generate alternatives that reflect their diverse perspectives.

3. *Increase acceptance of a solution*. Many decisions fail after the final choice has been made because people do not accept the solution. Group members are reluctant to fight or undermine a decision they have helped develop.

4. *Increase legitimacy*. The group decision-making process is consistent with democratic ideals, and decisions made by groups may be perceived as more legitimate than decisions made unilaterally by one person.

If groups are so good at making decisions, how did the phrase, "A camel is a horse put together by a committee" become so popular? The answer, of course, is that group decisions also have disadvantages.

1. *Time consuming*. Putting a group together takes time as does any decision making within the group. The result is that groups almost always take more time to reach a solution than it would take an individual.

2. *Minority domination*. Members of a group are never perfectly equal. They may differ in organizational rank, experience, knowledge about the problem, influence with other members, verbal skills, assertiveness, and so forth. This inequality creates the opportunity for one or more members to dominate others. A dominant and vocal minority frequently can have an excessive influence on the final decision.

3. *Pressures to conform*. As we know from our earlier discussion, there are pressures to conform in groups. This can lead to a phenomenon known as groupthink, which is a type of conformity in which group members withhold different or unpopular views in order to give the appearance of agreement. Groupthink undermines critical thinking in the group and eventually harms the quality of the final decision.[14]

4. *Ambiguous responsibility*. Group members share responsibility, but who is actually responsible for the final outcome? In an individual decision, it's clear who is responsible. In a group decision, the responsibility of any single member is diluted.

Effectiveness and Efficiency of Group Decision Making

Determining whether groups are effective at making decisions depends on the criteria you use to assess effectiveness.[15] Exhibit 15.7 summarizes when groups or individuals are most effective.

Criteria of Effectiveness	Groups	Individuals
Accuracy	√	
Speed		√
Creativity	√	
Degree of acceptance	√	
Efficiency		√

Exhibit 15.7 **Group versus Individual Decision Making**

Keep in mind, however, that the effectiveness of group decision making is also influenced by the size of the group. The larger the group, the greater the opportunity for diverse representation. On the other hand, a larger group requires more coordination and more time for members to contribute their ideas. So groups probably should not be too large. Evidence indicates, in fact, that groups of five, and to a lesser extent, seven, are the most effective.[16] 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.

Techniques for Improving Group Decision Making

We know that groups can be effective decision makers. However, when members of a group meet and interact, they create the potential for groupthink. They can censor themselves and pressure other group members into agreement. How can managers make group decisions more creative? Exhibit 15.8 describes three possible techniques.

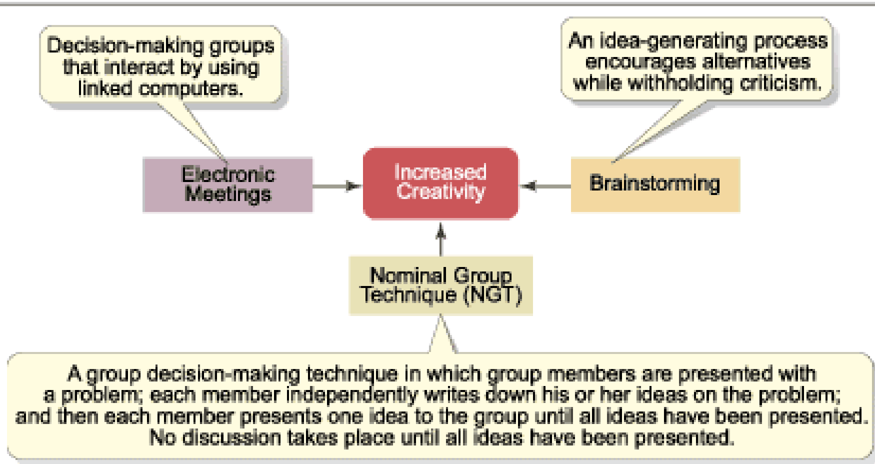


Exhibit 15.8 **Techniques for Making More Creative Group Decisions**

Understanding Work Group Behavior

Why are some groups more successful than others? The answer to that is complex, but it includes variables such as the abilities of the group's members, the size of the group, the level of conflict, and the internal pressures on members to conform to the group's norms. Exhibit 15.9 presents the major components that determine group performance and satisfaction.[17] It can help you sort out the key variables and their interrelationships.

Exhibit 15.9	Group Behavior Model

External Conditions Imposed on the Group

To begin understanding the behavior of a formal work group, we need to view it as a subsystem of a larger system.[18] As a subset of a larger organizational system, the work group is influenced by external conditions imposed from outside. For instance, a quality control team at a Kraft Foods Inc. cheese manufacturing plant in Missouri must live within the rules and policies handed down by the division's headquarters in Chicago and from Phillip Morris Company's (Kraft Foods is a subsidiary of Phillip Morris) headquarters in New York.

What are some of these external conditions? They include the organization's overall strategy, authority structures, formal regulations, availability or absence of organizational resources, employee selection criteria, the organization's performance management system, the organization's culture, and the general physical layout of the group's work space.

Group Member Resources

A group's potential level of performance depends to a large extent on the resources that its members individually bring to the group. These would include members' abilities and personality characteristics.

Part of a group's performance can be predicted by looking at the task-relevant and intellectual abilities of its individual members. We do occasionally hear about an athletic team composed of mediocre players who, because of excellent coaching, determination, and precision teamwork, beat a far more talented group of players. Such examples make the news precisely because they are unusual. Group performance isn't merely the summation of its individual members' abilities. However, these abilities set parameters for what members can do and how effectively they will perform in a group.

There has been a great deal of research on the relationship between personality traits and group attitudes and behaviors. The general conclusion is that attributes that tend to be viewed as positive in our 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 authoritarianism, dominance, and unconventionality, tend to be negatively related to productivity and morale.[19] These personality traits affect group performance by strongly influencing how the individual will interact with other group members.

Understanding the relationship between group performance and group member resources is made more challenging in global organizations in which cross-cultural groups are prevalent. Given these conditions, managers need to clearly understand the cultural characteristics of the groups and the group members they manage.[20]

Group Structure

Work groups aren't unorganized crowds. They have a structure that shapes members' behavior and makes it possible to explain, predict, and influence a large portion of individual behavior within the group as well as the performance of the group itself. These structural variables include roles, norms, status, group size, and leadership. We've already discussed the first four variables in this chapter and we'll cover leadership in Chapter 17. Just keep in mind that every work group has an internal structure that defines member roles, norms, status, group size, and formal leadership positions.

Group Processes

The next component in our group behavior model concerns the processes that go on within a work group—the communication patterns used by members to exchange information, group decision processes, leader behavior, power dynamics, conflict interactions, and the like. Why are processes important to understanding work group behavior? Because in groups, one and one don't necessarily add up to two. Every group begins with a potential defined by its constraints, resources, and structure. Then you add in the positive and negative process factors created within the group itself. For instance, four people on a marketing research team may be able to generate far more ideas as a group than the members could produce individually. This synergy is a positive process factor. However, the group may also have negative process factors such as high levels of conflict or poor communication, which may hinder group effectiveness.

Group Tasks

The final box in our model points out that the impact of group processes on group performance and member satisfaction depends on the task that the group is doing. More specifically, the *complexity* and *interdependence* of tasks influence the group's effectiveness.[21]

Tasks can be generalized as being either simple or complex. Simple tasks are routine and standardized. Complex tasks are ones that tend to be novel or nonroutine. We would hypothesize that the more complex the task, the more the group will benefit from discussion among group members about alternative work methods. If the task is simple, group members don't need to discuss such alternatives. They can rely on standard operating procedures. Similarly, if there's a high degree of interdependence among the tasks that group members must perform, they'll need to interact more. Effective communication and controlled conflict should, therefore, be most relevant to group performance when tasks are complex and interdependent.

Testing…Testing…1, 2, 3

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Turning Groups Into Effective Teams

Work teams are popular in organizations. A recent study by the Center for the Study of Work Teams found that 80 percent of organizations with over 100 employees reported that half their employees were on at least one team.[22] And the popularity of teams is likely to continue. Why? Exhibit 15.10 summarizes some reasons. In this section, we'll discuss what a work team is, the different types of teams that organizations might use, and how to develop and manage work teams.

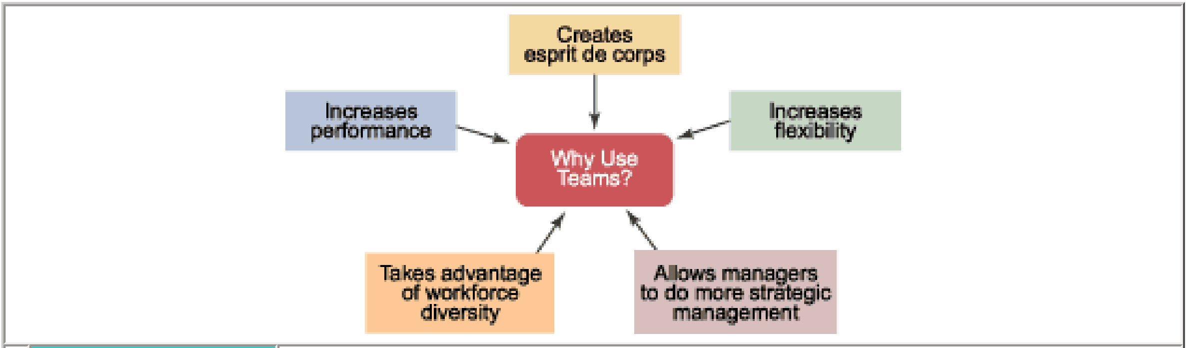


Exhibit 15.10 Why Are Work Teams Popular?

What Is a Team?

Most of you are already familiar with teams especially if, for no other reason, than you've watched organized sports activity. Although a sports team has many of the same characteristics as a work team, work teams *are* different and have their own unique traits. Just what are work teams? They are formal groups made up of interdependent individuals who are responsible for the attainment of a goal.[23]

Types of Teams

Although there are many ways to categorize teams, one convenient way is to look at teams in terms of four characteristics: purpose, duration, membership, and structure.[24] (See Exhibit 15.11.) Let's explain these characteristics in more detail.

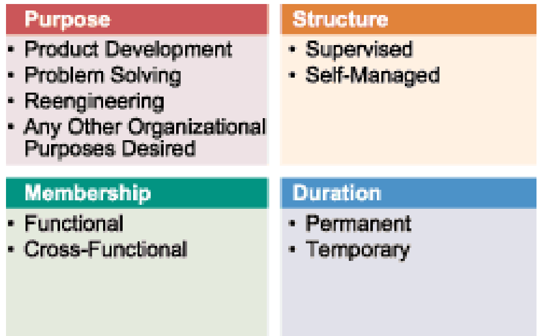


Exhibit 15.11 **Categories of Teams**

Teams can vary in their purpose or goal. A team might be involved in product development, problem solving, as part of a process reengineering effort, or in any other number of work-related activities. For instance, at Motorola's facility in Austin, teams are used in work process optimization projects. And Toyo Australia uses multiskilled teams in manufacturing the colored inks used in magazine production and other print-related products.[25]

A team is either permanent or temporary. Departmental teams and others that are part of the organization's formal structure are types of permanent teams. Temporary teams include task forces, project teams, problem-solving teams, and any other type of short-term team formed to develop, analyze, or study a work-related issue.

Team membership can either be functional or cross-functional. A departmental team is functional because its members come from a specific functional area. However, as we already discussed in Chapter 10, many organizations are using cross-functional teams as a way to foster innovation, cooperation, and commitment.

Finally, teams can be either supervised or self-managed. A supervised team will be under the direction of a manager who is responsible for guiding the team in setting goals, performing the work activities, and evaluating performance. On the other hand, a self-managed team assumes the responsibilities of managing itself.

The four most common types of teams you're likely to find in organizations today are functional teams, self-managed teams, virtual teams, and cross-functional teams.[26]

Functional teams are composed of a manager and his or her employees from a particular functional area. Within this functional area, issues such as authority, decision making, leadership, and interactions are relatively simple and clear. Functional teams are often involved in efforts to improve work activities or to solve specific problems within their particular functional area. For example, at GTE Directories in Dallas/Fort Worth, publication teams work on actually producing the telephone directories and customer service teams work on resolving customer complaints.[27]

Another type of team commonly being used in organizations is the self-managed team, a formal group of employees who operate without a manager and are responsible for a complete work process or segment. The self-managed team is responsible for getting the work done *and* for managing themselves. This usually includes planning and scheduling work, assigning tasks to members, collective control over the pace of work, making operating decisions, and taking action on problems. For instance, teams at Corning have no shift supervisors and work closely with other manufacturing divisions to solve production-line problems and coordinate deadlines and deliveries. The teams have the authority to make and implement decisions, finish projects, and address problems.[28] Other organizations such as Xerox, General Motors, Coors Brewing, PepsiCo, Hewlett-Packard, and Federal Express use self-managed teams in deciding how best to do the work. How effective are self-managed teams? Most organizations that use them find them to be successful and plan to expand their use in the coming years.[29]

The third type of team we want to discuss is the virtual team. Virtual teams are teams that use computer technology to link physically dispersed members in order to achieve a common goal. The advertising project teams at StrawberryFrog, described in the chapter-opening Manager's Dilemma, are examples of virtual teams. In a virtual team, members collaborate using communication links such as wide area networks, videoconferencing, fax, e-mail, or even Web sites where the team can hold online conferences.[30] Virtual teams can do all the things that other teams can—share information, make decisions, and complete tasks; however, they miss the normal give-and-take of face-to-face discussions. Because of this omission, virtual teams tend to be more task oriented, especially if the team members have never personally met.

The last type of team we want to discuss is the cross-functional team, which we introduced in Chapter 10 and defined as a hybrid grouping of individuals who are experts in various specialties and who work together on various tasks. Many organizations are using cross-functional teams. For example, at Hallmark Cards in Kansas City, editors, writers, artists, and production specialists join with employees from manufacturing, graphic arts, sales, and distribution to work on everything from developing new-product ideas to improving customer deliveries.[31] And at Hewlett-Packard's North American distribution facility in Bridgewater, New Jersey, a cross-functional team was formed to redesign inefficient work processes.[32]

click here to explore now

video example

What's the difference between a self-directed team and a cross-functional team?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 << previous | next >>

> Developing and Managing Effective Teams

Teams are not automatic productivity enhancers. They can also be disappointments to management. We need to look more closely at how managers can develop and manage effective teams.

Characteristics of Effective Teams

Research on teams provides insights into the characteristics associated with effective teams.[33] Let's look more closely at these characteristics as listed in Exhibit 15.12.

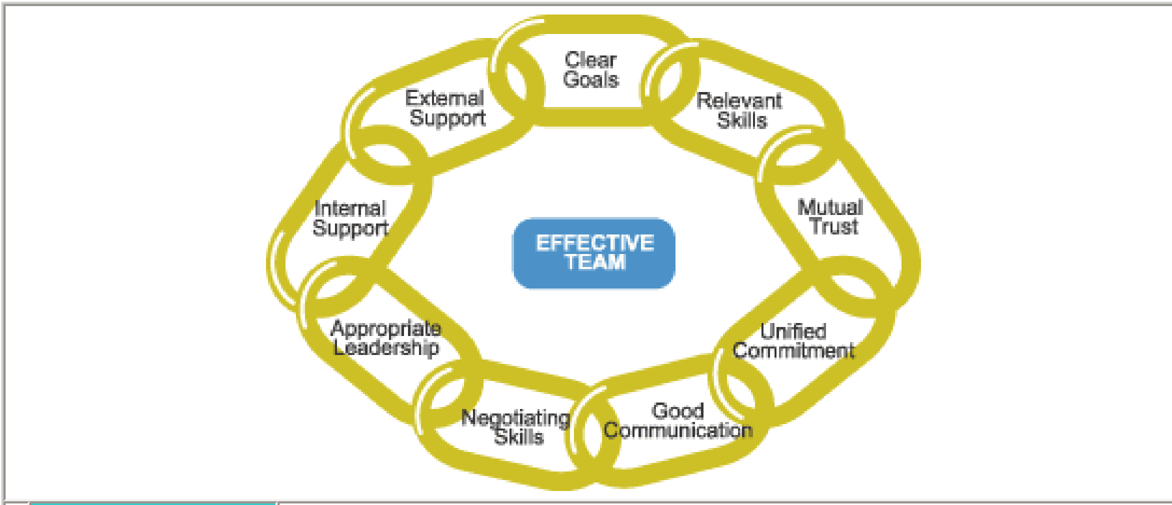


Exhibit 15.12 Characteristics of Effective Teams

Clear Goals

High-performance teams have both a clear understanding of the goals to be achieved and a belief that the goals embody important results. Moreover, the importance of these goals encourages individuals to redirect personal concerns to achieving team goals. In effective teams, 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. They have the necessary technical and interpersonal skills to achieved the desired goals while working well together. This last point is important and often overlooked. Not everyone who is technically competent has the skills to work well as a team member. High-performing teams have members who possess both technical and interpersonal skills.

Mutual Trust

Effective teams are characterized by high mutual trust among members. That is, members believe in the ability, character, and integrity of each other. But as you probably know from personal relationships, trust is fragile. It takes a long time to build and it can be easily destroyed. Maintaining trust requires careful attention by managers.

The climate of trust within a group tends to be strongly influenced by the organization's culture and the actions of management. Organizations that value openness, honesty, and collaborative processes and that encourage employee involvement and autonomy are more likely to create trusting cultures. Exhibit 15.13 lists six recommended actions that can help managers build and maintain trust.

1. *Communicate*. Keep team members and subordinates informed by explaining decisions and policies and providing accurate feedback. Be candid about your own problems and limitations.

2. *Be supportive*. Be available and approachable. Encourage and support team members' ideas.

3. *Be respectful*. Delegate real authority to team members and listen to their ideas.

4. *Be fair*. Give credit where it's due, be objective and impartial in performance evaluations, and be generous with your praise.

5. *Be predictable*. Be consistent in your daily affairs. Make good on your explicit and implied promises.

6. *Demonstrate competence*. Develop the admiration and respect of team members by demonstrating technical and professional ability and good business sense.

Exhibit 15.13 **Six Suggestions for Helping Managers Build Trust**

Source: Adapted from F. Bartolome, "Nobody Trusts the Boss Completely—Now What?" *Harvard Business Review*, March-April 1989, pp. 135-42.

Unified Commitment

Members of an effective team exhibit intense loyalty and dedication to the team. They're willing to do whatever it takes to help their team succeed. We call this loyalty and dedication *unified commitment*.

Studies of successful teams have found that members identify with their teams.[34] Members redefine themselves to include membership in the team as an important aspect of the self. Unified commitment, then, is characterized by dedication to the team's goals and a willingness to expend extraordinary amounts of energy to achieve them.

Good Communication

Not surprisingly, effective teams are characterized by good communication. Members convey messages between each other in ways that are readily and clearly understood. This includes nonverbal as well as spoken messages. Good communication is also characterized by a healthy dose of feedback from team members and managers. Feedback helps to guide team members and to correct misunderstandings. Like a couple who has been together for many years, members on high-performing teams are able to quickly and efficiently share ideas and feelings.

Negotiating Skills

When jobs are designed around individuals, their job descriptions, the organization's rules and procedures, and other types of formalized documentation clarify employee roles. Effective teams, on the other hand, tend to be flexible and are continually making adjustments in who does what. This flexibility requires team members to possess negotiating skills. Problems and relationships are regularly changing in teams and members need to be able to confront and reconcile differences.

Appropriate Leadership

Effective leaders can motivate a team to follow them through the most difficult situations. How? They help clarify goals. They demonstrate that change is possible by overcoming inertia. And they increase the self-confidence of team members, helping members to more fully realize their potential. It's important to note that the best leaders aren't necessarily directive or controlling. Increasingly, effective team leaders act in the roles of coach and facilitator. They help guide and support the team but don't control it. This condition obviously applies to self-managed teams but also increasingly applies to cross-functional, virtual, and functional teams in which the members themselves are empowered. For some traditional managers, changing their role from "boss" to facilitator is a difficult transition. Although most managers relish sharing authority or understand its advantages, some hard-nosed dictatorial managers aren't well suited to the team concept and must be transferred or replaced.

Internal and External Support

The final condition necessary for an effective team is a supportive climate. Internally, the team should have a sound infrastructure. This includes 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.[35] 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.

Managing Teams

What's involved in managing a team? We can look at the task of managing a team using the four management functions: planning, organizing, leading, and controlling.[36]

Planning

Goal determination is an important part of the planning process. As we pointed out previously, effective teams have clear goals. It's important that team members understand and accept the team's goals.[37] Whether the goals are provided for the team or whether the team develops its own goals, every team member needs to know what the goals are. An easy way to check team members' understanding of the goals is to have each person write down the goals and then look at their statements. If there are any misconceptions about the team's goals, the manager needs to clear them up.

Organizing

Organizing tasks in managing a team include clarifying authority and structural issues. A key question is "How much authority do we have?" A self-managed team has been empowered to make certain decisions and perform specific work activities. A team's authority will be influenced by the organization's culture and its support of employee involvement and autonomy. Structural issues also need to be resolved within the team itself. Has a leader been appointed, or will the team designate one? What tasks need to be done in order to accomplish the team's goals? How should the work be done efficiently and effectively? Who's going to be assigned to the various tasks, and how will these assignments be made?

Leading

Important issues in leading that a team must address include, among others, what role the leader will play, how disagreements will be handled, and what communication processes will be used. Dealing with the human dynamics of the team is often the most difficult part of managing a team. Exhibit 15.14 lists some people skills that are important in leading a team.

- Ask appropriate questions to bring out ideas and stimulate discussion.
- Listen closely and intently to members' ideas and concerns.
- Manage group discussions to encourage shy team members to participate.
- Establish an informal and nonthreatening climate so members feel free to candidly speak their thoughts.
- Use the consensus method to reach decisions on key team issues.
- Involve team members in setting goals.
- Implement meeting guidelines to minimize wasted time in group meetings.
- Encourage respect for each other so each member knows that his or her contributions are valued.
- Identify and deal with dysfunctional behaviors immediately.
- Celebrate the achievement of milestones and other team accomplishments.
- Use recognition, task assignments, and other techniques to motivate team members.

Exhibit 15.14 **Types of Interpersonal Skills Used in Managing Teams**

Source: Based on G.M. Parker, *Cross-Functional Teams* (San Francisco: Jossey-Bass, 1994), pp. 57-58.

Controlling

Two important controlling issues are: How will the team's performance be evaluated, and what type of reward system will be used? As organizations use teams more and more, their performance management systems will have to change. How?

Performance criteria need to be modified to incorporate teamwork behaviors in employee evaluations.[38] Not only should individual performance be evaluated, but also factors that indicate how well the individual works in the team context should be considered. For instance, at Ideo, an industrial design firm, performance appraisals include comments from team peers as well as from managers.[39]

Changes in the appraisal process to incorporate team efforts are only half the story. Managers also need to look at how teams are rewarded for their efforts and performance levels. A popular approach to group incentives is gainsharing, an incentive program that shares the gains of the efforts of employees with those employees. In gainsharing, rewards are directly related to performance. If the team succeeds, team members are rewarded. Team-based organizations also may use one-time bonuses, team incentive systems, employee-based recognition programs, and informal team recognition. For example, Hallmark Cards added an annual bonus based on achievement of team goals to its basic individual incentive system. Trigon Blue Cross/Blue Shield changed its system to reward both individual goals and teamlike behaviors.[40] No matter what approach is used, the team itself should be the primary force in deciding what types of rewards and recognition are important.[41]

click here to explore now

active example

PRISM: Scenario 9—Coaching and Creating Effective Teams

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 15

go to page: 5

[Go to Student View](#)
[Table of Contents](#)
[Chapter Contents](#)
[Search](#)
[Add Annotation](#)
[View Annotations](#)
[Rate the Difficulty](#)

> Chapter Wrap-Up

You had a chance to voice your opinion about Karen Drakenberg's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Jeff Wasson
CEO
Travelnow.com, Springfield, Missouri

[Not working? Get Quicktime](#)

Karen will not be able to manage these virtual teams without establishing some boundaries or guidelines. I would recommend that she develop a template model that is process based. She should empower account managers from her local staff. This would allow her to manage multiple projects through her account managers. Her account managers would be

Peter H. Nalen
Vice President, Management Supervisor
The Sawtooth Group, Woodbridge, New Jersey

[Not working? Get Quicktime](#)

The number-one objective for Drakenberg will be to ensure clear, concise direction from her clients in order to deliver specific assignments to her virtual team. Because the team is geographically dispersed, they will not have the luxury of continual personal interaction that helps define individual roles within a project or clarify potentially misinterpreted

responsible for managing the processes that utilize the talent pool from around the globe. With the assistance of her account managers, Karen should define the services offered by StrawberryFrog. This management team also needs to develop procedures and realistic timelines for each ad campaign. Account managers would monitor the budget for each project as well as define terms of accountability expected from the independent employees. Finally, it would be necessary to communicate these guidelines to all participants in the talent pool before formally adding them to the resource list. This method will ensure that expectations are delivered without adding unnecessary overhead or work complexity.	objectives. She will need to assign a clear and strong team leader who will have the responsibility of defining and assigning each piece of the campaign project. For each campaign, the team leader will need to effectively communicate to each team member his or her role in the overall project, as well as the specific campaign objectives, goals, assigned tasks, responsibilities, and dates. Once having made the initial assignments, the team leader will also proactively manage a feedback loop to and from each member to ensure the project moves forward on time and on goal.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log on: Internet Based Exercise
- Working Together: Team Based Exercise
- Case Application
- Mastering Management

go to page: 1 2 3 4 5 << previous

Management (activebook), 7/e

Stephen P. Robbins   Mary Coulter

Chapter 16: Motivating Employees

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Need to Boost Morale? Try Good Food, Fitness, and Communication (07/17/02)
	The Big Squeeze On Workers (07/16/02)
	The Self-Directed Employee (06/27/02)
	High Praise Often Produces Whale of a Job (05/22/02)
	Does Number One Need Number Two? (12/03/01)
	Salary Secrecy: Should Compensation Be Confidential? ft.com (06/20/01)
	The New Workplace (06/20/01)
	Companies Are Finding Real Payoffs In Aiding Employee Satisfaction (12/28/00)
	Is NOT Fair!!!! (08/28/00)
	The Body Snatchers Are After Your Employees. How Do You Keep Your Talent? (05/31/00)
	Motivation for a Smart and Wired World (04/13/00)
	Motivating "Knowledge Workers" in the Next Century (12/02/99)

[100 Best Companies to Work for in America](01/04/99) (01/04/99)

Currents in Compensation and Benefits (11/09/98)

Two on Top (06/18/98)

Maslow in the Workplace (05/18/98)

The New Organization Man (03/16/98)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Examining Executive Pay Issues (06/12/02)

Employees Watch What You Do, Not What You Say--Reducing Turnover (07/31/01)

Employees Watch What You Do, Not What You Say--Reducing Turnover (07/31/01)

Creative Approaches to Rewarding Employees (05/31/01)

Employee Recognition--Some Suggestions from the Net (12/28/00)

Flextime: No More 9 to 5? (06/28/00)

Practical Application of Goal-Setting Theory (05/02/00)

Reinforcement Theory and Employee Incentive Programs

(05/02/00)

Using the Internet to Influence Organizational Stakeholders

(12/02/99)

Virtual Coaches- The New Managers? (02/24/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap16.doc

Lecture Presentation - chap16.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

Modules - modules.doc

Preface - preface.doc

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Add to... Just for Students

Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> What's Ahead

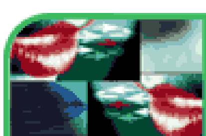
A Manager's Dilemma

Angel Lorenzo is a shift supervisor at Grupo M, the largest private employer in the Dominican Republic.[1] Its 13,000 employees make clothes for Abercrombie & Fitch, Hugo Boss, and Tommy Hilfiger in 26 factories. Lorenzo began working at Grupo M as a sewing machine operator and was promoted to a job as a quality control inspector. Now, Lorenzo manages 14 teams of machine operators, making sure that their work flow is smooth and that jobs are done on time. He says that his job is to let his employees know that they are the most important people in the factory. If they don't do their jobs well, the business loses customers.

Grupo M defies the stereotypical image of garment manufacturers found in many Third World countries. The company is not a sweatshop nor does it employ child labor. Its factories are clean, brightly lit, and nice places to work. The company's founder, Fernando Capellan, envisioned an exemplary business that would be an innovator in the garment industry. And Grupo M has earned a reputation as a remarkably progressive employer whose labor practices strengthen it. For instance, in 1999, it earned a corporate conscience award (from the U.S.-based Council on Economic Priorities) for "empowering employees." Capellan says, "We have proven that you don't have to run a factory like a sweatshop in order to be profitable and to grow. In fact, we believe that we have been able to innovate, to expand, and to do what we have done because of the way that we treat our people. Everything that we give to our workers gets returned to us in terms of efficiency, quality, loyalty, and innovation. It's just smart business."

Although the company's philosophy is admirable, managers such as Lorenzo are challenged to keep employees motivated. After all, even though Grupo M factories are clean and modern, employees still are required to do fast-paced, mind-numbing work. Put yourself in Lorenzo's position. How could you motivate your workers to do their jobs well?

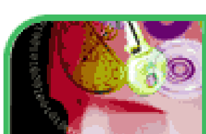
What Would You Do?



click here to explore now

active poll <

Before you begin reading this chapter, try a short warm-up activity.



click here to explore now

objectives <

Take a moment to familiarize yourself with the key objectives of this chapter.

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Motivating and rewarding employees is one of the most important and one of the most challenging activities that managers perform. Successful managers, such as Angel Lorenzo, in our chapter-opening Manager's Dilemma, understand that what motivates them personally may have little or no effect on others. Just because *you're* motivated by being part of a cohesive work team, don't assume everyone is. Or just because you're motivated by challenging work doesn't mean that everyone is. Effective managers who want their employees to put forth maximum effort recognize that they need to know how and why employees are motivated and to tailor their motivational practices to satisfy the needs and wants of those employees.

> What Is Motivation?

To understand what motivation is, let's begin by pointing out what motivation is not. Why? Because many people incorrectly view motivation as a personal trait—that is, a trait that some people have and others don't. Although in reality a manager might describe a certain employee as unmotivated, our knowledge of motivation tells us that we can't label people that way. What we *do* know is that motivation is the result of the interaction between the person and the situation. Certainly, individuals differ in motivational drive, but overall motivation varies from situation to situation. As we analyze the concept of motivation, keep in mind that the level of motivation varies both between individuals and within individuals at different times.

Motivation is the willingness to exert high levels of effort to reach organizational goals, conditioned by the effort's ability to satisfy some individual need. Although, in general, motivation refers to effort exerted toward any goal, we're referring to organizational goals because our focus is on work-related behavior. Three key elements can be seen in this definition: effort, organizational goals, and needs.

The *effort* element is a measure of intensity or drive. A motivated person tries hard. But high levels of effort are unlikely to lead to favorable job performance unless the effort is channeled in a direction that benefits the organization.[2] Therefore, we must consider the quality of the effort as well as its intensity. Effort that is directed toward, and consistent with, organizational goals is the kind of effort that we should be seeking. Finally, we will treat motivation as a need-satisfying process, as shown in Exhibit 16.1.

Exhibit 16.1 The Motivation Process

A need refers to some internal state that makes certain outcomes appear attractive. An unsatisfied need creates tension that stimulates drives within an individual. These drives lead to a search behavior to find particular goals that, if attained, will satisfy the need and reduce the tension.

We can say that motivated employees are in a state of tension. To relieve this tension, they exert effort. The greater the tension, the higher the effort level. If this effort leads to need satisfaction, it reduces tension. Because we're interested in work behavior, this tension-reduction effort must also be directed toward organizational goals. Therefore, inherent in our definition of motivation is the requirement that the individual's needs be compatible with the organization's goals. When the two don't match, individuals may exert high levels of effort that run counter to the interests of the organization. Incidentally, this isn't all that unusual. Some employees regularly spend a lot of time talking with friends at work to satisfy their social need. There's a high level of effort but little being done in the way of work.

Motivating high levels of employee performance is an important organizational consideration. Both academic researchers and practicing managers have been trying to understand and explain employee motivation for years. In this chapter, we're going to first look at the early motivation theories and then at the contemporary theories. We'll finish by looking at some current issues in motivation and then providing some practical suggestions managers can use in motivating employees.

go to page: 1 2 3 4 5 6 7 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

> Early Theories of Motivation

We're going to be looking at three early theories of motivation that, although now somewhat questionable in terms of validity, are probably still the best-known explanations for employee motivation. These three theories are *Maslow's hierarchy of needs, McGregor's Theories X and Y*, and *Herzberg's motivation-hygiene theory*. Although more valid explanations of motivation have been developed, you should know these early theories for at least two reasons: (1) They represent the foundation from which contemporary motivation theories were developed, and (2) practicing managers continue to regularly use these theories and their terminology in explaining employee motivation.

Maslow's Hierarchy of Needs Theory

The best-known theory of motivation is probably Abraham Maslow's hierarchy of needs theory.[3] Maslow was a humanistic psychologist who proposed that within every person is a hierarchy of five needs:

1. Physiological needs: food, drink, shelter, sexual satisfaction, and other physical requirements.
2. Safety needs: security and protection from physical and emotional harm, as well as assurance that physical needs will continue to be met.
3. Social needs: affection, belongingness, acceptance, and friendship.
4. Esteem needs: internal esteem factors such as self-respect, autonomy, and achievement and external esteem factors such as status, recognition, and attention.
5. Self-actualization needs: growth, achieving one's potential, and self-fulfillment; the drive to become what one is capable of becoming.

In terms of motivation, Maslow argued that each level in the hierarchy must be substantially satisfied before the next is activated and that once a need is substantially satisfied it no longer motivates behavior. In other words, as each need is substantially satisfied, the next need becomes dominant. In terms of Exhibit 16.2, the individual moves up the needs hierarchy. From the standpoint of motivation, Maslow's theory proposed that, although no need is ever fully satisfied, a substantially satisfied need will no longer motivate an individual. If you want to motivate someone, according to Maslow, you need to understand what level that person is on in the hierarchy and focus on satisfying needs at or above that level. Managers who accepted Maslow's hierarchy attempted to change their organizations and management practices so that employees' needs could be satisfied.

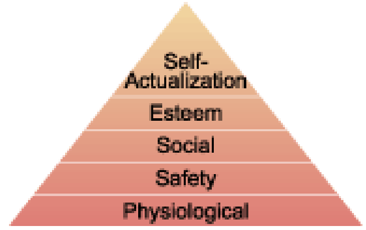


Exhibit 16.2 **Maslow's Hierarchy of Needs**

In addition, Maslow separated the five needs into higher and lower levels. Physiological and safety needs were described as *lower-order needs*; social, esteem, and self-actualization were described as *higher-order needs*. The difference between the two levels was made on the premise that higher-order needs are satisfied internally while lower-order needs are predominantly satisfied externally. In fact, the natural conclusion from Maslow's classification is that, in times of economic prosperity, almost all permanently employed workers have their lower-order needs substantially met.

Maslow's need theory received wide recognition, especially among practicing managers during the 1960s and 1970s. This recognition can be attributed to the theory's intuitive logic and ease of understanding. Unfortunately, however, research hasn't generally validated the theory. Maslow provided no empirical support for his theory, and several studies that sought to validate it could not.[4]

McGregor's Theory X and Theory Y

Douglas McGregor is best known for his formulation of two sets of assumptions about human nature: Theory X and Theory Y.[5] Very simply, Theory X presents an essentially negative view of people. It assumes that workers have little ambition, dislike work, want to avoid responsibility, and need to be closely controlled to work effectively. Theory Y offers a positive view. It assumes that workers can exercise self-direction, accept and actually seek out responsibility, and consider work to be a natural activity. McGregor believed that Theory Y assumptions better captured the true nature of workers and should guide management practice.

What did McGregor's analysis imply about motivation? The answer is best expressed in the framework presented by Maslow. Theory X assumed that lower-order needs dominated individuals, and Theory Y assumed that higher-order needs dominated. McGregor himself held to the belief that the assumptions of Theory Y were more valid than those of Theory X. Therefore, he proposed that participation in decision making, responsible and challenging jobs, and good group relations would maximize employee motivation.

Unfortunately, there is no evidence to confirm that either set of assumptions is valid or that accepting Theory Y assumptions and altering your actions accordingly will make employees more motivated. For instance, when Bob McCurry was vice president of Toyota's U.S. marketing operations, he essentially followed Theory X. He drove his employees hard and used a "crack-the-whip" style, yet he was extremely successful at increasing Toyota's market share in a highly competitive environment.

Herzberg's Motivation-Hygiene Theory

Frederick Herzberg's motivation-hygiene theory proposes that intrinsic factors are related to job satisfaction and motivation, whereas extrinsic factors are associated with job dissatisfaction.[6] Believing that an individual's relation to his or her work is a basic one and that his or her attitude toward work determines success or failure, Herzberg investigated the question "What do people want from their jobs?" He asked people for detailed descriptions of situations in which they felt exceptionally good or bad about their jobs. These findings are shown in Exhibit 16.3.

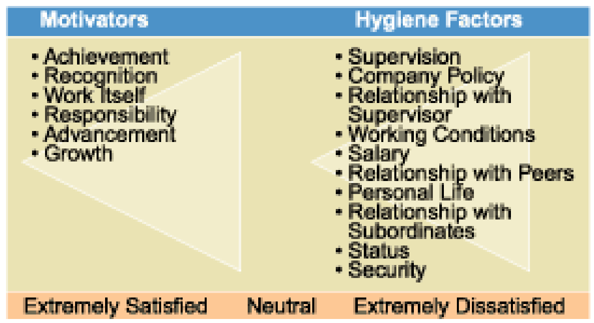


Exhibit 16.3 **Herzberg's Motivation-Hygiene Theory**

Herzberg concluded from his analysis of the findings that the replies people gave when they felt good about their jobs were significantly different from the replies they gave when they felt badly. 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). Those factors associated with job satisfaction were intrinsic and included things such as achievement, recognition, and responsibility. When people felt good about their work, they tended to attribute these characteristics to themselves. On the other hand, when they were dissatisfied, they tended to cite extrinsic factors such as company policy and administration, supervision, interpersonal relationships, and working conditions.

In addition, Herzberg believed that 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 16.4, Herzberg proposed that his findings indicated the existence of a dual continuum: The opposite of "satisfaction" is "no satisfaction," and the opposite of "dissatisfaction" is "no dissatisfaction."

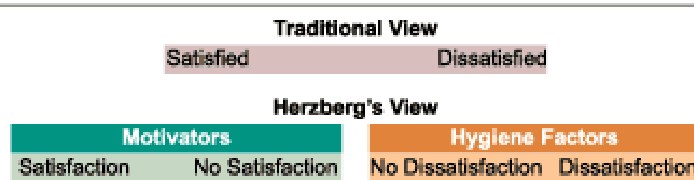


Exhibit 16.4 **Contrasting Views of Satisfaction-Dissatisfaction**

According to Herzberg, 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 bring about workplace harmony but not necessarily motivation. Because they don't motivate employees, the extrinsic factors that create job dissatisfaction were called hygiene factors. When these factors are adequate, people will not be dissatisfied, but they will not be satisfied (or motivated) either. To motivate people on their jobs, Herzberg suggested emphasizing motivators, the intrinsic factors that increase job satisfaction.

Herzberg's theory enjoyed wide popularity from the mid-1960s to the early 1980s, but criticisms were raised about his procedures and methodology. Although today we say the theory was too simplistic, it has had a strong influence on how we currently design jobs.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 << previous | next >>

> Contemporary Theories of Motivation

The theories and approaches we're going to look at in this section represent current state-of-the-art explanations of employee motivation. Although these may not be as well known as some of the early theories of motivation, they do tend to have substantive research support.[7] What are these contemporary motivation approaches? We're going to look at six: three-needs theory, goal-setting theory, reinforcement theory, designing motivating jobs, equity theory, and expectancy theory.

Three-Needs Theory

David McClelland and others have proposed the three-needs theory, which says there are three needs that are major motives in work.[8] These three needs include the need for achievement (nAch), which is the drive to excel, to achieve in relation to a set of standards, and to strive to succeed; 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), which is the desire for friendly and close interpersonal relationships. Of these three needs, the need for achievement has been researched most extensively. What has this research showed us?

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.[9] They prefer jobs that offer 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 aren't gamblers; they dislike succeeding by chance. They are motivated by and prefer the challenge of working at a problem and accepting the personal responsibility for success or failure. An important point is that 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. A high nAch salesperson at Merck does not necessarily make a good sales manager and good managers in large organizations such as AT&T, Wal-Mart, or Microsoft do not necessarily have a high need to achieve. The reason high achievers don't necessarily make good managers is probably because high achievers focus on their *own* accomplishments while good managers emphasize helping *others* accomplish their goals.[10] However, we do know that employees can be trained to stimulate their achievement need.[11]

The other two needs in the three-needs theory haven't been researched as extensively as the need for achievement. However, we do know that the needs for affiliation and power are closely related to managerial success.[12] The best managers tend to be high in the need for power and low in the need for affiliation.

How do you find out your levels of each of these three needs? All three motives typically are measured using a projective test (known as the Thematic Apperception Test or TAT) in which respondents react to a set of pictures. Each picture is shown to a subject who then writes a story based on the picture. (See Exhibit 16.5 for some examples of these pictures.) Trained interpreters then determine an individual's levels of nAch, nPow, and nAff from the stories written.

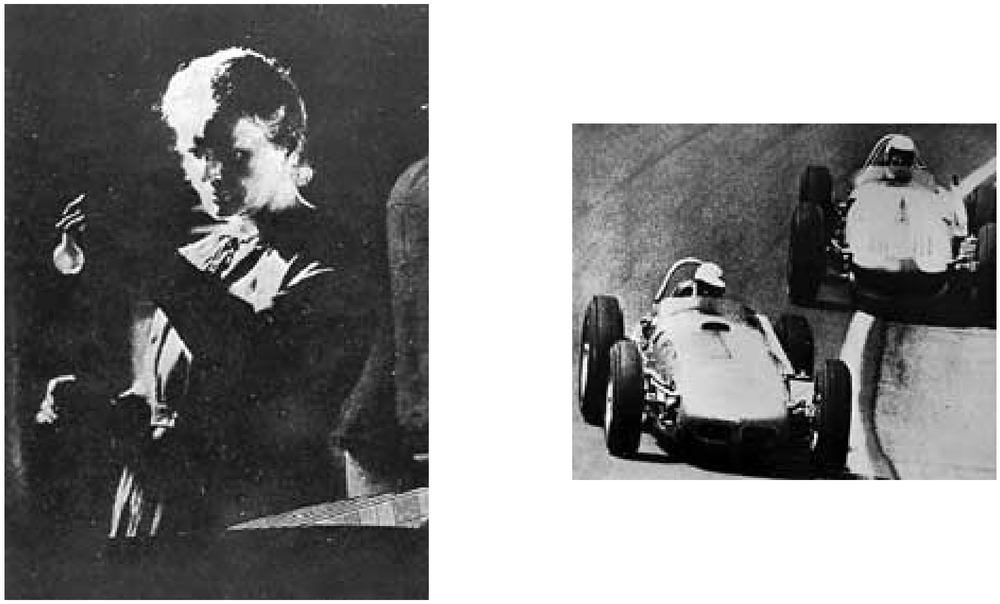


Exhibit 16.5	Examples of Pictures Used for Assessing Levels of nAch, nAff, and nPow

Goal-Setting Theory

Before a big assignment or major class project presentation, has a teacher ever said to you "Just do your best"? What does that vague statement, "do your best," mean? Would your performance on a class project have been higher if that teacher had said that you needed to score a 93 percent to keep your A in the class? Would you have done better in high school English if your parents had said, "You should strive for 85 percent or higher on all your work in English class" rather than telling you to do your best? Research on goal-setting theory addresses these issues, and the findings, as you'll see, are impressive in terms of the effect that goal specificity, challenge, and feedback have on performance.[13]

There is substantial support for the proposition that specific goals increase performance and that difficult goals, when accepted, result in higher performance than do easy goals. This proposition is known as goal-setting theory.

Intention to work toward a goal is a major source of job motivation. Studies on goal setting have demonstrated the superiority of specific and challenging goals as motivating forces.[14] Specific, hard goals produce a higher level of output than does the generalized goal of "do your best." The specificity of the goal itself acts as an internal stimulus. For instance, when a FedEx delivery truck driver commits to making 10 weekly round-trip hauls between Toronto and Buffalo, New York, this intention gives him a specific goal to try to attain. We can say that, all things being equal, the delivery person with a specific goal will outperform someone else operating with no goals or the generalized goal of "do your best."

Specific goals can help motivate workers, even though researchers are uncertain whether motivation is stronger when employees set their own goals or accept goals set by their managers. Workers like these at Amazon.com will have easily quantifiable goals, such as number of orders packed, against which their work effort can be measured. What information do you think they would need from their managers if they set their own goals?

You may have noticed what appears to be a contradiction between the research findings on achievement motivation and goal setting. Is it a contradiction that achievement motivation is stimulated by moderately challenging goals, whereas goal-setting theory says that motivation is maximized by difficult goals? No, and our explanation is twofold.[15] First, goal-setting theory deals with people in general. The conclusions on achievement motivation are based on people who have a high nAch. Given that no more than 10 to 20 percent of North Americans are naturally high achievers and that proportion is undoubtedly lower in underdeveloped countries, difficult goals are still recommended for the majority of employees. Second, 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.

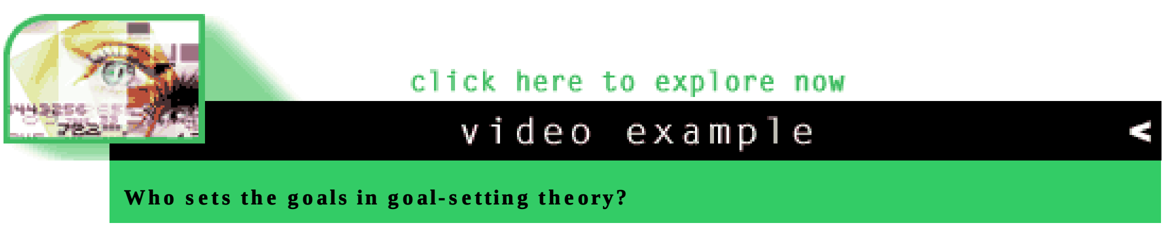
Will employees try harder if they have the opportunity to participate in the setting of goals? Although we can't say that having employees participate in the goal-setting process is *always* desirable, participation is probably preferable to assigning goals when you expect resistance to accepting difficult challenges.[16] In some cases, participatively set goals elicited superior performance; in other cases, individuals performed best when their manager assigned goals. But a major advantage of participation may be in increasing acceptance of the goal itself as a desirable one toward which to work.

Finally, people will do better when 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; that is, feedback acts to guide behavior. But all feedback isn't equally effective. Self-generated feedback—where the employee is able to monitor his or her own progress—has been shown to be a more powerful motivator than externally generated feedback.[17]

Are there any contingencies in goal-setting theory, or can we just assume that difficult and specific goals always lead to higher performance? In addition to feedback, three other factors have been found to influence the goals-performance relationship. These are goal commitment, adequate self-efficacy, and national culture. Goal-setting theory presupposes that an individual is committed to the goal—that is, an individual is determined not to lower or abandon the goal. Commitment is most likely to occur when goals are made public, when the individual has an internal locus of control, and when the goals are self-set rather than assigned.[18] Self-efficacy refers to an individual's belief that he or she is capable of performing a task.[19] 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.[20] 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.[21] Finally, goal-setting theory is culture bound. It is well adapted to countries such as the United States and Canada because its main ideas align reasonably well with North American cultures. It assumes that subordinates will be reasonably independent (not too high a score on power distance), that managers and employees will seek challenging goals (low in uncertainty avoidance), and that performance is considered important by both managers and subordinates (high in quantity of life). So don't expect goal setting to necessarily lead to higher employee performance in countries such as Portugal or Chile, where the country's cultural characteristics aren't like this.

Exhibit 16.6 summarizes the relationships among goals, motivation, and performance. Our overall conclusion from goal-setting theory is that intentions—as articulated in terms of hard and specific goals—are a powerful motivating force. Under the proper conditions, they can lead to higher performance. However, there is no evidence that such goals are associated with increased job satisfaction.[22]

Exhibit 16.6 **Goal-Setting Theory**



Reinforcement Theory

In contrast to goal-setting theory, reinforcement theory says that behavior is a function of its consequences. Goal-setting theory proposes that an individual's purpose directs his or her behavior. Reinforcement theory argues that behavior is externally caused. What controls behavior are reinforcers, consequences that, when given immediately following a behavior, increase the probability that the behavior will be repeated.

The key to reinforcement theory is that it ignores factors such as goals, expectations, and needs. Instead, it focuses solely on what happens to a person when he or she takes some action. This idea helps explain why publishers such as Pearson Education provide incentive clauses in their authors' contracts. If every time an author submits a completed chapter the company sends an advance check against future royalties, the person is motivated to keep writing and submitting chapters.

In Chapter 14 we showed how reinforcers shape behavior and help people to learn. But the concept of reinforcement is also widely believed to explain motivation. According to B. F. Skinner, reinforcement theory can be explained as follows: 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, and behavior that isn't rewarded, or is punished, is less likely to be repeated.[23]

Following reinforcement theory, managers can influence employees' behavior by reinforcing actions they deem desirable. However, because the emphasis is on positive reinforcement, not punishment, managers should ignore, not punish, unfavorable behavior. Even though punishment eliminates undesired behavior faster than nonreinforcement does, its effect is often only temporary and may later have unpleasant side effects including dysfunctional behavior such as workplace conflicts, absenteeism, and turnover.

Research has shown that reinforcement is undoubtedly an important influence on work behavior. But reinforcement isn't the only explanation for differences in employee motivation.[24] Goals also affect motivation, as do levels of achievement needs, job design, inequities in rewards, and expectations.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Designing Motivating Jobs

Because managers are primarily interested in how 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, in turn, are aggregated into jobs.[25] We use the term job design to refer to the way tasks are combined to form complete jobs. The jobs that 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 as well as the organization's technology, skills and abilities, and preferences of its employees.[26] When jobs are designed with those things in mind, employees are motivated to reach their full productive capabilities. What are some ways that managers can design motivating jobs?

Job Enlargement

As we saw earlier in Chapters 2 and 10, job design historically has concentrated on making jobs smaller and more specialized. Yet, when jobs are narrow in focus and highly specialized, motivating employees is a real challenge. Thus, many organizations have looked at other job design options. One of the earliest efforts at overcoming the drawbacks of job specialization involved the horizontal expansion of 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 dental cleaning, he or she is pulling patients' files, refiling them when finished, and cleaning and storing instruments. This type of job design option is called job enlargement.

Efforts at job enlargement that focused solely on increasing the number of tasks done have had less than exciting results. 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, one study that looked at how *knowledge* enlargement activities (expanding the scope of knowledge used in a job) affected workers found benefits such as more satisfaction, enhanced customer service, and fewer errors.[27] Even so, most job enlargement efforts provided few challenges and little meaning to workers' activities, although they addressed the lack of variety in overspecialized jobs.

Job Enrichment

Another approach to designing motivating jobs is through 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, the tasks in an enriched job should allow workers to do a complete activity with increased freedom, independence, and responsibility. These tasks should also provide feedback so that individuals can assess and correct their own performance. For instance, in an enriched job, our dental hygienist, in addition to dental cleaning, could schedule appointments and follow up with clients. Although job enrichment can improve the quality of work, employee motivation, and satisfaction, the research evidence on the use of job enrichment programs has been inconclusive.[28]

Job Characteristics Model

Even though many organizations have implemented job enlargement and job enrichment programs and experienced mixed results, neither of these job design approaches provided a conceptual framework for analyzing jobs or for guiding managers in designing motivating jobs. The job characteristics model (JCM) offers such a framework.[29] It identifies five primary job characteristics, their interrelationships, and their impact on employee productivity, motivation, and satisfaction.

According to the JCM, any job can be described in terms of five core dimensions, defined as follows:

- 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 the work and determining the procedures to be used in carrying it out

- Feedback, the degree to which carrying out work activities required by a job results in the individual's obtaining direct and clear information about the effectiveness of his or her performance

Exhibit 16.7 presents the model. Notice how the first three dimensions—skill variety, task identity, and task significance—combine to create meaningful work. What we mean is that if these three characteristics exist in a job, we can predict that the person will view his or her job as being important, valuable, and worthwhile. Notice, too, that jobs that possess autonomy give the job incumbent a feeling of personal responsibility for the results and that, if a job provides feedback, the employee will know how effectively he or she is performing.

Exhibit 16.7 **Job Characteristics Model**

Source: J.R. Hackman and J.L. Suttle (eds.), *Improving Life at Work* (Glenview, IL: Scott, Foresman, 1977). With permission of the authors.

From a motivational standpoint, the JCM suggests that internal rewards are obtained when an employee *learns* (knowledge of results through feedback) that he or she *personally* (experienced responsibility through autonomy of work) has performed well on a task that he or she *cares about* (experienced meaningfulness through skill variety, task identity, and/or task significance).[30] The more these three conditions characterize a job, the greater the employee's motivation, performance, and satisfaction and the lower his or her 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). This means that individuals with a high growth need are more likely to experience the critical psychological states and respond positively when their jobs include the core dimensions than are individuals with a low growth need. This may explain the mixed results with job enrichment: Individuals with low growth need don't tend to achieve high performance or satisfaction by having their jobs enriched.

The JCM provides specific guidance to managers for job design. (See Exhibit 16.8.) The following suggestions, which are based on the JCM, specify the types of changes in jobs that are most likely to lead to improvement in each of the five core job dimensions. You'll notice that two of these suggestions from the JCM incorporate the earlier job design concepts we discussed (job enlargement and job enrichment), although the other suggestions also involve more than vertically and horizontally expanding jobs.

Exhibit 16.8	**Guidelines for Job Redesign**

Source: J.R. Hackman and J.L. Suttle (eds.), *Improving Life at Work* (Glenview, IL: Scott, Foresman, 1977). With permission of the authors.

1. *Combine tasks*. Managers should put existing fragmented tasks back together to form a new, larger module of work (job enlargement) to increase skill variety and task identity.

2. *Create natural work units*. Managers should design tasks that form an identifiable and meaningful whole to increase employee "ownership" of the work and encourage employees to view their work as meaningful and important rather than as irrelevant and boring.

3. *Establish client relationships*. The client is the external or internal user of the product or service on which the employee works. Whenever possible, managers should establish direct relationships between workers and their clients to increase skill variety, autonomy, and feedback. For instance, at San Francisco's Park Lane Hotels International, guests nominate their favorite staff for awards including Sony televisions and free nights at the hotel.[31]

4. *Expand jobs vertically*. Vertical expansion (job enrichment) gives employees responsibilities and controls that were formerly reserved for managers. It partially closes the gap between the "doing" and the "controlling" aspects of the job and increases employee autonomy.

5. *Open feedback channels*. Feedback lets employees know not only how well they are performing their jobs but also whether their job performance is improving, deteriorating, or remaining constant. Ideally, employees should receive performance feedback directly as they do their jobs rather than from managers on an occasional basis. For example, frequent fliers

at Continental Airlines bestow Pride in Performance certificates to employees who have been helpful. Employees can then redeem the coupons for valuable merchandise.[32]

Equity Theory

Do you ever wonder what kind of grade the person sitting next to you in class makes on a test or on a major class project? Most of us do! Being human, we tend to compare ourselves with others. If someone offered you $60,000 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 satisfied with your pay. How would you react, though, if you found out a month into the job that a co-worker—another recent graduate, your age, with comparable grades from a comparable school, and with comparable work experience—was getting $65,000 a year? You'd probably be upset! Even though in absolute terms $60,000 is a lot of money for a new graduate to make (and you know it!), that suddenly isn't the issue. You see the issue now as relative rewards and what you believe is *fair*—what is *equitable*. The term *equity* is related to the concept of fairness and equal treatment compared with others who behave in similar ways. There's considerable evidence that employees compare their job inputs and outcomes relative to others and that inequities influence the degree of effort that employees exert.[33]

Equity theory, developed by J. Stacey Adams, proposes that employees perceive what they get from a job situation (outcomes) in relation to what they put into it (inputs) and then compare their inputs-outcomes ratio with the inputs-outcomes ratios of relevant others (Exhibit 16.9). If an employee perceives her ratio to be equal to those of relevant others, a state of equity exists. In other words, she perceives that her situation is fair—that justice prevails. However, if the ratio is unequal, inequity exists and she views herself as underrewarded or overrewarded. When inequities occur, employees attempt to do something about it. What will employees do when they perceive an inequity? Let's look more closely at their probable behavioral responses.

Perceived Ratio Comparison[a]	**Employee's Assessment**
$\frac{\text{Outcomes A}}{\text{Inputs A}} < \frac{\text{Outcomes B}}{\text{Inputs B}}$	Inequity (underrewarded)
$\frac{\text{Outcomes A}}{\text{Inputs A}} = \frac{\text{Outcomes B}}{\text{Inputs B}}$	Equity
$\frac{\text{Outcomes A}}{\text{Inputs A}} > \frac{\text{Outcomes B}}{\text{Inputs B}}$	Inequity (overrewarded)

[a]Person A is the employee, and person B is a relevant other or referent

Exhibit 16.9	Equity Theory

Equity theory proposes that employees might (1) distort either their own or others' inputs or outcomes, (2) behave in some way to induce others to change their inputs or outcomes, (3) behave in some way to change their own inputs or outcomes, (4) choose a different comparison person, or (5) quit their job. These types of employee reactions have generally proved to be correct.[34] A review of the research consistently confirms the equity thesis: Employee motivation is influenced significantly by relative rewards as well as by absolute rewards. Whenever employees perceive inequity, they'll act to correct the situation.[35] The result might be lower or higher productivity, improved or reduced quality of output, increased absenteeism, or voluntary resignation.

The other aspect we need to examine in equity theory is who these "others" are against whom people compare themselves. The referent is an important variable in equity theory.[36] Three referent categories have been defined: other, system, and self. The "other" category includes other individuals with similar jobs in the same organization but also includes friends, neighbors, or professional associates. On the basis of what they hear at work or read about in newspapers or trade journals, employees compare their pay with that of others. The "system" category includes organizational pay policies and procedures and the administration of the system. Whatever precedents have been established by the organization regarding pay allocation are major elements of this category. The "self" category refers to inputs-outcomes ratios that are unique to the individual. It reflects past personal experiences and contacts and is influenced by criteria such as past jobs or family commitments. The choice of a particular set of referents is related to the information available about the referents as well as to their perceived relevance.

However applicable it might be to understanding employee motivation, we shouldn't conclude that equity theory is flawless. The theory leaves some issues unclear.[37] For instance, how do employees define inputs and outcomes? How do they combine and weigh their inputs and outcomes to arrive at totals? When and how do the factors change over time? And how do people choose referents? Despite these problems, equity theory does have an impressive amount of research support and offers us some important insights into employee motivation.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Expectancy Theory

The most comprehensive and widely accepted explanation of employee motivation to date is Victor Vroom's expectancy theory.[38] Although the theory has its critics,[39] most research evidence supports it.[40]

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 16.10):

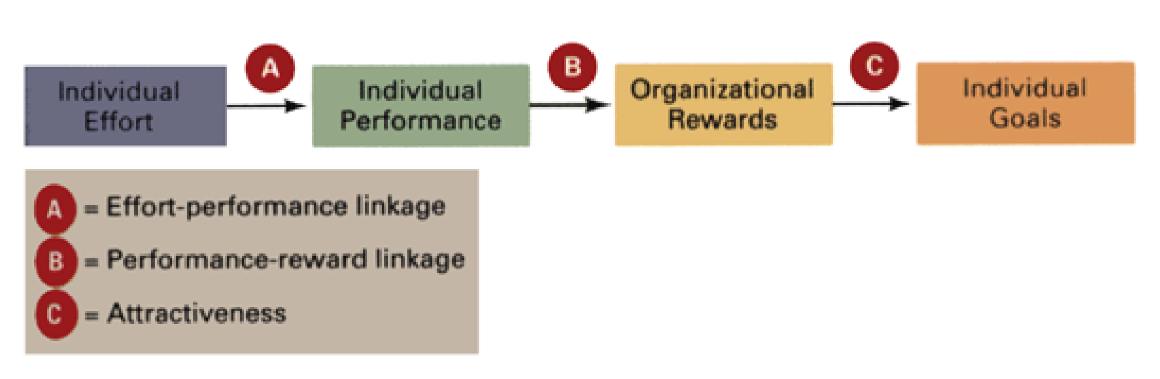


Exhibit 16.10 **Simplified Expectancy Model**

1. *Expectancy* or *effort-performance linkage* is the probability perceived by the in-dividual that exerting a given amount of effort will lead to a certain level of performance.

2. *Instrumentality* or *performance-reward linkage* is the degree to which the individual believes that performing at a particular level is instrumental in attaining the desired outcome.

3. *Valence* or *attractiveness of reward* is the importance that the individual places on the potential outcome or reward that can be achieved on the job. Valence considers both the goals and needs of the individual.

This explanation of motivation might sound complex, but it really isn't that difficult to visualize. It can be summed up in the 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 get me? How attractive is the reward to me, and does it help me achieve my goals? Whether you are motivated to put forth effort (that is, to work) at any given time depends on your particular goals and your perception of whether a certain level of performance is necessary to attain those goals. Let's look at the theory's features and go through an example of how it works.

First, what perceived outcomes does the job offer the employee? Outcomes (rewards) may be positive—things such as pay, security, companionship, trust, fringe benefits, a chance to use talents or skills, or congenial relationships. Or the employee may view the outcomes as negative—fatigue, boredom, frustration, anxiety, harsh supervision, or threat of dismissal. Keep in mind that reality isn't relevant here. The critical issue is what the individual *perceives* the outcomes to be, regardless of whether the perceptions are accurate.

Second, how attractive are the outcomes or rewards to employees? Are they valued positively, negatively, or neutrally? This obviously is a personal and internal issue that depends on the individual's needs, attitudes, and personality. A person who finds a particular reward attractive—that is, values it positively—would rather get it than not get it. Others may find it negative and, therefore, prefer not getting it. Still others may be neutral about the outcome.

Third, what kind of behavior must the employee exhibit in order to achieve these rewards? The rewards aren't likely to have any effect on an individual employee's performance unless he or she knows, clearly and unambiguously, what must be done to achieve them. For example, what is "doing well" in terms of performance appraisal? What criteria will be used to judge the employee's performance?

Finally, how does the employee view his or her chances of doing what is asked? After an employee has considered his or her own skills and ability to control those variables that lead to success, what's the likelihood that he or she can successfully perform at the necessary level?[41]

Let's work through an example of how expectancy theory works by looking at your level of motivation for a particular course. Most students prefer that their instructor tell them what the course expectations are. They want to know what assignments and exams will be like, when they're going to be due or given, and how much weight each carries in determining the final grade. They also like to think that the amount of effort exerted in attending classes, taking notes, completing assignments, and studying outside class will be reasonably related to the grade they'll make.

Five weeks into a class that you're really enjoying, you get a test back. You studied hard for the test and put in a number of hours reading the chapters and going over your notes. When you've studied this hard in the past, you've consistently made As and Bs on tests. You work this hard to make top grades, which you believe are important for getting a good job after graduation or even for going on to graduate school. When you get this test back, you're shocked. You scored a 46. The class median was 72, and 10 percent of the class got an A. The minimum passing score was 50. You're angry. You're frustrated. What happens now?

Several interesting things might happen to your behavior. You're probably no longer interested in attending this class regularly. Your amount of studying is likely to decrease considerably. And when you do attend class, you might daydream a lot and take fewer class notes. "Lacking in motivation" would probably be an apt description at this point. Why did your motivation level change? Let's explain it by using expectancy theory.

Using Exhibit 16.10 to understand this situation, we can say the following: You studied and prepared for the course (put forth effort) in order to correctly answer the test questions (performance). Correct answers produce a high grade (reward), which, in turn, are important for getting a good job with security, prestige, and other benefits (individual goal).

The attractiveness of the outcome (a good grade) is high. But what about the performance-reward linkage? Do you feel that your grade truly reflected your knowledge of the material? In other words, did the test fairly measure what you knew? 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 motivation is your belief that the test wasn't a fair measure of your performance.

Another possible demotivating force may be the effort-performance relationship. If, after you took the test, you believed that you couldn't have passed it even with the amount of studying you had done, then your motivation to study would drop. Because a low value had been placed on all the hard work and study efforts that you thought would lead to answering test questions correctly, your motivational level and effort would decrease.

Let's summarize some of the key points about expectancy theory. The key to expectancy theory is 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 individual wants. Expectancy theory recognizes that there is no universal principle for explaining what motivates individuals and, thus, stresses that managers must 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 satisfaction outcomes, not the outcomes themselves, will determine his or her motivation (level of effort).

Integrating Contemporary Theories of Motivation

We have presented six contemporary motivation theories. You might be tempted to view them independently, but doing so would be a mistake. Many of the ideas underlying the theories are complementary, and you'll better understand how to motivate people if you see how the theories fit together.[42] Exhibit 16.11 presents a model that integrates much of what we know about motivation. Its basic foundation is the expectancy model shown in Exhibit 16.10. Let's work through this model, starting on the left.

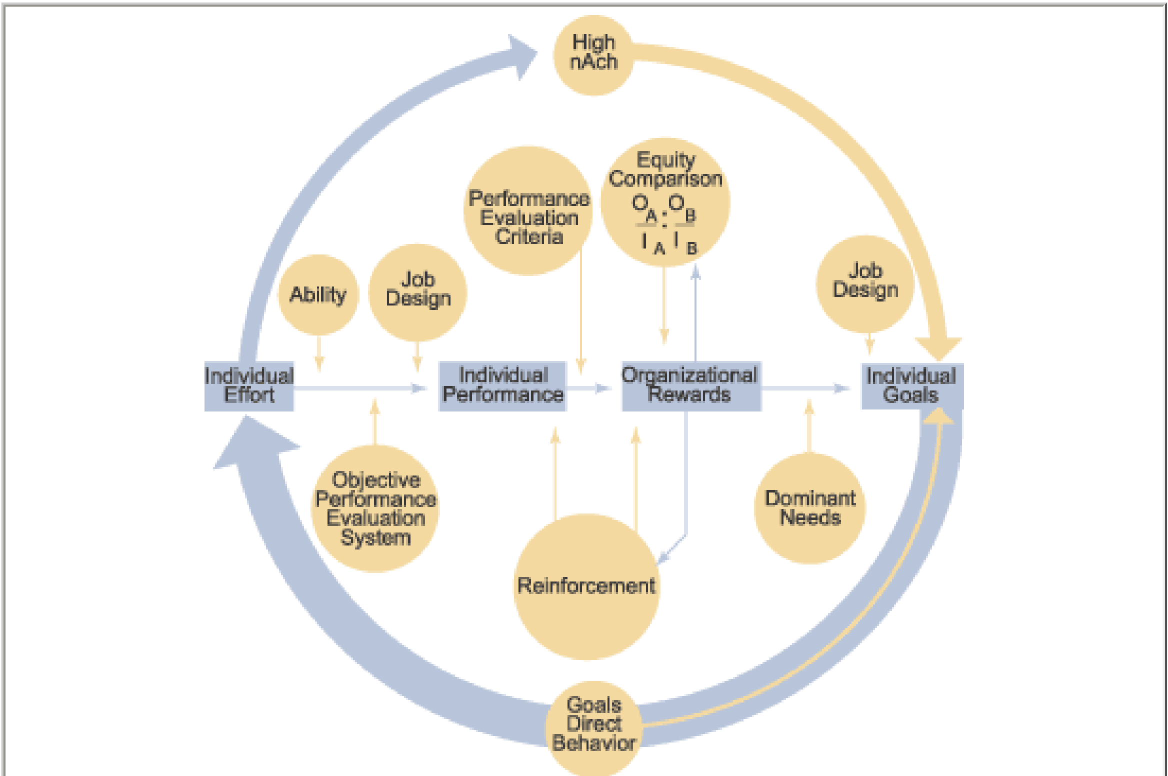


Exhibit 16.11 **Integrating Contemporary Theories of Motivation**

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 link is meant to illustrate that goals direct behavior. Expectancy theory predicts that an employee will exert a high level of effort if he or she perceives that there is 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. You can see from the model that the level of individual performance is determined not only by the level of individual effort but also by the individual's ability to perform and by whether the organization has a fair and objective performance evaluation system. The performance-reward relationship will be strong if the individual perceives that it is performance (rather than seniority, personal favorites, or some other criterion) that is rewarded. The final link in expectancy theory is the rewards-goal relationship. Need theories come into play at this point. Motivation would be high to the degree that the rewards an individual received for his or her high performance satisfied the dominant needs consistent with his or her 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 his or her 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 linkage.

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, we can see the JCM in this integrative model. Task characteristics (job design) influence job motivation at two places. First, jobs that are designed around the five core 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 that are designed around the five core job dimensions also increase an employee's control over key elements in his or her 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.

click here to explore now
video exercise
Take a moment to apply what you've learned.

click here to explore now
active concept check
Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter 16

go to page: 5

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Current Issues in Motivation

So far, we've covered a lot of the theoretical bases of employee motivation. Understanding and predicting employee motivation continues to be one of the most popular areas in management research. However, even current studies of employee motivation are influenced by several significant workplace issues—issues such as motivating a diverse workforce, pay-for-performance programs, open-book management, and motivating the "new workforce." Let's take a closer look at each of these issues.

Motivating a Diverse Workforce

To maximize motivation among today's diverse 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 do women. In contrast, the opportunity to learn, convenient and flexible work hours, and good interpersonal relations are more important to women.[43] Managers need to recognize that what motivates a single mother with two dependent children who is working full time to support her family may be very different from the needs of a single part-time employee or an older employee who is working only to supplement his or her retirement income. Employees have different personal needs and goals that they are hoping to satisfy through their job. A diverse array of rewards is needed to motivate employees with such varied needs.

Flexible Working Schedules

Many of the so-called family-friendly benefits (see Chapter 12) that organizations have implemented are a response to the varied needs of a diverse workforce. In addition, many organizations have developed flexible working schedules that recognize different needs. What are some of these types of flexible working schedules?

A compressed workweek is a workweek in which employees work longer hours per day but fewer days per week. The most common form is four 10-hour days (a 4-40 program). However, organizations could design whatever schedules they wanted to fit employees' needs. For example, employees at ChevronTexaco's headquarters work nine hours every Monday through Thursday, eight hours on a Friday, and zero hours the next Friday. This compressed workweek provides employees with time off for running errands, pursuing hobbies, or taking care of family problems.[44]

Another alternative is flexible work hours (also popularly known as flextime), which is a scheduling system in which employees are required to work a specific number of hours a week but are free to vary those hours within certain limits. In a flextime schedule, there are certain common core hours when all employees are required to be on the job, but starting, ending, and lunch-hour times are flexible. Flextime is one of the most desired benefits employees want from their employers.[45] And employers have responded, according to a survey indicating that 57 percent of employers were offering flextime in 1999.[46]

Another job scheduling option that can be effective in motivating a diverse workforce is job sharing—the practice of having two or more people split a full-time job. This type of job schedule might be attractive, for example, to individuals with school-age children or retirees, who want to work but do not want the demands and hassles of a full-time position.

Another alternative made possible by information technology is telecommuting. Here, employees work at home and are linked to the workplace by computer and modem. Many jobs can be done at home, and this approach might be close to the ideal job for some people because there is no commuting, the hours are flexible, there is freedom to dress as you please, and there are little or no interruptions from colleagues. However, keep in mind that not all employees embrace the idea of telecommuting. Some workers relish the informal interactions at work that satisfy their social needs as well as being a source of new ideas.

click here to explore now

video example

How do you motivate someone who is not physically at the workplace, like a telecommuter?

Cultural Differences in Motivation

Managing a diverse workforce also means that managers need to be flexible by being aware of cultural differences and show flexibility in responding to those differences. The motivation theories we've just studied were developed largely by U.S. researchers and were validated with U.S. workers. These theories may need to be modified for different cultures.[47]

Take, for instance, Maslow's needs hierarchy. The hierarchy aligns well with American culture. But in countries where uncertainty avoidance characteristics are strong—such as in Japan, Greece, and Mexico—security needs would be on top of the needs hierarchy. In countries with high scores on quality of life, such as Denmark, Sweden, Norway, the Netherlands, and Finland, social needs would be on top.[48]

Although equity theory has a strong following in the United States, 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.[49] Moreover, consistent with a legacy of communism and centrally planned economies, employees exhibited an entitlement attitude—that is, they expected outcomes to be *greater* than their inputs.[50]

Don't assume, however, that there aren't *any* cross-cultural consistencies. For instance, the desire for interesting work seems important to almost all workers, regardless of their national culture. As a case in point, in a study of employees in Belgium, Britain, Israel, and the United States, "interesting work" ranked number one among 11 work goals. And this factor was ranked either second or third in Japan, the Netherlands, and Germany.[51] And in a study comparing job-preference outcomes among graduate students in the United States, Canada, Australia, and Singapore, growth, achievement, and responsibility were rated as the top three and had identical rankings.[52] Both of these studies suggest that there is some universality to the importance of intrinsic factors.

Pay-for-Performance Programs

Why do most people work? Although there may be many reasons why people work, most of us do so because it pays us an amount of money that allows us to satisfy our needs and wants. Because monetary compensation is an important type of reward, how can managers use pay to motivate high levels of employee performance? The relation between pay and motivation explains the intent and logic behind pay-for-performance programs.

Pay-for-performance programs are compensation plans that pay employees on the basis of some performance measure.[53] Piece-rate pay plans, wage incentive plans, profit sharing, and lump-sum bonuses are examples. 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. For instance, employee teams at ExxonMobil Corporation are eligible for team-performance-based incentives of as much as 30 percent of base pay. And employees at Comfort Shoe Specialists, a retail store located in a shopping center outside St. Louis, each get a weekly $50 bonus if sales for the week exceed those of the previous week.[54]

One of the first challenges faced by Carly Fiorina when she was first named as CEO of Hewlett-Packard, was to improve the functioning of the computer giant's U.S. sales force. "We have had compensation systems that failed to drive superior performance," Fiorina announced early in her tenure. One of her solutions was to institute a pay-for-performance system.

Pay-for-performance compensation is probably most compatible with expectancy theory. Specifically, 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 his or her attention and effort toward that measure and then reinforces the continuation of the effort with a reward. If the employee, team, or organization's performance declines, so does the reward. Thus, there's an incentive to keep efforts and motivation strong.

Pay-for-performance programs are gaining in popularity. In the late 1990s, 72 percent of large U.S. companies had some form of pay-for-performance plan for nonexecutives.[55] These types of pay plans are also becoming more popular in other countries such as Canada and Japan. About 35 percent of Canadian companies and 21.8 percent of Japanese companies now have company-wide pay-for-performance plans.[56]

Do pay-for-performance programs work? Studies seem to indicate that, yes, they do. For instance, one study found that companies that used pay-for-performance programs performed better financially than those that did not.[57] Another study showed that pay-for-performance programs with outcome-based incentives had a positive impact on sales, customer satisfaction, and profits.[58]

Open-Book Management

Many organizations of various sizes are involving their employees in workplace decisions by opening up the financial statements (the "books"). They share that information so that employees 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. This approach is called open-book management.[59] According to a study by Ernst & Young LLP, workers who are treated as business partners are more likely to be productive and motivated to contribute to their company's profitability.[60]

The goal of open-book management is to get employees to think like an owner by seeing the impact their decisions and actions have on financial results. But most employees don't 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. And once employees have this knowledge, managers need to share the numbers regularly with them.

Some organizations take open-book management a step further. For instance, at Springfield Remanufacturing Company in Springfield, Missouri, employees not only get financial information but also receive bonuses and incentive pay based on profit improvements.[61] Through this type of sharing arrangement, employees begin to see the link between their efforts, level of performance, and operational results. Most firms that have introduced open-book management say that it has significantly helped the business. For instance, Allstate's Business Insurance Group used open-book management to boost return on equity from 2.9 percent to 16.5 percent in just three years. The unit's president said, "It got employees involved and committed, and it gave them some ownership. They understood they had an impact on the bottom line."[62]

Motivating the "New Workforce"

Special groups present unique motivational challenges. In this section we look at some of the unique problems faced in trying to motivate professional employees, contingent workers, and low-skilled, minimum-wage employees.

Motivating Professionals

In contrast to a generation ago, the typical employee today is more likely to be a highly trained professional with a college degree than a blue-collar factory worker. These professionals receive a great deal of intrinsic satisfaction from their work. They tend to be well paid. What special concerns should managers be aware of when trying to motivate a team of engineers at Intel, software designers at SAS Institute, or a group of consultants at Accenture?

Professionals are typically different from nonprofessionals.[63] They have a strong and long-term commitment to their field of expertise. Their loyalty is more often to their profession than to their employer. 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 they enjoy what they do. In contrast, job challenge tends to be ranked high. They like to tackle problems and find solutions. Their chief reward in their job is the work itself. Professionals also value support. They want others to think that what they are working on is important. That may be true for all employees, but 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.

The preceding description implies a few guidelines to keep in mind when motivating professionals. Provide them with ongoing, challenging projects. Give them autonomy to follow their interests, and allow them to structure their work in ways they find productive. Reward them with educational opportunities—additional training, workshops, attending conferences—that allow them to keep current in their field. Also reward them with recognition, and ask questions and use other actions that demonstrate to them that you're sincerely interested in what they're doing and value it.

Motivating Contingent Workers

The elimination of jobs through downsizing and other organizational restructurings has increased the number of openings for part-time, contract, and other types of temporary workers. Contingent workers don't have the security or stability that permanent employees have, and they don't identify with the organization or display the commitment that other employees do. Temporary workers also typically get little or no benefits such as health care or pensions.[64]

There's no simple solution for motivating contingent employees. For that small set of temps who prefer the freedom of their temporary status—for instance, some students, working mothers, retirees—the lack of stability may not be an issue. In addition, temporariness might be preferred by highly compensated physicians, engineers, accountants, or financial planners who don't want the demands of a full-time job. But these are the exceptions. For the most part, temporary employees are not temporary by choice.

What will 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 his or her skills. If the employee sees that the job he or she is doing can help develop marketable skills, then motivation is increased. From an equity standpoint, you should also consider the repercussions of mixing permanent and temporary workers when pay differentials are significant. When temps work alongside permanent employees who earn more, and get benefits, too, for doing the same job, the performance of temps is likely to suffer. Separating such employees or perhaps converting all employees to a variable-pay or skill-based pay plan might help minimize the problems.

Motivating Low-Skilled, Minimum-Wage Employees

Suppose that in your first managerial position after graduating, you're responsible for managing a work group composed of low-skilled, minimum-wage employees. Offering more pay to these employees for high levels of performance is out of the question: Your company just can't afford it. In addition, these employees have limited educa-tion and skills. What are your motivational options at this point? One of the toughest motivational challenges a manager faces is how to achieve and keep high-performance levels among these types of workers.[65]

One trap we often fall into is thinking that people are motivated only by money. Although money is important as a motivator, it's not the only reward that people seek and that managers can use. In motivating minimum-wage employees, managers should look at other types of rewards that help motivate employee performance. What are some other rewards managers might use? One that many companies use is employee recognition programs such as employee of the month, quarterly employee performance awards ceremonies, or other celebrations of employees' accomplishments. For instance, at many fast-food restaurants or retail stores, you'll often see plaques hanging in prominent places featuring the names of "Employee of the Month." These types of programs serve the purpose of highlighting employees whose work performance has been of the type and level the organization wants to encourage in all its employees. Many managers also recognize the power of praise. However, you need to be sure that these "pats on the back" are sincere and given for the right reasons.

What else can managers do to motivate high levels of performance from minimum-wage employees? Again, we can look to job design and expectancy theories for some answers. In service industries such as travel and hospitality, retail sales, child care, and maintenance in which pay for frontline employees generally does not exceed the minimum-wage level, successful companies are empowering these frontline employees with more authority to address customers' problems. If we use the JCM to examine this change, we can see that this type of job redesign provides enhanced motivation because employees now experience increased skill variety, task identity, task significance, autonomy, and feedback. For instance, almost every job at Marriott International has been redesigned to place more workers in contact with more guests more of the time.[66] These employees are now able to take care of customer complaints and requests that formerly were referred to a manager or another department. In addition, employees have at least part of their pay tied to customer satisfaction, so there's a clear link between level of performance and reward (instrumentality linkage from expectancy theory). So, even though motivating minimum-wage workers may be a challenge, we can still use what we know about employee motivation to help us find some answers.

> From Theory to Practice: Suggestions for Motivating Employees

In this chapter, we've covered a lot of information about motivation. If you're a manager concerned with motivating your employees, what specific recommendations can you draw from the theories and issues presented in this chapter? Although there's no simple, all-encompassing set of guidelines, the following suggestions draw on the essence of what we know about motivating employees.

Recognize individual differences. Almost every contemporary motivation theory recognizes that employees aren't identical. They have different needs, attitudes, personality, and other important individual variables.

Match people to jobs. There's a great deal of evidence showing the motivational benefits of carefully matching people to jobs. For example, high achievers should have jobs that allow them to participate in setting moderately challenging goals and that involve autonomy and feedback. Also keep in mind that not everybody is motivated by jobs that are high in autonomy, variety, and responsibility.

Use goals. The literature on goal-setting theory suggests that managers should ensure that employees have hard, specific goals and feedback on how well they're doing in achieving those goals. Should the goals be assigned by the manager or should employees participate in setting them? The answer depends on your perception of goal acceptance and the organization's culture. If you expect resistance to goals, participation should increase acceptance. If participation is inconsistent with the culture, use assigned goals.

Ensure that goals are perceived as attainable. Regardless of whether goals are actually attainable, employees who see goals as unattainable will reduce their effort because they'll be thinking "why bother." Managers must 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 for another. Managers should use their knowledge of employee differences to individualize the rewards they control, such as pay, promotions, recognition, desirable work assignments, autonomy, and participation.

Link rewards to performance. Managers need to make rewards contingent on performance. Rewarding factors other than performance will only reinforce those other factors. Important rewards such as pay increases and promotions should be given for the attainment of specific goals. Managers should also look for ways to increase the visibility of rewards, making them potentially more motivating.

Check the system for equity. Employees should perceive that rewards or outcomes are equal to the inputs. On a simple level, experience, ability, effort, and other obvious inputs should explain differences in pay, responsibility, and other obvious outcomes. And remember that one person's equity is another's inequity, so an ideal reward system should probably weigh inputs differently in arriving at the proper rewards for each job.

Don't ignore money. It's 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, piecework bonuses, and other pay incentives is important in determining employee motivation. A review of 80 studies evaluating motivational methods and their impact on employee productivity supports this point.[67] Goal setting alone produced, on average, a 16 percent increase in productivity; job redesign efforts to enrich jobs yielded 8 to 16 percent increases; employee participation in decision making produced a median increase of less than 1 percent; and monetary incentives led to an average increase of 30 percent. We're not saying that managers should focus solely on money as a motivational tool. Rather, we're simply stating the obvious—that is, if money is removed as an incentive, people aren't going to show up for work. The same can't be said for removing goals, enriched work, or participation.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter 16

go to page: 7

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Chapter Wrap-Up

You had a chance to voice your opinion about Angel Lorenzo's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Cindy Brewer
Corporate Trainer
Sears, Inc., Chicago, Illinois

Not working? Get Quicktime

The company that Lorenzo works for has made significant strides in helping motivate employees. However, he is still concerned that there is more that he can be doing to motivate his workers.

He should try reinforcement theory in which desired work behavior—good work quality and

Stacey Ficken
Branch Manager-Loan Officer
Guardian Savings, St. Louis, Missouri

Not working? Get Quicktime

Here are some suggestions that Angel Lorenzo might try in motivating his workers to do their jobs well:

- Allow employees to have a part in deciding the production quotas that will need to be met for their department.

quantity—is immediately followed by a positive response. By reinforcing desired behavior, Lorenzo can ensure that these behaviors will be repeated.

Finally, I would suggest that Lorenzo try employee recognition programs as a form of motivation—perhaps an employee of the week award, quarterly employee performance awards, or other ways to celebrate employees' accomplishments. What these types of programs do is highlight employees whose performance has been of the type and level the organization wants to encourage.

- Communicate to employees how their job or department affects the company as a whole and let them know where the company wants to be in the future.
- Set up a reward and recognition system for accuracy and high production for both individuals and the group as a whole.
- Provide timely feedback about work performance regardless of whether it is positive or negative.
- Thank employees and let them know that they are a necessary and important part of the organization.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log on: Internet Based Exercise
- Working Together: Team Based Exercise
- Case Application
- Mastering Management

Management (activebook), 7/e

Stephen P. Robbins   Mary Coulter

Chapter Outline

Go to Student View
Table of Contents
Chapter Contents
Search
Rate the Difficulty
In the News
Internet Exercises
Robbins OnLine Learning System (R.O.L.L.S.)
Faculty Resources
Misc. Resources

Chapter 17: Leadership

Chapter Wrap-Up

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Does Rank Have Too Much Privilege? (05/10/02)
	Discipline as a Form of Leadership (05/09/02)
	The Fit Between the Leader and Organization (02/06/02)
	Some Bosses, Fumbling in Crisis, Have Bruised Loyalty of Employees (01/30/02)
	Does Number One Need Number Two? (12/03/01)
	Part 3: An Examination of the Leadership Style of L. Dennis Kozlowski (07/24/01)
	An Examination of the Leadership Style of Carly Fiorina (07/12/01)
	An Examination of the Leadership Style of Herb Kelleher (07/12/01)
	How Wal-Mart Transfers Power (06/05/01)
	Different Styles of Leadership (03/23/01)
	Trust In Leadership And Team Performance: Evidence From NCAA Basketball (02/09/01)

[Planning to Lead in Publishing] (01/23/01)

[After Quaker, PepsiCo's Nooyi To Add Top Job] (01/19/01)

[As Leaders, Women Rule] (01/18/01)

[AVON: A New Direction…A New CEO] (10/05/00)

[Apple---Steven Jobs Fixed It] (09/18/00)

[Leadership That Gets Results] (06/14/00)

[Communication - A Key To Establishing Trust] (04/05/00)

[Part 2: Communication - A Key To Establishing Trust] (04/05/00)

[Falling Through the Glass Ceiling] (02/08/00)

[What Really Happened at Coke] (01/19/00)

[Make Yourself a Leader] (09/23/99)

[The Jack and Herb Show] (04/27/99)

[By the Way - Your Staff Hates You] (01/05/99)

[100 Best Companies to Work for in America] (01/04/99)

P&G Will Make Jager CEO Ahead of Schedule (10/27/98)

Two on Top (06/18/98)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Analyzing Approaches to Work/Life Programs (05/23/02)

Views on How to Be a Leader (04/30/99)

Virtual Coaches- The New Managers? (02/24/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap17.doc

Lecture Presentation - chap17.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Modules - modules.doc
	Preface - preface.doc
	Self Assessment Library 2.0 - selfas.doc
	Table of contents - toc.doc

Add to...	Just for Students
	Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> What's Ahead

A Manager's Dilemma

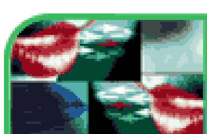
Bob Ross Buick has cornered the automotive market in Dayton, Ohio, literally and figuratively.[1] Located at a major highway intersection in Dayton, it has been the number-one Buick dealer in Ohio for five consecutive years. Following the unexpected and untimely death of founder Bob Ross Sr., his wife, Norma, took over as president and CEO, and son Robert Jr. and daughter Jenell became co–vice presidents. Norma said, "It never occurred to us to sell or combine the business or walk away from it all." In fact, one day after Bob's death, Norma and her children came together as a united front to prove to employees, customers, and auto representatives that they could continue what Bob Sr. had built.

What Bob Ross Sr. had built was a business with a legacy of excellence and prosperity. He started as a car salesman in 1962 and distinguished himself by qualifying for 10 years straight for the Buick Sales Master Club. His accomplishments led to him being selected to participate in the very first class of the prestigious General Motors Minority Dealer Academy, and Bob was the first graduate of the program to be awarded a GM dealership. For almost 20 years, he built his business into one of the premiere automobile facilities in the Dayton area.

It wasn't just Bob's business acumen that contributed to his company's excellence and success. Daughter Jenell said, "Dad always fostered the philosophy that we're only as good as our employees." He treated his employees well, and employee satisfaction was high. Many of the employees had been with the company for years.

Norma Ross has big shoes to fill. She has the leadership challenge of following someone who was loved and respected by his employees. Jenell explained, "When any leader dies, this is the biggest time when people leave ship." Put yourself in Norma Ross's position. How can she create a culture of trust with the business's employees so that they remain loyal and committed to the organization?

What Would You Do?



click here to explore now

active poll <

What do you think? Voice your opinion and find out what others have to say.

click here to explore now

objectives <

Take a moment to familiarize yourself with the key objectives of this chapter.

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Norma Ross is facing a big leadership challenge! It's important that she be able to create this culture of trust and be seen as an effective leader. Why is leadership so important? Because it's the leaders in organizations who make things happen. If leadership is so important, it's only natural to ask: What differentiates leaders from nonleaders? What's the most appropriate style of leadership? And what can you do if you want to be seen as a leader? In this chapter, we'll try to answer these and other questions about leaders.

> Managers versus Leaders

Let's begin by clarifying the distinction between managers and leaders. Authors and practitioners often equate the two, although they're not necessarily the same. Managers are appointed to their position. Their ability to influence is based on the formal authority inherent in that position. In contrast, leaders may either be appointed or emerge from within a work group. Leaders are able to influence others to perform beyond the actions dictated by formal authority.

Should all managers be leaders? Conversely, should all leaders be managers? Because no one yet has been able to demonstrate either through research or logical argument that leadership ability is a handicap to a manager, we believe that all managers should *ideally* be leaders. However, not all leaders necessarily have the capabilities or skills of effective managers and, thus, not all leaders should be managers. The fact that an individual can influence others does not mean that he or she can also plan, organize, and control. Given (even if only ideally) that all managers should be leaders, we'll study leadership from a managerial perspective. Therefore, our definition of a leader is someone who can influence others and who has managerial authority. What is leadership then? It's the process of influencing a group toward the achievement of goals.

Leadership, like motivation, is an organizational behavior topic that has been heavily researched and most of that research has been aimed at answering the question: What is an effective leader? We can clearly see an evolution in our understanding of the leadership process in the various theories proposed to explain it. We'll begin our study of leadership by looking at some early leadership theories.

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 17

go to page: 3

[Go to Student View](#)
[Table of Contents](#)
[Chapter Contents](#)
[Search](#)
[Add Annotation](#)
[View Annotations](#)
[Rate the Difficulty](#)

> Early Leadership Theories

Leadership has always been an issue of high interest from the early days of people gathering together in groups to accomplish goals. However, it wasn't until the early part of the twentieth century that researchers began to study leadership. These early leadership theories focused on the leader (trait theories) and how the leader interacted with his or her group members (behavioral theories). Let's take a closer look at what each of these approaches has contributed to our understanding of leadership.

Trait Theories

Leadership research in the 1920s and 1930s focused basically on leader traits—characteristics that might be used to differentiate leaders from nonleaders. The intent was to isolate one or more traits that leaders possessed but that nonleaders did not. 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 to be impossible to identify a set of traits that would *always* differentiate a leader (the person) from a nonleader. However, later attempts to identify traits consistently *associated* with leadership were more successful. Six traits associated with effective leadership included drive, the desire to lead, honesty and integrity, self-confidence, intelligence, and job-relevant knowledge.[2] These traits are briefly described in Exhibit 17.1.

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 between themselves and 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 their rightness of 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.

Exhibit 17.1	Six Traits Associated with Leadership
Source: S.A. Kirkpatrick and E.A. Locke, "Leadership: Do Traits Really Matter?" *Academy of Management Executive*, May 1991, pp. 48–60.	

Researchers agreed that traits alone were not sufficient for explaining effective leadership. 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 there was something unique in what effective leaders *did*—in other words, in their *behavior*.

click here to explore now

video example

How can we say that trait theory isn't relevant and then say that there are six traits that differentiate leaders from nonleaders?

Behavioral Theories

Researchers hoped that the behavioral theories approach would not only provide more definitive answers about the nature of leadership but, if successful, would also have practical implications quite different from those of the trait approach. If trait research had been successful, it would have provided a basis for *selecting* the "right" people to assume formal leadership positions in organizations. In contrast, if behavioral studies turned up critical behavioral determinants of leadership, people could be *trained* to be leaders. There are four main leader behavior studies we need to look at. Exhibit 17.2 provides a summary of the major leader behavior dimensions and the conclusions of each of these studies.

	Behavioral Dimension	**Conclusion**
University of Iowa	Democratic style: involving subordinates, delegating authority, and encouraging participation Autocratic style: dictating work methods, centralizing decision making, and limiting participation Laissez-faire style: giving group freedom to make decisions and complete work	Democratic style of leadership was most effective, although later studies showed mixed results.

Ohio State	Consideration: being considerate of followers' ideas and feelings Initiating structure: structuring work and work relationships to meet job goals	High-high leader (high in consideration and high in initiating structure) achieved high subordinate performance and satisfaction, but not in all situations.
University of Michigan	Employee oriented: emphasized interpersonal relationships and taking care of employees' needs Production oriented: emphasized technical or task aspects of job	Employee-oriented leaders were associated with high group productivity and higher job satisfaction.
Managerial Grid	Concern for people: measured leader's concern for subordinates on a scale of 1 to 9 (low to high) Concern for production: measured leader's concern for getting job done on a scale of 1 to 9 (low to high)	Leaders performed best with a 9,9 style (high concern for production and high concern for people).

Exhibit 17.2 **Behavioral Theories of Leadership**

University of Iowa Studies

The University of Iowa studies (conducted by Kurt Lewin and his associates) explored three leadership styles.[3] The autocratic style described a leader who typically tended to centralize authority, dictate work methods, make unilateral decisions, and limit employee participation. The democratic style described a leader who tended to involve employees in decision making, delegate authority, encourage participation in deciding work methods and goals, and use feedback as an opportunity for coaching employees. Finally, the laissez-faire style leader generally gave the group complete freedom to make decisions and complete the work in whatever way it saw fit. Lewin and his associates researched which style was the most effective. Their results seemed to indicate that the democratic style contributed to both good quantity and quality of work. Had the answer to the question of the most effective leadership style been found? 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 produced lower or equal performance levels. More consistent results were found, however, when a measure of subordinate satisfaction was used. Group members' satisfaction levels were generally higher under a democratic leader than under an autocratic one.[4]

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, focusing on the work to be done (the task) and on the people within the group (the members)—was also a key characteristic of the other important early behavioral studies.

The Ohio State Studies

The Ohio State studies identified two important dimensions of leader behavior.[5] 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 one they called initiating structure, which referred to the extent to which a leader was likely to define and structure his or her role and the roles of group members in the search for goal attainment. It included behavior that involved attempts to organize work, work relationships, and goals. The second one was called consideration, which was defined as the extent to which a leader had job 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. He or she showed concern for (was considerate of) his or her followers' comfort, well-being, status, and satisfaction.

Were these behavioral dimensions adequate descriptions of leader behavior? Research found that a leader who was high in both initiating structure and consideration (a high-high leader) achieved high group task performance and satisfaction more frequently than one who rated low on either dimension or both. However, the high-high style didn't always yield positive results. Enough exceptions were found to indicate that perhaps situational factors needed to be integrated into leadership theory.

University of Michigan Studies

Leadership studies conducted at the University of Michigan's Survey Research Center at about the same time as those being done at Ohio State had a similar research objective: 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.[6] Leaders who were *employee oriented* were described as emphasizing interpersonal relationships; they took a personal interest in the needs of their followers and accepted individual differences among group members. The *production-oriented* leaders, in contrast, tended to emphasize the technical or task aspects of the job, were concerned mainly with accomplishing their group's tasks, and regarded group members as a means to that end. The conclusions of the Michigan researchers strongly favored leaders who were employee oriented. Employee-oriented leaders were associated with high group productivity and higher job satisfaction. Production-oriented leaders were associated with low group productivity and lower job 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" and "concern for production" and evaluated a leader's use of these behaviors, ranking them on a scale from 1 (low) to 9 (high).[7] Although the grid (shown in Exhibit 17.3) had 81 potential categories into which a leader's behavioral style might fall, emphasis was placed on five: impoverished management (1,1), task management (9,1), middle-of-the-road management (5,5), country club management (1,9), and team management (9,9). 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, there's been little substantive evidence to support the conclusion that a 9,9 style is most effective in all situations.[8]

	Exhibit 17.3	**The Managerial Grid**

Source: Reprinted by permission of *Harvard Business Review*, An exhibit from "Breakthrough in Organization Development" by Robert R. Blake, Jane S. Mouton, Louis B. Barnes, and Larry E. Greiner, November–December 1964, p. 136. Copyright © 1964 by the President and Fellows of Harvard College; all rights reserved.

It became increasingly clear that predicting leadership success involved something more complex than isolating a few leader traits or preferable behaviors. The failure to attain consistent results led to a new focus on situational influences. The relationship between leadership style and effectiveness suggested that under condition *a*, leadership style *x* would be appropriate, whereas style *y* would be more suitable for condition *b*, and style *z* for condition *c*. But what were these situational conditions? It was one thing to say that leadership effectiveness depended on the situation and another to be able to isolate those situational conditions or contingencies.

click here to explore now

video exercise

Take a moment to apply what you've learned.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

> Contingency Theories of Leadership

In this section we examine four contingency theories—the Fiedler, Hersey-Blanchard, leader participation, and path-goal models. Each looks at defining leadership style and the situation and attempts to answer the *if-then* contingencies (i.e., *if* this is my situation, *then* this is the best leadership style for me to use).

The Fiedler Model

The first comprehensive contingency model for leadership was developed by Fred Fiedler.[9] The Fiedler contingency model proposed that effective group performance depended on the proper match between the leader's style of interacting with his or her followers and the degree to which the situation allowed the leader to control and influence. The model was based on the premise that a certain leadership style would be most effective in different types of situations. The key was to define those leadership styles and the different types of situations and then to identify the appropriate combinations of style and situation. In order to understand Fiedler's model, let's look at the first of these variables—leadership style.

Fiedler proposed that a key factor in leadership success was an individual's basic leadership style. He further suggested that a person's style was one of two types: task oriented or relationship oriented. To measure a leader's style, Fiedler developed the least-preferred co-worker (LPC) questionnaire. This questionnaire contained 16 pairs of contrasting adjectives—for example, pleasant-unpleasant, cold-warm, boring-interesting, and friendly-unfriendly. Respondents were asked to think of all the co-workers they had ever had and to describe that one person they *least enjoyed* working with by rating him or her on a scale of 1 to 8 (the 8 always described the positive adjective out of the pair and the 1 always described the negative adjective out of the pair) for each of the 16 sets of adjectives. Fiedler believed that you could determine a person's basic leadership style on the basis of the responses to the LPC questionnaire. What were his descriptions of these styles?

Fiedler believed that if the leader described the least preferred co-worker in relatively positive terms (in other words, a "high" LPC score), then the respondent was primarily interested in good personal relations with co-workers. That is, if you described the person that you least liked to work with in favorable terms, your style would be described as *relationship oriented*. In contrast, if you saw the least preferred co-worker 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 there was a small group of people who fell in between these two extremes and who did not have a cut-and-dried personality sketch. One other point we need to make is that Fiedler assumed that a person's leadership style was always the same (fixed) regardless of the situation. In other words, if you were a relationship-oriented leader, you'd always be one, and the same if you were task oriented.

Gordon Binder, former CEO of the highly successful biotech firm Amgen, Inc., provides an example of a leadership style suited to a particular situation (the model on which contingency theories of leadership are based). In mid-1989, Amgen's first product was ready to ship, but management feared a competitor would trigger an injunction against the new drug. To get the drug out within 24 hours of FDA approval, Binder joined 20 staff members and packed boxes all night, beating the industry standard of one month between approval and delivery. (And the injunction never came.)

After an individual's basic leadership style had been assessed through the LPC, it was necessary 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 for determining leader effectiveness. These were:

- Leader-member relations: the degree of confidence, trust, and respect employees had for their leader; rated as either good or poor
- Task structure: the degree to which job assignments were formalized and procedurized; rated as either high or low
- Position power: the degree of influence a leader had over power-based 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. Mixing these variables produced eight possible situations in which a leader could find himself or herself (see the bottom of the chart in Exhibit 17.4). Situations I, II, and III were classified as very favorable for the leader. Situations IV, V, and VI were moderately favorable for the leader. And situations VII and VIII were described as very unfavorable for the leader.

Exhibit 17.4	Findings of the Fiedler Model

In order to define the specific contingencies for leadership effectiveness, Fiedler studied 1,200 groups in which he compared relationship-oriented versus task-oriented leadership styles in each of the eight situational categories. He concluded that task-oriented leaders tended to perform better in situations that were very favorable to them and in situations that were very unfavorable. (See top of Exhibit 17.4 in which performance is shown on the vertical axis and situation favorableness is shown on the horizontal axis.) On the other hand, relationship-oriented leaders seemed to perform better in moderately favorable situations.

Remember that Fiedler treated an individual's leadership style as fixed. Therefore, there were only two ways to improve leader effectiveness. First, you could bring in a new leader whose style better fit the situation. For instance, if the group situation was rated as highly unfavorable but was led by a relationship-oriented leader, the group's performance could be improved 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 or increasing or decreasing the power that the leader had over factors such as salary increases, promotions, and disciplinary actions.

Reviews of the major studies undertaken to test the overall validity of Fiedler's model have shown considerable evidence to support the model.[10] However, it wasn't without shortcomings. For instance, additional variables were probably needed to fill in some gaps in the model. Moreover, there were problems with the LPC, and the practicality of it needed to be addressed. In addition, it's probably unrealistic to assume that a person can't change his or her leadership style to fit the situation. Effective leaders can, and do, change their styles to meet the needs of a particular situation. Finally, the contingency variables were complex and difficult for practitioners to assess. It was often difficult in practice to determine how good the leader-member relations were, how structured the task was, and how much position power the leader had.[11] Despite its shortcomings, the Fiedler model provided evidence that effective leadership style needed to reflect situational factors.

Hersey and Blanchard's Situational Leadership Theory

Paul Hersey and Ken Blanchard have developed a leadership theory that has gained a strong following among management development specialists.[12] This model called situational leadership theory (SLT) is a contingency theory that focuses on followers' readiness. Hersey and Blanchard argue that successful leadership is achieved by selecting the right leadership style, which is contingent on the level of the followers' readiness. Before we proceed, there are two points we need to clarify: 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, effectiveness depends on the actions of his or her followers. This is an important dimension that 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 (see Exhibit 17.5) 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 follower 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.

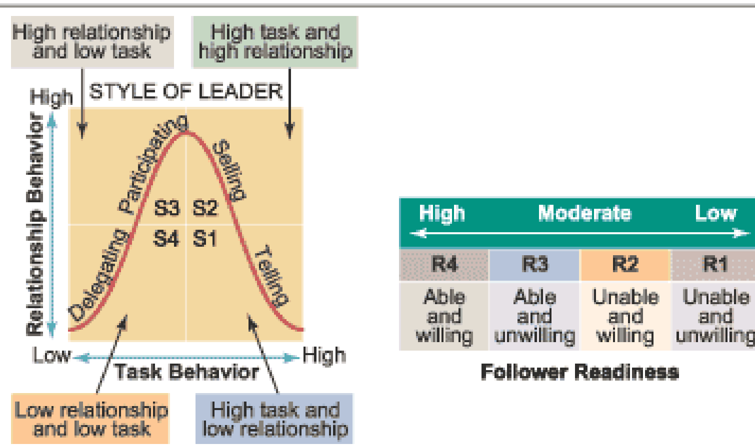


Exhibit 17.5 **Hersey and Blanchard's Situational Leadership Model**

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. They're neither competent nor confident.
- *R2*: People are unable but willing to do the necessary job tasks. They're motivated but currently lack the appropriate skills.
- *R3*: People are able but unwilling to do what the leader wants.
- *R4*: People are both able and willing to do what is asked of them.

SLT essentially views the leader-follower relationship as analogous to that of a parent and a child. Just as a parent needs to relinquish control as a child becomes more mature and responsible, so, too, should leaders. As followers reach high levels of readiness, the leader responds not only by continuing to decrease control over their activities but also by continuing to decrease relationship behavior. The SLT says if followers are *unable* and *unwilling* to do a task, the leader needs to give clear and specific directions (telling); if followers are *unable* and *willing*, the leader needs to display high task orientation to compensate for the followers' lack of ability and high relationship orientation to get followers to "buy into" the leader's desires (selling); if followers are *able* and *unwilling*, the leader needs to use a supportive and participative style (participating); and if employees are both *able* and *willing*, the leader doesn't need to do much (delegating).

SLT has an 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. Yet research efforts to test and support the theory generally have been disappointing.[13] Why? Possible explanations include internal ambiguities and inconsistencies in the model itself as well as problems with research methodology in tests of the theory. So in spite of its intuitive appeal and wide popularity among practicing managers, at least at this point in time, any enthusiastic endorsement should be done with caution.

Leader Participation Model

Another early contingency model, developed by Victor Vroom and Phillip Yetton, was the leader participation model, which related leadership behavior and participation in decision making.[14] Developed in the early 1970s, the model argued that leader behavior must adjust to reflect the task structure—whether it was routine, nonroutine, or anywhere in between. Vroom and Yetton's model is what we call a *normative* one; it provides a sequential set of rules (norms) that the leader should follow in determining the form and amount of participation in decision making, as determined by the different types of situations.

The leader participation model has changed as studies continue to provide additional insights and understanding of effective leadership style.[15] A current model reflects *how* and *with whom* decisions are made and uses variations of the same five leadership styles identified in the original model (see a description of these styles in Exhibit 17.6). It also expands upon the decision-making contingencies leaders look at in determining what leadership style would be most effective.[16] These contingencies—decision significance, importance of commitment, leader expertise, likelihood of commitment, group support, group expertise, and team competence—are either present in the situation (H for high) or absent (L for low). Exhibit 17.7 shows a current leader participation model—the Time-Driven Model, which is short-term in its orientation and concerned with making effective decisions with minimum cost. To use the model, a leader works through it from left to right determining whether each contingency factor is high or low. After assessing all these contingencies in the particular situation, the most effective leadership style is identified on the far right-hand side of the model. Another model—the Development-Driven Model—is structured the same way but emphasizes making effective decisions with maximum employee development outcomes and places no value on time.

Decide:	Leader makes the decision alone and either announces or sells it to group.
Consult Individually:	Leader presents the problem to group members individually, gets their suggestions, and then makes the decision.
Consult Group:	Leader presents the probelm to group members in a meeting, gets their suggestions, and then makes the decision.
Facilitate:	Leader presents the problem to the group in a meeting and, acting as facilitator, defines the problem and the boundaries within which a decision must be made.
Delegate:	Leader permits the group to make the decision within prescribed limits.

Exhibit 17.6 **Leadership Styles in the Vroom Leader Participation Model**

Source: Based on: V. Vroom, "Leadership and the Decision-Making Process," *Organizational Dynamics*, vol. 28, no. 4, (2000), p. 84.

Path-Goal Model

Currently, one of the most respected approaches to understanding leadership is path-goal theory, which states that it's the leader's job to assist his or her followers in attaining their goals and to provide the direction or support needed to ensure that their goals are compatible with the overall objectives of the group or organization. Developed by Robert House, path-goal theory is a contingency model of leadership that takes key elements from the expectancy theory of motivation.[17] The term *path-goal* is derived from the belief that effective leaders clarify the path to help their followers get from where they are to the achievement of their work goals and make the journey along the path easier by reducing roadblocks and pitfalls.

According to path-goal theory, a leader's behavior is *acceptable* to group members to the degree that they view it as an immediate source of satisfaction or as a means of future satisfaction. A leader's behavior is *motivational* to the extent that it (1) makes the satisfaction of subordinates' needs contingent on effective performance and (2) provides the coaching, guidance, support, and rewards that are necessary for effective performance. To test these statements, 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*: is friendly and shows concern for the needs of followers
- *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

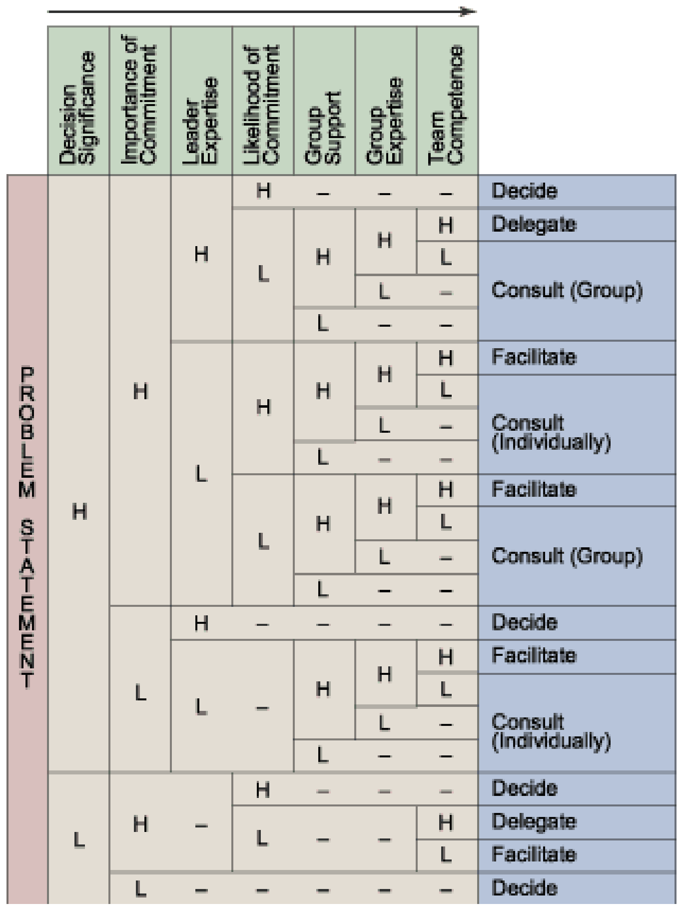


Exhibit 17.7 **Time-Driven Model**

Source: Adapted from V. Vroom, "Leadership and the Decision-Making Process," *Organizational Dynamics*, vol. 28, no. 4, (2000), p. 87.

In contrast to Fiedler's view that a leader couldn't change his or her behavior, House assumes that leaders are flexible. In other words, path-goal theory assumes that the same leader can display any or all of these leadership styles depending on the situation.

As Exhibit 17.8 illustrates, path-goal theory proposes two classes of 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 leader behavior will be ineffective when it's redundant with sources of environmental structure or incongruent with follower characteristics. For example, some hypotheses 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.
- Supportive leadership results in high employee performance and satisfaction when subordinates are performing structured tasks.
- Directive leadership is likely to be perceived as redundant among subordinates with high perceived ability or with considerable experience.
- The clearer and more bureaucratic the formal authority relationships, the more leaders should exhibit supportive behavior and deemphasize directive behavior.
- Directive leadership will lead to higher employee satisfaction when there is substantive conflict within a work group.
- Subordinates with an internal locus of control will be more satisfied with a participative style.
- Subordinates with an external locus of control will be more satisfied with a directive style.
- Achievement-oriented leadership will increase subordinates' expectancies that effort will lead to high performance when tasks are ambiguously structured.

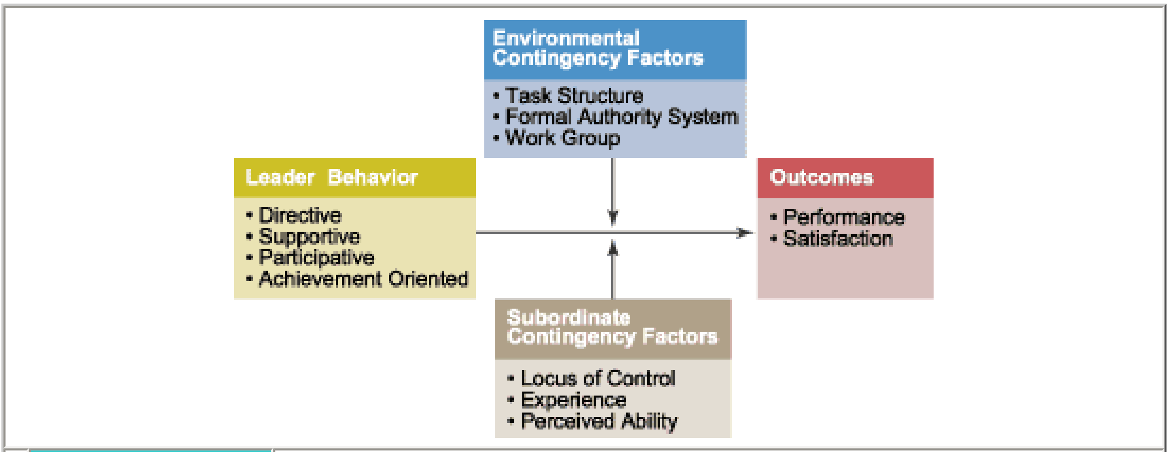


Exhibit 17.8 **Path-Goal Theory**

Research to validate hypotheses such as these is generally encouraging. Although not every study has found positive support, the majority of the evidence supports the logic underlying path-goal theory.[18] That is, employee performance and satisfaction are likely to be positively influenced when the leader compensates for shortcomings in either the employee or the work setting. However, if the leader spends time explaining tasks when those tasks 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.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 << previous | next >>

> Cutting-Edge Approaches to Leadership

What are the latest views of leadership in organizations? In this section, we want to look at three contemporary approaches to leadership including transformational-transactional leadership, charismatic-visionary leadership, and team leadership.

Transformational-Transactional Leadership

Most of the leadership theories presented so far in this chapter have described transactional leaders, that is, leaders who guide or motivate their followers in the direction of established goals by clarifying role and task requirements. But there's another type of leader who inspires followers to transcend their own self-interests for the good of the organization and is capable of having a profound and extraordinary effect on his or her followers. These are transformational leaders, and examples include Leslie Wexner of The Limited retail chain, Jack Welch, former chairman of General Electric, and Richard Branson of The Virgin Group. 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 put out extra effort to achieve group goals.

Transactional and transformational leadership shouldn't be viewed as opposing approaches to getting things done.[19] Trans-formational leadership is built on top of 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 since the transformational leader attempts to instill in followers the ability to question not only established views but those views held by the leader.[20]

The evidence supporting the superiority of transformational leadership over the transactional variety is overwhelmingly impressive. For instance, a number of studies of U.S., Canadian, and German military officers found, at every level, that transformational leaders were evaluated as being more effective than their transactional counterparts.[21] And managers at FedEx who were rated by their followers as exhibiting more transformational leadership were evaluated by their immediate supervisors as higher performers and more promotable.[22] In summary, the overall evidence indicates that transformational leadership is more strongly correlated with lower turnover rates, higher productivity, and higher employee satisfaction.[23]

Charismatic-Visionary Leadership

Wacko and *genius*, two seemingly contradictory terms, have been used to describe Pat Farrah, the chief merchandising officer for Home Depot, Inc.[24] In the intensely competitive building supply and home improvement industry, Farrah's enthusiastic leadership has helped reenergize the company's spirit and performance. Farrah is what we call a charismatic leader—that is, an enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways.

Several authors have attempted to identify personal characteristics of the charismatic leader.[25] The most comprehensive analysis identified five such characteristics—charismatic leaders have a vision, are able to articulate that vision, are willing to take risks to achieve that vision, are sensitive to both environmental constraints and follower needs, and exhibit behaviors that are out of the ordinary—that differentiate charismatic leaders from noncharismatic ones.[26]

What can we say about the charismatic leader's effect on his or her followers? There's an increasing body of evidence that shows impressive correlations between charismatic leadership and high performance and satisfaction among followers.[27]

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.[28] For example, researchers have succeeded in teaching undergraduates to "be" charismatic. How? They were taught to articulate a broad 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. To further capture the dynamics and energy of charisma, the researchers 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. These students learned how to project charisma. Moreover, their group 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 need to 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.[29] This may explain why and 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, Franklin D. Roosevelt used his charisma in fashioning a vision to lead the country out of the Great Depression; Martin Luther King Jr. was unyielding in his desire to bring about social equality through nonviolent means; and Steve Jobs achieved unwavering loyalty and commitment from Apple Computer's technical staff in the early 1980s by articulating a vision of personal computers that would dramatically change the way people lived.

Although the term *vision* is often linked with charismatic leadership, visionary leadership goes beyond charisma since it's the ability to create and articulate a realistic, credible, and attractive vision of the future that improves on the present situation.[30] This vision, if properly selected and implemented, is so energizing that it "in effect jump-starts the future by calling forth the skills, talents, and resources to make it happen."[31]

A vision should offer clear and compelling imagery that taps into people's emotions and inspires enthusiasm and energy to pursue the organization's goals. It should be able to generate possibilities that are inspirational and unique and that offer a new way of doing things and will lead to organizational distinction. A vision is likely to fail if it does not offer a view of the future that is clearly better for the organization and its members. Desirable visions fit the times and circumstances and reflect the uniqueness of the organization. People in the organization must also believe that the vision is attainable. It should be perceived as challenging yet doable. Visions that are clearly articulated and have powerful imagery are easily grasped and accepted. For instance, Michael Dell (Dell Computer) has created a vision of a business that sells and delivers a finished PC directly to a customer in less than eight days. Jeff Bezos's vision for Amazon.com was to be the Internet's largest retailer. Mary Kay Ash's vision of women as entrepreneurs, selling products that improved their self-image, gave impetus to her cosmetics company, Mary Kay Cosmetics.

What skills do visionary leaders exhibit? Once the vision is identified, these leaders appear to have three qualities that are related to effectiveness in their visionary roles.[32] First is the *ability to explain the vision to others*. The visionary leader needs to make the vision clear in terms of required goals and actions through clear oral and written communication. The second skill needed is the *ability to express the vision not just verbally but through behavior*. This skill requires behaving in ways that continually convey and reinforce the vision. For example, Herb Kelleher of Southwest Airlines lived and breathed his commitment to customer service. He was legendary within the company for his boundless energy and for jumping in, when needed, to help check in passengers, load baggage, fill in for flight attendants, or do anything else to make the customers' experiences more pleasant and memorable. The third skill visionary leaders need is the *ability to extend or apply the vision to different leadership contexts*. For instance, the vision has to be as meaningful to the people in accounting as to those in production, to employees in Cleveland as to those in Sydney.

Team Leadership

Leadership is increasingly taking place within a team context. As more organizations use work teams, the role of the leader in guiding team members becomes increasingly important. The role of team leader *is* different from the traditional leadership role, as J. D. Bryant, a supervisor at Texas Instruments' Forest Lane plant in Dallas, discovered.[33] One day he was contentedly overseeing a staff of 15 circuit board assemblers. The next day he was told that the company was going to use employee teams and he was to become a "facilitator." He said, "I'm supposed to teach the teams everything I know and then let them make their own decisions." But, confused about his new role, he admitted, "There was no clear plan on what I was supposed to do." What *is* involved in being a team leader?

Many leaders are not equipped to handle the change to employee teams. As one consultant noted, "Even the most capable managers have trouble making the transition because all the command-and-control type things they were encouraged to do before are no longer appropriate. There's no reason to have any skill or sense of this."[34] This same consultant estimated that "probably 15 percent of managers are natural team leaders; another 15 percent could never lead a team because it runs counter to their personality. [That is, they're unable to moderate their dominating style for the good of the team.] Then there's that huge group in the middle: Team leadership doesn't come naturally to them, but they can learn it."[35]

The challenge for most managers is learning how to become an effective team leader. They have to learn skills such as having the patience to share information, being able to trust others and to give up authority, and understanding when to intervene. Effective team leaders have mastered the difficult balancing act of knowing when to leave their teams alone and when to get involved. New team leaders may try to retain too much control at a time when team members need more autonomy, or they may abandon their teams at times when the teams need support and help.[36]

One study of organizations that had reorganized themselves around employee teams found certain common responsibilities that all leaders had to assume. These included coaching, facilitating, handling disciplinary problems, reviewing team and individual performance, training, and communication.[37] You would probably agree that many of these responsibilities apply to managers' jobs in general. However, a more meaningful way to describe the team leader's job is to focus on two priorities: (1) managing the team's external boundary and (2) facilitating the team process.[38] These priorities can be broken down into four specific leadership roles. (See Exhibit 17.9.)

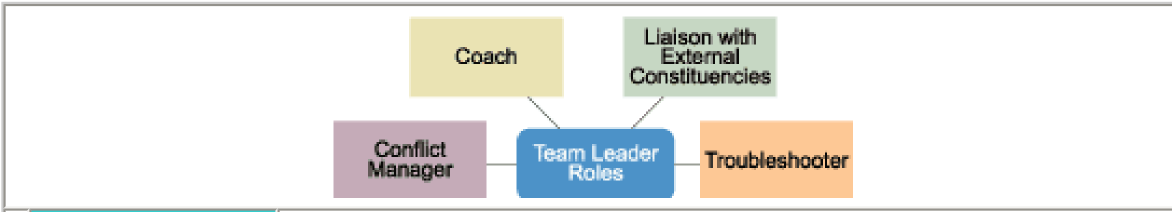


Exhibit 17.9 **Specific Team Leadership Roles**

First, team leaders are *liaisons with external constituencies*. These may include upper management, other organizational work teams, customers, or suppliers. The leader represents the team to other constituencies, secures needed resources, clarifies others' expectations of the team, gathers information from the outside, and shares that information with team members.

Next, team leaders are *troubleshooters*. When the team has problems and asks for assistance, team leaders sit in on meetings and try to help resolve the problems. Troubleshooting rarely involves technical or operational issues because the team members typically know more about the tasks being done than does the team leader. The leader is most likely to contribute by asking penetrating questions, helping the team talk through problems, and getting needed resources to tackle problems.

Third, team leaders are *conflict managers*. When disagreements arise, they help process the conflict. They help identify issues such as the source of the conflict, who's involved, the issues, the resolution options available, and the advantages and disadvantages of each. By getting team members to address questions such as these, the leader minimizes the disruptive aspects of intrateam conflicts.

Finally, team leaders are *coaches*. They clarify expectations and roles, teach, offer support, cheerlead, and do whatever else is necessary to help team members keep their work performance levels high.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 << previous | next >>

> Contemporary Issues in Leadership

As you can tell from the preceding discussion on the various leadership theories and approaches, the concept of "effective leadership" is continually being refined as researchers continue to study leadership in organizations and discover more about it. Let's take a closer look at some of the contemporary issues affecting leadership practice.

Leaders and Power

Where do leaders get their power—that is, their capacity to influence work actions or decisions? Five sources of leader power have been identified: legitimate, coercive, reward, expert, and referent.[39]

Legitimate power and authority are the same. Legitimate power represents the power a leader has as a result of his or her position in the organization. People in positions of authority are also likely to have reward and coercive power, but legitimate power is broader than the power to coerce and reward. Because of their legitimate power, when school principals, bank presidents, or army captains ask for something to be done, teachers, tellers, and lieutenants listen and usually comply.

Coercive power is the power that rests on the leader's ability to punish or control. Followers react to this power out of fear of the negative results that might occur if they do not comply. As a manager, you 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 is the power to give positive benefits or rewards. These rewards can be anything that another person values. In an organizational context, that might include money, favorable performance appraisals, promotions, interesting work assignments, friendly colleagues, and preferred work shifts or sales territories.

Expert power is influence that's based on expertise, special skills, or knowledge. As jobs have become more specialized, managers have become increasingly dependent on staff "experts" to achieve the organization's goals. If an employee has skills, knowledge, or expertise critical to the operation of a work group, that person's expert power is enhanced. For instance, in many organizations, individuals who have good computer skills and are seen as "experts" when computer problems arise have the ability to influence because of their knowledge and skills—that is, they have expert power.

Since less than 1 percent of the world's 360 million Internet users live in Africa, technical skills will become more and more highly prized among African employers as the rate of technology usage there begins to climb. Someone like Tany Accone, executive producer for M-Web Africa of Johannesburg, South Africa, has that kind of expert power. Her company builds online communities among Africans with web access.

Finally, referent power is the power that arises because of a person's desirable resources or personal traits. If I admire and identify with you, you can exercise power over me because I want to please you. Referent power develops out of admiration of another and a desire to be like that person. You might consider the person you identify with as having what we discussed earlier, *charisma*. If you admire someone to the point of modeling your behavior and attitudes after him or her, that person has referent power over you.

Leadership, as you know, is about the process of influencing followers using various types of power. Most effective leaders rely on several different forms of power to affect the behavior and performance of their followers. For example, Commander Kathleen McGrath, the first woman to command a U.S. Navy warship at sea, employs different types of power in managing her crew and equipment. She gives orders to the crew (legitimate), praises them (reward), and disciplines those who commit infractions (coercive).[40]

Creating a Culture of Trust

An important consideration for leaders is building credibility and trust. Followers want leaders who are credible and whom they can trust. But what do the terms *credibility* and *trust* mean?

The main component of credibility is honesty. Surveys have found 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." In addition to being honest, credible leaders have been found to be competent and inspiring.[41] They are personally able to communicate effectively their confidence and enthusiasm. Thus, followers judge a leader's credibility in terms of his or her honesty, competence, and ability to inspire.

Trust is closely entwined with the concept of credibility, and, 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.[42] Research has identified five dimensions that make up the concept of trust:[43]

- *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

Consistent with the work on credibility, integrity and competence are the most critical characteristics that an individual looks for in determining another's trustworthiness. In fact, if you look back at our discussion of leadership traits, integrity and job-relevant knowledge were among the six traits found to be consistently associated with leadership. Although these qualities have always been important, workplace changes have reinforced their value in building trust.

The trend toward empowering individuals and creating self-managed work teams has reduced or eliminated many of the traditional control mechanisms used to monitor employees. For instance, 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. And the trend toward expanding nonauthority relationships within and between organizations widens the need for interpersonal trust. Leaders have to increasingly lead others who may not be in their work group—members of cross-functional teams, individuals who work for suppliers or customers, and perhaps even people who represent other organizations through strategic alliances. These situations do not 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 may be crucial to the success of the relationship. How crucial? One study of managers divided into high- and low-credibility groups based on scores on a credibility questionnaire found that employees who perceived their managers as having high credibility felt significantly more positive about and attached to their work and organizations than did those employees who perceived their managers as low in credibility.[44] In another study, individuals who reported that their manager was honest, competent, and inspiring were significantly more likely to feel a strong sense of teamwork and commitment to their organization than were those who reported their managers as not honest, competent, or inspiring.

Given the importance of trust to effective leadership, how should leaders seek to build trust? Here are some suggestions:[45]

- *Practice openness*. Mistrust comes as much from what people do not know as from what they do know. Openness leads to confidence and trust. Keep people informed, make the criteria on how decisions are made overtly clear, explain the rationale for your decisions, be candid about problems, and fully disclose 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, and pay attention to equity perceptions in reward distributions.

- *Speak your feelings*. Leaders who convey only hard facts come across as cold, distant, and uncaring. If you share your feelings, others will see you as real and human. They will know who you are, and their respect for you will increase.

- *Tell the truth*. If honesty is critical to credibility, you must be perceived as someone who tells the truth. People are generally more tolerant of learning something negative than of finding out that their leader lied to them.

- *Show consistency*. People want predictability. Mistrust comes from not knowing what to expect. Take the time to think about your values and beliefs. Then let them consistently guide your decisions and actions.

- *Fulfill your promises*. Trust requires that people believe you are dependable. Keep your word. Promises made must be promises kept.

- *Maintain confidences*. You trust people who are discreet and upon whom you can rely. If people make themselves vulnerable by telling you something in confidence, they need to feel assured that you won't discuss it with others or betray that confidence.

- *Demonstrate competence*. Develop the admiration and respect of others by demonstrating technical and professional ability. Pay particular attention to developing and practicing effective communication, negotiation, and other interpersonal skills.

click here to explore now

active example

PRISM: Scenario 4—Developing Trust

click here to explore now

video example

Why has gaining employee trust become so important in recent years?

Leading Through Empowerment

As we've described in different places throughout the text, managers are increasingly leading by empowering their employees. Empowerment involves increasing the decision-making discretion of workers. Millions of individual employees and employee teams are making the key operating decisions that directly affect their work. They're developing budgets, scheduling workloads, controlling inventories, solving quality problems, and engaging in similar activities that until very recently were viewed exclusively as part of the manager's job.[46] For instance, at Total Systems Services Inc. of Columbus, Georgia, employees are actively involved in work decisions, which at one point included the design of the company's new office complex. The importance of employees to the company is reflected in the brick river walk along the Chattahoochee River where each brick is engraved with an employee's name.[47]

Why are more and more companies empowering employees? One reason is the need for quick decisions by those people who are most knowledgeable about the issues—often those at lower organizational levels. If organizations are to successfully compete in a dynamic global economy, they have to be able to make decisions and implement changes quickly. Another reason is the reality that organizational downsizings during the last part of the twentieth century left many managers with larger spans of control. In order to cope with the increased work demands, managers had to empower their people. Although empowerment is not a universal panacea, when employees have the knowledge, skills, and experience to do their jobs competently and when they seek autonomy and possess an internal locus of control, empowerment can be beneficial.

click here to explore now
active concept check
Testing...Testing...1, 2, 3

Gender and Leadership

There was a time when the question "Do males and females lead differently?" could be accurately characterized as a purely academic issue—interesting, but not very relevant. That time has certainly passed! Many women now hold management positions, and many more around the world will continue to join the management ranks. Misconceptions about the relationship between leadership and gender can adversely affect hiring, performance evaluation, promotion, and other human resource decisions for both men and women. So this topic needs to be addressed. First, however, a warning: This topic tends to be controversial.[48] If male and female styles differ, is one inferior? Moreover, if there is a difference, does labeling leadership styles by gender encourage stereotyping? These questions can't be easily dismissed and we'll address them shortly.

The Evidence

A number of studies focusing on gender and leadership style have been conducted in recent years. Their general conclusion is that males and females *do* use different styles. Specifically, women tend to adopt a more democratic or participative style and a less autocratic or directive style than do men. Women are more likely to encourage participation, share power and information, and attempt to enhance followers' self-worth. They lead through inclusion and rely on their charisma, expertise, contacts, and interpersonal skills to influence others. Women tend to use transformational leadership, motivating others by transforming their self-interest into organizational goals. Men are more likely to use a directive, command-and-control style. They rely on the formal position authority for their influence. Men use transactional leadership, handing out rewards for good work and punishment for bad.[49]

There is an interesting qualifier to the preceding findings. The tendency for female leaders to be more democratic than males declines when women are in male-dominated jobs. Apparently, group norms and male stereotypes influence women and they tend to act more autocratically.[50]

Is Different Better?

Although it's interesting to see how male and female leadership styles differ, a more important question is whether they differ in effectiveness. Although some researchers have shown that males and females tend to be equally effective as leaders,[51] an increasing number of comprehensive management studies have shown that women executives, when rated by their peers, employees, and bosses, score higher than their male counterparts on a wide variety of measures.[52] (See Exhibit 17.10 for a summary.) Why? One possible explanation is that in today's organizations, flexibility, teamwork and partnering, trust, and information sharing are rapidly replacing rigid structures, competitive individualism, control, and secrecy. The best managers listen, motivate, and provide support to their people. They inspire and influence rather than control. And women seem to do those things better than men. For example, the increased use of cross-functional teams means that effective managers must become skillful negotiators. Women's leadership style makes them better at negotiating. They don't focus on wins, losses, and competition as men do. Women treat negotiations in the context of a continuing relationship—trying hard to make the other party a winner in its own and others' eyes.[53]

Where Female Managers Do Better: A Scorecard

None of the five studies set out to find gender differences. They stumbled on them while compiling and analyzing performance evaluations.

Skill (Each check mark denotes which group scored higher on the respective studies)	**MEN**	**WOMEN**
Motivating Others		✓✓✓✓✓
Fostering Communication		✓✓✓✓*
Producing High-Quality Work		✓✓✓✓✓
Strategic Planning	✓✓	✓✓*
Listening to Others		✓✓✓✓✓
Analyzing Issues	✓✓	✓✓*

*In one study, women's and men's scores in these categories were statistically even.
Data: Hagberg Consulting Group, Management Research Group, Lawrence A. Pfaff, Personnel Decisions International Inc., Advanced Teamware Inc.

Exhibit 17.10

Source: R. Sharpe, "As Leaders, Women Rule," *Business Week*, November 20, 2000, p. 75.

A Few Concluding Thoughts

Although women rate highly on those leadership skills needed to succeed in today's dynamic global environment, we don't want to fall into the same trap as the early leadership researchers who tried to find the "one best leadership style" for all situations. We know that there is no one *best* style for all situations. Instead, which leadership style is effective will depend on the situation. So even if men and women differ in their leadership styles, we shouldn't assume that one is always preferable to the other. There are, for instance, organizations that have inexperienced and unmotivated workers performing ambiguous tasks in which directive leadership is likely to be most effective. In addition, we should recognize that some people are more flexible in adjusting their leadership behaviors to different situations than are others.[54] That said, it's probably best to think of gender as providing a behavioral *tendency* in leadership. Effective leaders may, for instance, tend toward being more participative but use an autocratic approach when the situation requires it.

Leadership Styles and Different Cultures

One general conclusion that surfaces from leadership research is that effective leaders do not use any single style. They adjust their style to the situation. Although not mentioned explicitly, national culture is certainly an important situational variable in determining which leadership style will be most effective. For instance, one study of Asian leadership styles revealed that Asian managers preferred leaders who were competent decision makers, effective communicators, and supportive of employees.[55]

National culture affects leadership style because it influences how followers will respond. Leaders can't (and shouldn't) just choose their styles freely. They are constrained by the cultural conditions their followers have come to expect. Consider the following: Korean leaders are expected to be paternalistic toward employees.[56] Arab leaders who show kindness or generosity without being asked to do so are seen by other Arabs as weak.[57] Japanese leaders are expected to be humble and speak infrequently.[58] And Scandinavian and Dutch leaders who single out individuals with public praise are likely to embarrass those individuals rather than energize them.[59]

Remember that most leadership theories were developed in the United States, using U.S. subjects, so they have an American bias. They emphasize follower responsibilities rather than rights; assume self-gratification rather than commitment to duty or altruistic motivation; assume centrality of work and democratic value orientation; and stress rationality rather than spirituality, religion, or superstition.[60]

As a guide for adjusting your leadership style, you might consider the cultural value dimensions presented in Chapter 4. For example, an autocratic style is compatible with high power distance cultures, which we find in Arab, Far Eastern, and Latin countries. Power distance rankings should also be good indicators of employee willingness to accept participative leadership. Participation is likely to be most effective in low power distance cultures such as those in the United States, Norway, Finland, Denmark, and Sweden. Not incidentally, this may explain (1) why a number of leadership studies (such as the University of Michigan behavioral studies and the leader participation model) implicitly favor the use of a participative or people-oriented style, and (2) the recent enthusiasm in North American organizations for empowerment.

Sometimes Leadership Is Irrelevant!

The belief that some leadership style will always be effective regardless of the situation may not be true. Leadership may not always be important! Research indicates that, in some situations, any behaviors a leader exhibits are irrelevant. In other words, certain individual, job, and organizational variables can act as substitutes for leadership, negating the influence of the leader.[61]

For instance, follower characteristics such as experience, training, professional orientation, or need for independence can neutralize the effect of leadership. These characteristics can replace the employee's need for a leader's support or ability to create structure and reduce task ambiguity. Similarly, jobs that are inherently unambiguous and routine or that are intrinsically satisfying may place fewer demands on the leader. Finally, such organizational characteristics as explicit formalized goals, rigid rules and procedures, or cohesive work groups can substitute for formal leadership.

click here to explore now

active example

PRISM: Scenario 2—Choosing an Effective Leadership Style

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> Chapter Wrap-Up

You had a chance to voice your opinion about Norma Ross's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Jason Downing
Restaurant Manager
Chili's Grill & Bar,Springfield, Missouri

[Not working? Get Quicktime](#)

The change of power needs to be as translucent as possible. Norma should try not to make any major changes immediately because this could lead to feelings of employee insecurity. One of the first things she should do is to develop a mission statement covering important issues such as job security and future plans. Because Norma wants to ensure that the company's employees remain loyal and committed, she should get their

Peter G. Johnson
Director, Employment Services
Synovus Financial Corporation,
Columbus, Georgia

[Not working? Get Quicktime](#)

The key to Norma Ross's success and continuing her husband's fine work will rest in her demonstrated leadership ability to effectively establish a level of trust with the employees. This will not happen overnight. She should strive for small successes and build on those.

Norma should gain a clear understanding of the strengths and needs of her people, attempt to leverage the unique talents each

input by asking for their ideas on increasing company growth and profitability. It would also be helpful if the Rosses had an all-employee luncheon. They should start off by thanking their employees for their commitment to the success of the dealership. The Rosses should also focus on developing working relationships with their employees. They should try to learn about each one's family life and interests. Finally, Norma should evaluate the company's financial situation and consider implementing a bonus or incentive program. In this way, she demonstrates her belief that the employees are (and have been) important to the company's success.	brings to the table, and model behaviors that will sustain an inclusive work environment. This includes showing a healthy respect for the history and accomplishments of the company and its people; making sure people are aligned on the company vision; being honest and delivering on any promises made; being visible; communicating effectively; being approachable; showing genuine interest in what people do; preaching and practicing employee empowerment; focusing on rewarding individuals and teams; and having fun! In short, Norma should be patient, demonstrate good judgment, practice inclusive behaviors, be aware of and flexible to changing conditions, show confidence, and be fair and consistent in her decisions.

> end-of-chapter resources

- Chapter Summary
- Video Q & A
- Practice Quiz
- Key Terms
- Thinking About Management Issues
- Log on: Internet Based Exercise
- Working Together: Team-Based Exercise
- Case Application
- Mastering Management
- Managing Entrepreneurial Ventures

Management (activebook), 7/e

Stephen P. Robbins   Mary Coulter

Chapter Outline

Go to Student View

Table of Contents

Chapter Contents

Search

Rate the Difficulty

In the News

Internet Exercises

Robbins OnLine Learning System (R.O.L.L.S.)

Faculty Resources

Misc. Resources

Chapter 18: Foundations of Control

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...

- Workplace Privacy Eroding (12/21/01)
- Workplace Privacy Eroding (12/21/01)
- The Star Payers (06/19/00)
- The New Rules of the Game (06/01/00)
- A Dress Code with Teeth (and a Reminder to Floss) (05/17/00)
- The Mess at Bank One (05/09/00)
- Prying Times: Those Bawdy E-mails Were Good for a Laugh—Until the Ax Fell (02/29/00)
- How to Fire Your Dealers (07/15/99)
- You're Fired! (02/22/99)
- When the Devil is in the E-Mails (06/08/98)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

Exploring the Balanced Scorecard (09/17/01)

Exploring the Balanced Scorecard (09/17/01)

The Stanford Prison Experiment (06/14/01)

360 Degree Feedback--Do I Really Want to Do That? (08/31/00)

Rapid Response in Outer Space (06/12/00)

Creative Conflict: Working to Find the Pass in the Impasse (09/22/99)

Communicating Nonverbal Messages (06/22/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap18.doc

Lecture Presentation - chap18.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Modules - modules.doc
	Preface - preface.doc
	Self Assessment Library 2.0 - selfas.doc
	Table of contents - toc.doc

Add to...	Just for Students
	Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

> What's Ahead

A Manager's Dilemma

Mohamed Saleem has a challenging control problem. As manager of electronic resource planning at Mohamed Mustafa & Shamsuddin Company (Mustafa's), a Singaporean retailer known for its low prices and vast array of products from around the world, he must figure out how to control customer fraud at the company's Web site.[1]

Controlling customer stealing isn't anything new for Mustafa's. To control pilfering opportunities at its two enormous department stores, Mustafa's makes customers leave their bags at the entrance; cashiers secure shopping bags with plastic grips so customers can't slip in unpaid items; and plainclothes security officers and security cameras monitor aisles crammed with silk saris, gold jewelry, electric fans, rice cookers, and similar merchandise. The two stores are located side by side in Singapore's Little India. Besides sheer variety, the stores also offer consistently lower prices than many of its rivals, especially on electronics goods. About 40 percent of Mustafa's customers are tourists. However efficient and effective the company's attempts are at controlling customer theft at its bricks-and-mortar stores, doing so in an electronic world isn't as easy!

In 1994, Mustafa's introduced a Web site storefront. The Web site offers about 5,000 (out of the 100,000) items stocked in the physical stores. It also boasts several innovative features including live foreign exchange rates updated regularly. Orders are shipped to customers within hours. However, fraud problems started almost immediately. Although the company's software ensured that each transaction was encrypted to protect customers from theft of their financial information, customers weren't required to digitally verify their identities before making credit card payments online. And unfortunately, Mustafa's wasn't protected from fraudulent credit card transactions, a problem faced by all Internet retailers. When customers made credit card purchases using fraudulent means, Mustafa's was left holding the bill. Saleem has been directed to come up with a plan for addressing this problem for his company. Put yourself in his position. What steps might you take to control credit card fraud?

What Would You Do?

click here to explore now

objectives

Take a moment to familiarize yourself with the key objectives of this chapter.

Fraud and theft are just two common organizational control problems that managers can face. If an organization has inadequate controls, it may face skyrocketing costs or it may find that it is not achieving its goals. Regardless of the thoroughness of the planning, a program or decision still may be poorly or improperly implemented without a satisfactory control system in place. To be effective, managers need to consider the benefits of a well-designed organizational control system.

> What Is Control?

Control is the process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant deviations. All managers should be involved in the control function even if their units are performing as planned. Managers can't really know whether their units are performing properly until they've evaluated what activities have been done and have compared the actual performance with the desired standard.[2] An effective control system ensures that activities are completed in ways that lead to the attainment of the organization's goals. The criterion that determines the effectiveness of a control system is how well it facilitates goal achievement. The more it helps managers achieve their organization's goals, the better the control system.[3]

Ideally, every organization would like to efficiently and effectively reach its goals. Does this mean, however, that the control systems organizations use are identical? In other words, would SAS Institute, Inc., Matsushita, and BP Amoco have the same types of control systems? Probably not. Three different approaches to designing control systems have been identified: market, bureaucratic, and clan.[4] (See Exhibit 18.1.)

Type of Control	Characteristics
Market	Uses external market mechanisms, such as price competition and relative market share, to establish standards used in system. Typically used by organizations whose products or services are clearly specified and distinct and that face considerable marketplace competition.
Bureaucratic	Emphasizes organizational authority. Relies on administrative and hierarchical mechanisms, such as rules, regulations, procedures, policies, standardization of activities, well-defined job descriptions, and budgets to ensure that employees exhibit appropriate behaviors and meet performance standards.
Clan	Regulates employee behavior by the shared values, norms, traditions, rituals, beliefs, and other aspects of the organization's culture. Often used by organizations in which teams are common and technology is changing rapidly.

Exhibit 18.1 **Characteristics of Three Approaches to Control Systems**

Market control is an approach to control that emphasizes the use of external market mechanisms, such as price competition and relative market share, to establish the standards used in the control system. This approach is typically used by organizations in which the firm's products or services are clearly specified and distinct and in which there's considerable marketplace competition. Under such conditions, a company's divisions are often turned into profit centers and evaluated by the percentage of total corporate profits each contributes. For instance, at Matsushita, the various divisions (consumer products, industrial products, industrial equipment, and components) are evaluated according to the profits each generates. On the basis of these measures, corporate managers make decisions about future resource allocations, strategic changes, and other work activities that may need attention.

Another approach to a control system is bureaucratic control, which emphasizes organizational authority and relies on administrative rules, regulations, procedures, and policies. This type of control depends on standardization of activities, well-defined job descriptions, and other administrative mechanisms, such as budgets, to ensure that employees exhibit appropriate behaviors and meet performance standards. BP Amoco provides a good example of bureaucratic control. Although managers at BP Amoco's various divisions are allowed considerable autonomy and freedom to run their units as they see fit, they're expected to adhere closely to their budgets and stay within corporate guidelines.

Under clan control, employee behaviors are regulated by the shared values, norms, traditions, rituals, beliefs, and other aspects of the organization's culture. For instance, corporate rituals such as annual employee performance award dinners or holiday bonuses play a significant part in controlling behavior. Whereas bureaucratic control is based on strict hierarchical mechanisms, clan control depends on the individual and the group (or clan) to identify appropriate and expected behaviors and performance measures. Because clan controls arise from the shared values and norms of the group, this type of control system is often found in organizations in which teams are commonly used for work activities and in which technology changes often. For instance, at SAS Institute, individuals are well aware of the expectations regarding appropriate work behavior and performance standards. The organizational culture—through the shared values, norms, and stories about the company's founder, Jim Goodnight—conveys to individual employees "what's important around here" and "what's not important." Rather than relying on prescribed administrative controls, SAS employees are guided and controlled by the clan's culture.

Most organizations don't rely totally on just one of these approaches to designing an appropriate control system. Instead, organizations choose to emphasize either bureaucratic or clan control, in addition to using some market control measures. The key is designing an appropriate control system that helps the organization efficiently and effectively reach its goals.

> Why Is Control Important?

Why is control so important? Planning can be done, an organizational structure can be created to efficiently facilitate the 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 managers are seeking are, in fact, being attained. Control is important, therefore, because it's the final link in the management functions. It's the only way managers know whether organizational goals are being met and, if not, the reasons why. The specific value of the control function, however, lies in its relation to planning and delegating activities.

In Chapter 7, we described goals as the foundation of planning. Goals give specific direction to managers. However, just stating goals or having employees accept stated goals is no guarantee that the necessary actions to accomplish those goals have been taken. As the old saying goes, "The best-laid plans often go awry." The effective manager needs to follow up to ensure that what others are supposed to do is, in fact, being done and that goals are, in fact, being achieved. In reality, managing is an ongoing process, and controlling activities provide the critical link back to planning (Exhibit 18.2). If managers didn't control, they'd have no way of knowing whether their goals and plans were on target and what future actions to take.

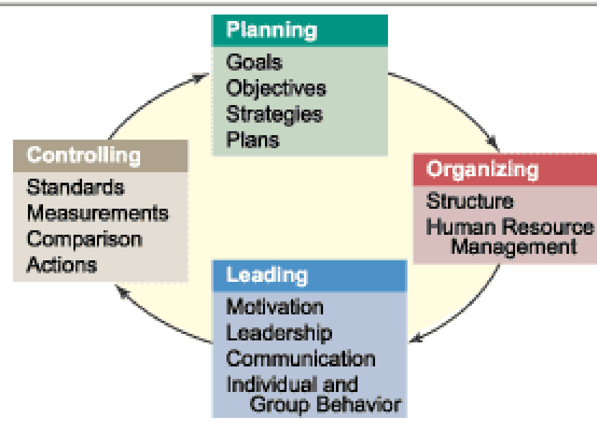


Exhibit 18.2 The Planning-Controlling Link

Another reason controlling is important is managers delegate authority and empower employees. Many managers are reluctant to delegate or empower their employees because they fear that employees will do something wrong for which the manager would be held responsible. Thus, many managers are tempted to do things themselves and avoid delegating or empowering. This reluctance, however, can be reduced if managers develop an effective control system. Such a control system can provide information and feedback on employee performance. An effective control system is important, therefore, because managers need to delegate duties and empower employees to make decisions. But because managers are ultimately responsible for performance results, they also need a feedback mechanism, which the control system provides.

click here to explore now

video example

If things are going as planned, why is control necessary?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

go to page: 1 2 3 4 5 6 7 8 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> The Control Process

The control process is a three-step process including measuring actual performance, comparing actual performance against a standard, and taking managerial action to correct deviations or inadequate standards. (See Exhibit 18.3.) Before we consider each step in detail, you should be aware that the control process assumes that performance standards already exist. These standards are the specific goals created during the planning process against which performance progress can be measured. If managers use a type of MBO system, then the designated objectives are the standards against which performance is measured and compared. However, even if MBO is not used, standards are the specific performance indicators that managers use. Our point is that these standards are developed in the planning process; planning must precede control.

Exhibit 18.3 The Control Process

Measuring

To determine what actual performance is, a manager must acquire information about it. The first step in control, then, is measuring. Let's consider how we measure and what we measure.

How We Measure

Four common sources of information frequently used by managers to measure actual performance are personal observation, statistical reports, oral reports, and written reports. Each has particular advantages and drawbacks; however, a combination of information sources increases both the number of input sources and the probability of getting reliable information.

To get firsthand, intimate knowledge of actual work activities, managers might use *personal observation*. This approach provides information that isn't filtered through others. It also permits intensive coverage because minor as well as major performance activities can be observed, and it provides opportunities for a manager to see what's actually going on. Management by walking around (MBWA) is a phrase used to describe when a manager is out in the work area, interacting directly with employees, and exchanging information about what's going on. MBWA can pick up factual 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. And it does have some drawbacks. It's subject to personal biases; what one manager sees, another might not. Also, personal observation consumes a good deal of time. As companies continue to restructure and managers' spans of control continue to increase, this can be a significant drawback. Finally, this approach suffers from obtrusiveness. Employees might interpret a manager's overt observation as a sign of a lack of confidence in them or of mistrust.

The widespread use of computers has led managers to rely increasingly on *statistical reports* for measuring actual performance. This measuring device, however, isn't limited to computer outputs. It also includes graphs, bar charts, and numerical displays of any form that managers may use to assess performance. Although numerical data are easy to visualize and effective for showing relationships, they provide limited information about an activity. Statistics report on only a few areas that can be measured numerically and often ignore other important, often subjective, factors.

Information can also be acquired through *oral reports*—that is, through conferences, meetings, one-on-one conversations, or telephone calls. In organizations in which employees work in a virtual environment, this approach may be the best way to keep tabs on work performance. For instance, at the Ken Blanchard Companies in Escondido, California, managers are expected to hold one-on-one meetings with each of their employees at least once every two weeks.[5] The advantages and drawbacks of this approach to measuring performance are similar to those of personal observation. Although the information is filtered, it's fast, allows for feedback, and permits language expression and tone of voice, as well as words themselves, to convey meaning. Historically, one of the major drawbacks of oral reports was the problem of documenting information for later reference. However, information technology allows oral reports to be efficiently recorded and become as permanent as written records.

Actual performance may also be measured by *written reports*. Like statistical reports, these are slower yet more formal than first- or secondhand reports. This formality also often makes them more comprehensive and concise than oral reports. In addition, written reports are usually easy to file and retrieve.

Given the varied advantages and drawbacks of each of these four measurement approaches, comprehensive control efforts by managers should use all four.

What We Measure

What we measure is probably more critical to the control process than how we measure. Why? The selection of the wrong criteria can result in serious dysfunctional consequences. Besides, what we measure determines, to a great extent, what people in the organization will attempt to excel at.[6]

Some control criteria are applicable to any management situation. For instance, because all managers, by definition, coordinate the work of others, criteria such as employee satisfaction or turnover and absenteeism rates can be measured. Most managers also have budgets set in dollar costs for their area of responsibility. Keeping costs within budget is, therefore, a fairly common control measure. However, any comprehensive control system needs to recognize the diversity of activities that managers do. For instance, a production manager at a paper tablet manufacturer might use measures such as the quantity of tablets produced per day, tablets produced per labor-hour, scrap tablet rate, or percentage of rejects returned by customers. On the other hand, the manager of an administrative unit in a governmental agency might use number of document pages typed per day, number of client requests processed per hour, or average time required to process paperwork. Marketing managers often use measures such as percentage of market held, average dollar per sale, number of customer visits per salesperson, or number of customer impressions per advertising medium.

As you might imagine, some activities are more difficult to measure in quantifiable terms. It's more difficult, for instance, for a manager to measure the performance of a research chemist or an elementary school counselor than of a person who sells life insurance. But most activities can be grouped into some objective segments that can be measured. The manager needs to determine what value a person, department, or division contributes to the organization and then convert the contribution into measurable standards.

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 measures. Certainly, subjective measures have significant limitations. Still, they're better than having no standards at all and ignoring the control function. If an activity is important, the excuse that it's difficult to measure is unacceptable. Of course, any analysis or decisions based on subjective criteria should recognize the limitations of such information.

Comparing

The comparing step determines the degree of variation between actual performance and the standard. Some variation in performance can be expected in all activities. It's critical, therefore, to determine the acceptable range of variation. (See Exhibit 18.4.) Deviations that exceed this range become significant and need the manager's attention. In the comparison stage, managers are particularly concerned with the size and direction of the variation. An example should make this concept clearer.

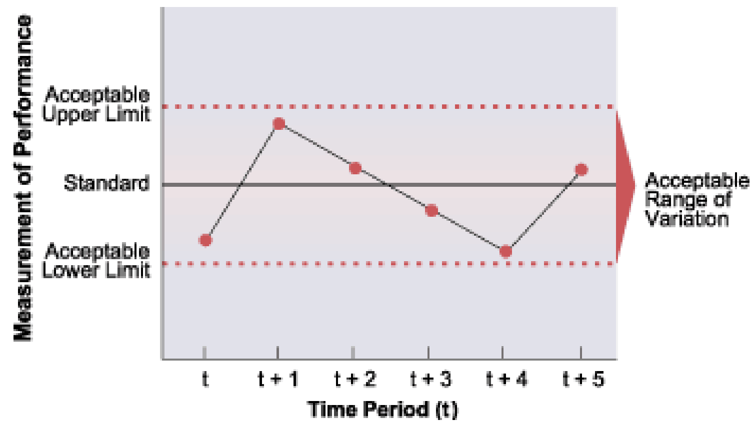


Exhibit 18.4 Defining the Acceptable Range of Variation

Chris Tanner is sales manager for Eastern States, a distributor of imported beers in several states on the U.S. East Coast. Chris prepares a report during the first week of each month that describes sales for the previous month, classified by brand name. Exhibit 18.5 displays both the sales goal (standard) and actual sales figures for the month of July.

	(hundreds of cases)		
Brand	**Standard**	**Actual**	**Over (Under)**
Heineken	1,075	913	(162)
Molson	630	634	4
Irish Amber	800	912	112
Victoria Bitter	620	622	2
Labatt's	540	672	132
Corona	160	140	(20)
Amstel Light	225	220	(5)
Dos Equis	80	65	(15)
Tecate	170	286	116
Total cases	4,300	4,464	164

Exhibit 18.5 Sales Performance Figures for July, Eastern States Distributors

Should Chris be concerned about July's sales performance? Sales were a bit higher than originally targeted, but does that mean there were no significant deviations? Even though overall performance was generally quite favorable, several brands might need to be examined more closely by Chris. However, the number of brands that deserve attention depends on what Chris believes to be *significant*. How much variation should Chris allow before corrective action is taken?

The deviation on several brands (Molson, Victoria Bitter, and Amstel Light) is very small and doesn't need special attention. On the other hand, are the shortages for Corona and Dos Equis brands significant? That's a judgment that Chris must make. Heineken sales were 15 percent below Chris's goal. This deviation is significant and needs attention. Chris should look for a cause. In this instance, Chris attributes the decrease to aggressive advertising and promotion programs by the big domestic producers, Anheuser-Busch and Miller. Because Heineken is his company's number-one selling import, it's most vulnerable to the promotion clout of the big domestic producers. If the decline in sales of Heineken is more than a temporary slump (that is, if it happens again next month), then Chris will need to cut back on inventory stock.

An error in understating sales can be as troublesome as an overstatement. For instance, is the surprising popularity of Tecate (up 68 percent) a one-month aberration, or is this brand becoming more popular with customers? If the brand is increasing in popularity, Chris will want to order more product to meet customer demand and not run short and risk losing customers. Again, Chris will have to interpret the information and make a decision. Our Eastern States' example illustrates that both overvariance and undervariance in any comparison of measures require managerial attention.

Taking Managerial Action

The third and final step in the control process is taking managerial action. Managers can choose among three possible courses of action: They can do nothing; they can correct the actual performance; or they can revise the standards. Because "doing nothing" is fairly self-explanatory, let's look more closely at the other two.

Correct Actual Performance

If the source of the performance variation is unsatisfactory work, the manager will want to take corrective action. Examples of such corrective action might include changing strategy, structure, compensation practices, or training programs; redesigning jobs; or firing employees.

A manager who decides to correct actual performance has to make another decision: Should immediate or basic corrective action be taken? Immediate corrective action corrects problems at once to get performance back on track. Basic corrective action looks at how and why performance has deviated and then proceeds to correct the source of 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 corrective action. Effective managers, however, analyze deviations and, when the benefits justify it, take the time to pinpoint and correct the causes of variance.

To return to our Eastern States example, taking immediate corrective action on the negative variance for Heineken, Chris might contact the company's retailers and have them immediately drop the price on Heineken by 5 percent. However, taking basic corrective action would involve more in-depth analysis by Chris. After assessing how and why sales deviated, Chris might choose to increase in-store promotional efforts, increase the advertising budget for this brand, or reduce future purchases from the breweries. The action Chris takes will depend on the assessment of each brand's potential profitability.

Revise the Standard

It's possible that the variance was a result of an unrealistic standard; that is, the goal may have been too high or too low. In such cases, it's the standard that needs corrective attention, not the performance. In our example, Chris might need to raise the sales goal (standard) for Tecate to reflect its growing popularity.

The more troublesome problem is the revision of a performance standard downward. If an employee, work team, or work unit falls significantly short of reaching its goal, their natural response is to shift the blame for the variance to the goal. For instance, students who make a low grade on a test often attack the grade cutoff standards as too high. Rather than accept the fact that their performance was inadequate, students argue that the standards are unreasonable. Similarly, salespeople who fail to meet their monthly quota may attribute the failure to an unrealistic quota. It may be true that when standards are too high, it can result in a significant variation and may even contribute to demotivating those employees being measured against them. But keep in mind that if employees or managers don't meet the standard, the first thing they're likely to attack is the standard. If you believe that the standard is realistic, fair, and achievable, hold your ground. Explain your position, reaffirm to the employee, team, or unit that you expect future performance to improve, and then take the necessary corrective action to turn that expectation into reality.

What's the difference between immediate corrective action and basic corrective action? Which is more difficult to do? When should each be used?

Summary of Managerial Decisions

Exhibit 18.6 summarizes the manager's decisions in the control process. The standards evolve out of goals that are developed during the planning process. These goals then provide the basis for the control process, which is essentially a continuous flow between measuring, comparing, and taking managerial action. Depending on the results of comparing, a manager's decisions about what course of action to take might be to do nothing, revise the standard, or correct the performance.

Exhibit 18.6 **Managerial Decisions in the Control Process**

click here to explore now

video example

Take a moment to apply what you've learned.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management (activebook), 7/e

Stephen P. Robbins   Mary Coulter

> Types of Control

Managers can implement controls *before* an activity begins, *during* the time the activity is going on, and *after* the activity has been completed. The first type is called *feedforward control*, the second is *concurrent control*, and the last is *feedback control*. (See Exhibit 18.7.)

Exhibit 18.7 | Types of Control

Feedforward Control

The most desirable type of control—feedforward control—prevents anticipated problems since it takes place in advance of the actual activity. It's future directed.[7] Let's look at some examples of feedforward control.

When McDonald's opened its first restaurant in Moscow, it sent company quality control experts to help Russian farmers learn techniques for growing high-quality potatoes and bakers to teach processes for baking high-quality breads. Why? Because McDonald's strongly emphasizes product quality no matter the geographical location. They want a cheeseburger in Moscow to taste like one in Omaha. Another example of feedforward control is the move by several prestigious U.S. accounting firms to dump potentially high-risk clients. The fear of costly litigation and damaged reputations led to decisions by high-level managers at the Big Five accounting firms to drop certain publicly traded companies as audit clients.[8] Still another example of feedforward control is the scheduled preventive maintenance programs on aircraft done by the major airlines. These are designed to detect and, it is hoped, to prevent structural damage that might lead to an accident.

The key to feedforward controls, therefore, is taking managerial action *before* a problem occurs. Feedforward controls are desirable because they allow managers to prevent problems rather than having to correct them later after the damage (such as poor-quality products, lost customers, lost revenue, and so forth) has already been done. Unfortunately, these controls require timely and accurate information that often is difficult to get. As a result, managers frequently end up using the other two types of controls.

Concurrent Control

Concurrent control, as its name implies, takes place while an activity is in progress. When control is enacted while the work is being performed, management can correct problems before they become too costly.

The best-known form of concurrent control is direct supervision. When a manager directly oversees the actions of employees, the manager can concurrently monitor their actions and correct problems as they occur. Although, obviously, there's some delay between the activity and the manager's corrective response, the delay is minimal. Problems can usually be addressed before much resource waste or damage has been done. Technical equipment (computers, computerized machine controls, and so forth) can be programmed to include concurrent controls. For instance, you may have experienced concurrent control when using a computer program such as word-processing software that alerts you to misspelled words or incorrect grammatical usage. In addition, many organizational quality programs rely on concurrent controls to inform workers if their work output is of sufficient quality to meet standards.

Feedback Control

The most popular type of control relies on feedback. The control takes place *after* the activity is done. For instance, the control report that Chris Tanner (from our earlier Eastern States' example) used for assessing beer sales is an example of feedback control.

The major drawback of this type of control is that by the time the manager has the information, the problems have already occurred and led to waste or damage. But for many activities, feedback is the only viable type of control available. For instance, financial statements are an example of feedback controls. If, for example, the income statement shows that sales revenues are declining, the decline has already occurred. So at this point, the manager's only option is to try to determine why sales decreased and to correct the situation.

Feedback has two advantages over feedforward and concurrent control.[9] First, feedback provides managers with meaningful information on how effective their planning efforts were. Feedback that indicates little variance between standard and actual performance is evidence that the planning was generally on target. If the deviation is significant, a manager can use that information when formulating new plans to make them more effective. Second, feedback control can enhance employee motivation. People want information on how well they have performed. Feedback control provides that information.

> Implications for Managers

A $165 million NASA Mars polar lander probe disappears without a trace. Marriott International implements its First Ten program, setting a standard for hassle-free guest check-in (based on the belief that guests ideally should be in their rooms within the first 10 minutes of their arrival). Better financial controls implemented by CEO Pamela D. A. Reeve improves the financial results of Lightbridge, a Massachusetts-based company that helps telecommunications carriers acquire new clients and retain them.[10] As these three examples illustrate, controlling plays an important role in results and *is* an important function of managing. Without controls, managers would have insufficient information to resolve problems, make decisions, or take appropriate actions. How can managers perform the control function efficiently and effectively? To answer this question, we're going to look at the qualities of an effective control system, the contingency factors that affect the design of control systems, and how controls need to be adjusted for national differences.

Qualities of an Effective Control System

Effective control systems tend to have certain characteristics in common.[11] The importance of these qualities varies with the situation, but we can generalize that effective control systems have 10 characteristics. These characteristics are explained in Exhibit 18.8.

Exhibit 18.8 Qualities of an Effective Control System

Contingency Factors in Control

Although our generalizations about effective control systems provide guidelines, their validity is influenced by situational factors. What types of contingency factors will affect the design of an organization's control system? These factors include the size of the organization, one's position and level in the organizational hierarchy, degree of decentralization, organizational culture, and importance of an activity. (See Exhibit 18.9.)

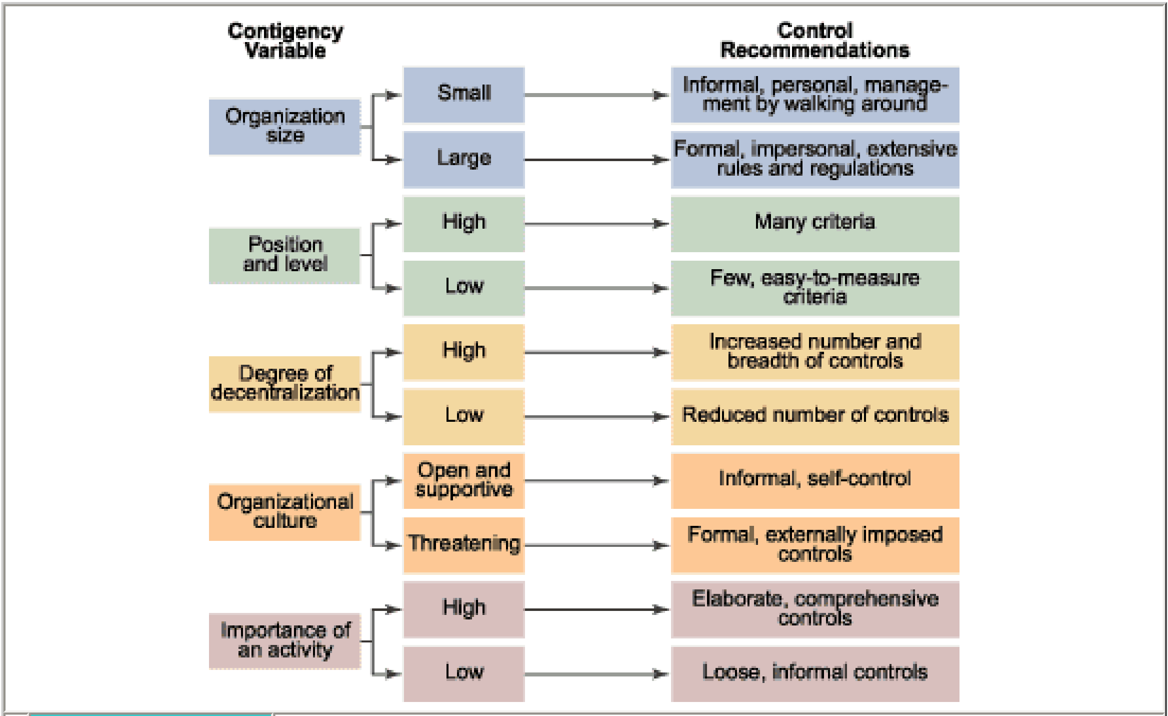


Exhibit 18.9 **Contingency Factors in the Design of Control Systems**

Control systems should vary according to the organization's size. A small organization relies more on informal and personal control approaches. Concurrent control through direct supervision is probably most cost-effective. However, as organizations increase in size, direct supervision is likely to be supplemented by an expanding formal control system of reports, regulations, and rules. Very large organizations will typically have highly formalized and impersonal feedforward and feedback controls.

The higher up one moves in the hierarchy, the greater the need for multiple sets of control criteria, tailored to the work unit's goals. This reflects the increased ambiguity in measuring performance as a person moves up the organizational hierarchy. Conversely, lower-level jobs have clearer definitions of performance, which allow for a narrower interpretation of job performance.

The greater the degree of decentralization, the more managers will need feedback on employees' decisions and performance results. Because managers who delegated the authority for making decisions and performing work are still ultimately responsible for the actions of those to whom it was delegated, they will want proper assurances that their employees' decisions and actions are both effective and efficient.

The organizational culture may be one of trust, autonomy, and openness or one of fear, reprisal, and mistrust. In the former, we can expect to find informal self-control and, in the latter, externally imposed and formal control systems to ensure that performance is within standards. As we've discussed with leadership styles, motivation techniques, organizational structure decisions, conflict-management techniques, and the extent of participative decision making, the type and extent of controls should be consistent with the organization's culture.

Finally, the importance of an activity influences whether, and how, it will be controlled. If control is costly and the repercussions from error small, the control system isn't likely to be elaborate. However, if an error can be highly damaging to the organization, extensive controls are likely to be implemented—even if the cost is high.

Adjusting Controls for Cultural Differences

The concepts of control that we've been discussing are appropriate for an organization whose units are not geographically distant or culturally distinct. But what about global organizations? Would control systems be different, and what should managers know about adjusting controls for national differences?

Methods of controlling people and work can be quite different in other countries. The differences we see in organizational control systems of global organizations 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 directly by the home office, if for no other reason than that distance keeps managers from being able to observe work directly. Because distance creates a tendency to formalize controls, the home office of a global company often relies on extensive formal reports for control. The global company also may use the power of information technology to control work activities. For instance, the Japanese retailer Ito-Yokado that owns the 7-Eleven convenience store chain uses automated cash registers not only to record sales and monitor inventory but also to schedule tasks for store managers and to track their use of the built-in analytical graphs and forecasts. If managers don't use them enough, they're told to increase their activities.[12]

Technology's impact on control also can be seen when comparing technologically advanced nations with less technologically advanced countries. In countries such as the United States, Japan, Canada, Great Britain, Germany, and Australia, managers of global companies use indirect control devices—particularly computer-related 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, managers tend to rely more on direct supervision and highly centralized decision making for control.

Also, constraints on what corrective actions managers can take may affect managers in foreign countries because laws in some countries do not allow managers the option of closing facilities, laying off employees, taking money out of the country, or bringing in a new management team from outside the country.

Differences in national culture bring about differences in control mechanisms and the response that is expected if they fail. When Japan's Mitsubishi Motors became embroiled in public disgrace over the systematic cover-up of manufacturing defects that reached back over a period of 30 years, the company's president, Katsuhiko Kawasoe, bowed in apology to Japan's Transport Minister Hajime Morita and soon afterward resigned his position in the firm.

Finally, another challenge for global companies in collecting data is comparability. For instance, a company's manufacturing facility in Mexico might produce the same products as a facility in Scotland. However, the Mexican facility might be much more labor intensive than its Scottish counterpart (to take strategic advantage of lower labor costs in Mexico). If the top-level executives were to control costs by, for example, calculating labor costs per unit or output per worker, the figures would not be comparable. Managers in global companies must address these types of global control challenges.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> Contemporary Issues in Control

There are issues that can arise as managers design efficient and effective control systems. Technological advances in computer hardware and software, for example, have made the process of controlling much easier, but these advances have brought with them difficult questions regarding what managers have the right to know about employees and how far they can go in controlling employee behavior. In this section, we're going to look at three contemporary issues in control: workplace privacy, employee theft, and workplace violence.

Workplace Privacy

If you work, do you think you have a right to privacy at your workplace? What can your employer find out about you and your work? You might be surprised by the answers! Employers can (and do), among other things, read your e-mail (even those marked "personal or confidential"), tap your telephone, monitor your work by computer, store and review computer files, and monitor you in an employee bathroom or dressing room. And these actions aren't all that uncommon. Today, 45 percent of all companies and 17 percent of *Fortune* 1000 companies use monitoring software of some type. The use of other forms of surveillance, such as video cameras, brings that total up to 67 percent. Exhibit 18.10 summarizes the percentage of employers engaging in different forms of electronic monitoring.[13]

Track telephone calls (numbers and time spent)	39%
Store and review employee e-mail messages	27%
Store and review computer files	21%
Log computer time and keystrokes entered	15%
Record and review telephone conversations	11%
Store and review voice-mail messages	6%

Exhibit 18.10 **Workplace Monitoring**

Source: American Management Association in "Your Boss Is Watching," *PC Computing*, March 2000, p. 88.

Why do managers feel they must monitor what employees are doing? A big reason is that employees are hired to work, not to surf the Web checking stock prices, placing bets at online casinos, or shopping for presents for family or friends. Recreational on-the-job Web surfing has been said to cost a billion dollars in wasted computer resources and billions of dollars in lost work productivity annually.[14] That's a significant cost to businesses.

Another reason that managers monitor employee e-mail and computer usage is that they don't want to risk being sued for creating a hostile workplace environment because of offensive messages or an inappropriate image displayed on a co-worker's computer screen. Concern about racial or sexual harassment is one of the reasons why companies might want to monitor or keep backup copies of all e-mail. This electronic record can help establish what actually happened and can help managers react quickly.[15]

Finally, managers want to ensure that company secrets aren't being leaked.[16] Although protecting intellectual property is important for all businesses, it's especially important in high-tech industries. Managers need to be certain that employees are not, even inadvertently, passing information on to others who could use that information to harm the company.

The consequences of inappropriate workplace computer usage can be serious for employees and companies.[17] For instance, shortly before Christmas 1999, 23 workers at a *New York Times* administrative center in Norfolk, Virginia, were fired, and a number of other employees were reprimanded for violating the company's policy that prohibits using the corporate e-mail system to "create, forward, or display any offensive or disruptive messages, including photographs, graphics, and audio material." A number of Xerox employees were dismissed for spending as much as eight hours a day browsing X-rated and e-shopping Web sites during work hours. Two executives at Salomon Smith Barney were fired after a routine check of corporate e-mail turned up pornographic material. And Lockheed Martin's e-mail system crashed for six hours after an employee sent 60,000 co-workers an e-mail (asking them to respond back using an attached e-receipt) about a national prayer day. Since Lockheed depended heavily on its internal e-mail communication system, this crash cost the company hundreds of thousands of dollars.

Even with all the workplace monitoring that managers can do, employees in the United States do have some protection through the federal Electronic Communications Privacy Act of 1986. The ECPA prohibits unauthorized interception of electronic communication. Although this law gives employees some privacy protection, it doesn't make workplace electronic monitoring illegal as employers are allowed to monitor communications for business reasons or when employees have been notified of the practice.[18] Although employees may think that it's unfair for a company to monitor their work electronically and to fire them for what they feel are minor distractions, the courts have ruled that, since the computer belongs to the company, managers have a right to view everything on it.[19]

Because of the potentially serious costs and given the fact that these days many jobs now entail work that involves using a computer, many companies are developing and enforcing workplace monitoring policies. The responsibility for doing this falls on managers. It's important to develop some type of viable workplace monitoring policy. What can managers do to maintain control but do so in a way that isn't demeaning to employees? They should develop an unambiguous computer usage policy and make sure that every employee knows about it. Tell employees up front that their computer use may be monitored at any time and provide clear and specific guidelines as to what constitutes acceptable use of company e-mail systems and the Web.

How can a control system be ethical and effective? Don't we want our control system to catch people doing things they shouldn't?

Employee Theft

Would it surprise you to find out that up to 85 percent of all organizational theft and fraud is committed by employees, not outsiders?[20] And, it's a costly problem—estimated to be around $200 billion each year for U.S. companies.[21] Employee theft is defined as any unauthorized taking of company property by employees for their personal use.[22] It can range from embezzlement to fraudulent filing of expense reports to removing equipment, parts, software, and office supplies from company premises. Although retail businesses have long faced particularly 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 escalating prob-lem in all kinds and sizes of organizations. It's a control issue that man-agers need to educate themselves about and with which they must be prepared to deal.[23]

Why do employees steal? The answer depends on whom you ask.[24] Experts in various fields—industrial security, criminology, clinical psychology—all have different perspectives. The industrial security people propose that people steal because the opportunity presents itself through lax controls and favorable circumstances. Criminologists say that 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).[25] Although each of these approaches provides compelling insights into employee theft and has been instrumental in program designs to deter it, unfortunately, employees continue to steal. So what can managers do? Let's look at some suggestions for managing employee theft.

We can use the concept of feedforward, concurrent, and feedback control to identify measures for deterring or reducing employee theft.[26] Exhibit 18.11 summarizes several possible managerial actions.

Feedforward	**Concurrent**	**Feedback**
Careful prehiring screening. Establish specific policies defining theft and fraud and discipline procedures. Involve employees in writing policies. Educate and train employees about the policies. Have professionals review your internal security controls.	Treat employees with respect and dignity. Openly communicate the costs of stealing. Let employees know on a regular basis about their successes in preventing theft and fraud. Use video surveillance equipment if conditions warrant. Install "lock-out" options on computers, telephones, and e-mail. Use corporate hot lines for reporting incidences. Set a good example.	Make sure employees know when theft or fraud has occurred—not naming names but letting people know this is not acceptable. Use the services of professional investigators. Redesign control measures. Evaluate your organization's culture and the relationships of managers and employees.

Exhibit 18.11 **Control Measures for Deterring or Reducing Employee Theft or Fraud**

Sources: Based on A.H. Bell and D.M. Smith, "Protecting the Company Against Theft and Farud," *Workforce Online*. december 3, 2000; J.D. Hansen, "To Catch a Thief," *Journal of Accountancy*, March 2000. pp. 43–46; and J. Greenberg, "The Cognitive Geometry of Employee Theft," in *Dysfunctional Behavior in Organizations: Nonviolent and Deviant Behavior* (Stamford, CT: JAI Press, 1998), pp. 147–93.

Workplace Violence

The news headlines relate the sad details of an Atlanta stock day trader gunning down individuals at a brokerage office. The popular media coined the term *going postal* (because of incidences of postal employees gunning down their co-workers) to describe individuals who are pushed over the edge and become violent. Is workplace violence *really* an issue with which managers might have to deal? Although the number of workplace homicides is decreasing,[27] the U.S. Department of Justice estimates that workplace assaults of all types claim more than 1 million victims each year. Other experts put the figure at closer to 2 million. Exhibit 18.12 describes the results from a survey of workers and their experiences with office rage. Not only is workplace violence and office rage happening, it's a serious problem. The annual cost to U.S. businesses is estimated at between 20 and 35 billion dollars.[28]

Witnessed yelling or other verbal abuse	42%
Yelled at co-workers themselves	29%
Cried over work-related issues	23%
Seen someone purposely damage machines or furniture	14%
Seen physical violence in the workplace	10%
Struck a co-worker	2%

Exhibit 18.12 **Workplace Violence**

Source: Integra Realty Resources, October–November Survey of Adults 18 and Over, in "Desk Rage," *Business Week* , November 20, 2000, p. 12.

What factors are believed to be contributing to workplace violence? Undoubtedly, employee stress caused by long hours, information overload, other daily interruptions, unrealistic deadlines, and uncaring managers play a role. Even office layout designs with small cubicles where employees work amidst the noise and commotion from those around them have been cited as contributing to the problem.[29] Other experts have described dangerously dysfunctional work environments characterized by the following as primary contributors to the problem[30]:

- Employee work driven by TNC (time, numbers, and crises).
- Rapid and unpredictable change in which instability and uncertainty plague employees.
- Destructive communication style in which managers communicate in an excessively aggressive, condescending, explosive, or passive-aggressive style; excessive workplace teasing or scapegoating.
- Authoritarian leadership with a rigid, militaristic mind-set of managers versus employees; employees aren't allowed to challenge ideas, participate in decision making, or engage in team-building efforts.
- Defensive attitude in which little or no performance feedback is given; only numbers count; and yelling, intimidation, and avoidance are the preferred ways of handling conflict.
- Double standards in terms of policies, procedures, and training opportunities for managers and employees.

- Unresolved grievances because there are no mechanisms or only adversarial ones in place for resolving them; dysfunctional individuals may be protected or ignored because of long-standing rules, union contract provisions, or reluctance to take care of problems.
- Emotionally troubled employees and no attempt by managers to get help for these people.
- Repetitive, boring work in which there's no chance of doing something else or of new people coming in.
- Faulty or unsafe equipment or deficient training that keeps employees from being able to work efficiently or effectively.
- Hazardous work environment in terms of temperature, air quality, repetitive motions, overcrowded spaces, noise levels, excessive overtime, and so forth. To minimize costs, no additional employees are hired when workload becomes excessive, leading to potentially dangerous work expectations and conditions.
- Culture of violence in which there's a history of individual violence or abuse; violent or explosive role models; or tolerance of on-the-job alcohol or drug abuse.

Reading through this list, you may feel that workplaces where you'll spend your professional life won't be anything like this. However, the competitive demands of succeeding in a 24-7 global economy put pressure on organizations and employees in many ways.

What can managers do to deter or reduce possible workplace violence? Once again, we can use the concept of feedforward, concurrent, and feedback control to identify actions that managers can take.[31] Exhibit 18.13 summarizes several suggestions.

Feedforward	**Concurrent**	**Feedback**
Management commitment to functional, not dysfunctional, work environments. Employee assistance programs (EAP) to help employees with serious behavioral problems. Organizational policy that any workplace rage, aggression, or violence will not be tolerated. Careful prehiring screening. Never ignore threats. Train employees about how to avoid danger if situation arises. Clearly communicate policies to employees.	MBWA (managing by walking around) to identify potential problems; observe how employees treat and interact with each other. Allow employees or work groups to "grieve" during periods of major organizational change. Be a good role model in how you treat others. Use corporate hot lines or some mechanism for reporting and investigating incidences. Use quick and decisive intervention. Get expert professional assistance if violence erupts.	Communicate openly about incidences and what's being done. Investigate incidences and take appropriate action. Review company policies and change, if necessary.

	Provide necessary equipment or procedures for dealing with violent situations (cell phones, alarm systems, code names or phrases, and so forth).	

Exhibit 18.13 **Control Measures for Deterring or Reducing Workplace Violence**

Sources: Based on M. Gorkin, "Five Strategies and Structures for Reducing Workplace Violence," *Workforce Online*, December 3, 2000; "Investigating Workplace Violence: Where Do You Start?" *Workforce Online*, December 3, 2000; "Ten Tips on Recognizing and Minimizing Violence," *Workforce Online*, December 3, 2000; and "Points to Cover in a Workplace Violence Policy," *Workforce Online*, December 3, 2000.

click here to explore now

active example

PRISM: Scenario 8—Disciplining and Providing Feedback

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Chapter Wrap-Up

You had a chance to voice your opinion about Mohamed Saleem's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Wayne Price
Director, Risk Management
O'Reilly Auto Parts, Springfield, Missouri

Not working? Get Quicktime

E-commerce has made many of the traditional approaches to security obsolete. However, to determine the true risk/reward potential, a risk assessment needs to be done and then a risk management strategy needs to be developed.

Saleem should assess risk by doing a thorough operational review of Web site sales projections, current percentage of fraudulent transactions, and what individual

Diane L. Dudley
Partner
KPMG, LLP, Washington, DC

Not working? Get Quicktime

Internet fraud prevention requires several layers of security. Mustafa's Web site must provide a secure environment for customers and protect the company.

Mohamed should add some steps to validate each customer order in addition to obtaining the applicable credit card company authorization. Don't accept orders unless complete information (full address and phone number) is provided. Don't accept transaction limits currently exist. The risk management strategy should include one or more of the following: risk retention (profit potential outweighs costs), risk avoidance (Web-based sales potential doesn't justify risk exposure), risk transfer (insurance or noninsurance protection), and loss control (implementing various screening mechanisms such as digital verification, callback procedures, and so forth).

I think a key for Saleem is to access resources beyond Mustafa's. Credit card companies, Web site designers, and Internet consultants all see tremendous profit potential from Internet sales, but high costs from fraudulent transactions could deter such use. It's in these companies' best interests to help provide guidance and perhaps even a level of financial protection.

orders that come from free e-mail services. Mustafa's personnel should verify transactions with "bill to" addressed differently from the "ship to" addresses and orders that are larger than the typical amounts. For these, Mohamed should implement a policy to call customers and ask them to send a fax with their signature and a photocopy of their credit card.

Next, Mohamed should consider contracting with an Internet billing company to verify Mustafa's credit card sales transactions. These companies can screen credit card transactions and can identify questionable purchases. The cost of such a service is likely to be less than the resulting savings.

Finally, Mohamed should continually review the company's security procedures to ensure that its systems provide adequate prevention of fraud.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log on: Internet Based Exercise
- Working Together: Team-Based Exercise
- Case Application

go to page: 1 2 3 4 5 6 7 8 << previous

Management (activebook), 7/e

Stephen P. Robbins Mary Coulter

Chapter Outline

Chapter 19: Operations and Value Supply Management

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...

How Did Amazon.com Finally Show a Profit? (05/13/02)

Is More Than One Supplier Needed? (05/10/02)

Who is Answering the Customer Service Number? (02/07/02)

When Made to Order Isn't Making It (12/05/00)

Who Moved My Cheese? (11/06/00)

The Revolution in a Box (08/04/00)

The B2B Revolution (05/16/00)

Made-to-order - First Computers, then Fast Food, Now Cars? (05/08/00)

Anatomy of a Recall: How Coke's Control Fizzled Out in Europe (08/04/99)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...

How Manufacturers Find Assistance (07/31/01)

How Manufacturers Find Assistance (07/31/01)

Using Web Data to Compare Regions (11/29/00)

A New Amazon.com for the Purchasing Manager (05/18/00)

Competitive Issues in On-Line Bookselling (04/17/00)

Management, Information and the Internet (03/23/00)

Outsourcing Software Over the Internet using Application Service Providers (03/03/00)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...

Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...

Instructors Manual - chap19.doc

Lecture Presentation - chap19.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...

Modules - modules.doc

Preface - preface.doc

Self Assessment Library 2.0 - selfas.doc

Table of contents - toc.doc

Add to... Just for Students

Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 19

go to page: 1

Go to Student View

Table of Contents

Chapter Contents

Search

Add Annotation

View Annotations

Rate the Difficulty

> What's Ahead

A Manager's Dilemma

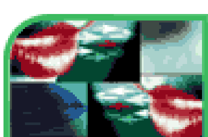
Titus Lokananta represents an interesting global phenomenon. He's an Indonesian Cantonese with a German passport working for a large Mexican company in the Czech Republic! As plant manager for Mexican food company Grupo Industrial Bimbo SA, his plant, located in Ostrava, Czech Republic, produces sweet, gooey gummy bears.[1]

Many Mexican multinationals are turning themselves into global powerhouses and fervently support globalization. Bimbo is a good example. In the late 1980s, a buyer for McDonald's stopped by the company's baked goods facilities in Mexico in search of a local supplier of buns. It only took a single bite for the buyer to reject Bimbo's product. That rejection inspired Bimbo's chairman to invest significant resources to bake a bun good enough for McDonald's. And it worked! Bimbo has progressed from being McDonald's preferred supplier to being its exclusive one. As McDonald's has moved into foreign markets, so has Bimbo. Today, Bimbo's global workforce of around 16,000 makes much of the sliced bread, snacks, and tortillas eaten by consumers in Latin America as well as candy and cakes in over 16 countries. It's hoping that the gummy bear factory in the Czech Republic can become a strong contributor to the company's global business.

In 1995, Bimbo realized that its candy-making technology was obsolete. To improve its candy making, it began to do contract work for Park Lane Confectionery GmbH of Germany. After learning all it could from the Germans, Bimbo bought Park Lane from its bankrupt owners. The company selected Lokananta, one of its liaisons at Park Lane, to run the Czech candy factory.

Lokananta hired back most of the factory's former workforce and went to work boosting productivity. One of his first managerial actions was persuading assembly-line workers to take lunch breaks in shifts so production lines could run continuously. Now he's ready for the next challenge—boosting quality. Put yourself in Loka-nanta's position. What could he do to successfully implement a quality program in this plant?

What Would You Do?



click here to explore now

active poll

What do you think? Voice your opinion and find out what others have to say.

click here to explore now

objectives

Take a moment to familiarize yourself with the key objectives of this chapter.

go to page: 1 2 3 4 5 next >>

This chapter focuses on the importance of operations management to the organization. Operations management encompasses such topics as efficiency, productivity, value chain management, e-manufacturing, and quality. As our chapter-opening Manager's Dilemma points out, it's important for managers everywhere to have well-thought-out and well-designed operating systems, organizational control systems, and quality programs to survive in the increasingly competitive global environment. If managers such as Titus Lokananta have these systems, their organizations will be able to produce high-quality products and services at prices that meet or beat those of their competitors.

> What Is Operations Management and Why Is It Important?

The term operations management refers to the design, operation, and control of the transformation process that converts such resources as labor and raw materials into goods and services that are sold to customers. Exhibit 19.1 portrays, in a very simplified fashion, the fact that every organization has an operations system that creates value by transforming inputs into outputs. 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. And just as every organization produces something, every unit in an organization also produces something. Marketing, finance, research and development, human resources, and accounting convert inputs into outputs such as sales, increased market share, high rates of return on capital, new and innovative products, motivated and committed employees, and accounting reports. As a manager, you'll need to be familiar with operations management concepts regardless of the area you manage in order to achieve your goals efficiently and effectively.

	Exhibit 19.1	The Operations System

Why is operations management so important to organizations and managers? There are three reasons: It encompasses both services and manufacturing, it's important in effectively and efficiently managing productivity, and it plays a strategic role in an organization's competitive success.

Services and Manufacturing

Every organization produces something. Unfortunately, this fact is often overlooked except in obvious cases such as in the manufacturing of cars, cell phones, or candy gummy bears. After all, manufacturing organizations produce physical goods. It's easy to see the operations management (transformation) process at work in these types of organizations because raw materials are turned into recognizable physical products. But that transformation process isn't as readily evident in service organizations because they produce nonphysical outputs in the form of services. For instance, hospitals provide medical and health care services that help people manage their personal health, airlines provide transportation services that move people from one location to another, a cruise line provides a vacation and entertainment service, military forces provide defense capabilities, and the list goes on and on. All of these service organizations transform inputs into outputs, although the transformation process isn't as easily recognizable as that of manufacturing organizations. Take a university, for example. University administrators bring together inputs—professors, books, academic journals, audiovisual materials, computers, classrooms, and similar resources—to transform "unenlightened" students into educated and skilled individuals.

The reason we're making this point is that the U.S. economy has gone from being dominated by the creation and sale of manufactured goods to the creation and sale of services. In fact, most of the world's industrialized nations are predominantly service economies. In the United States, for instance, approximately 75 percent of all private sector jobs are now in service industries.[2] For a few other industrialized countries, services employment is as follows: United Kingdom—69 percent; Japan—65 percent; Chile—61 percent; Germany—68 percent; Canada—75 percent; Australia—73 percent; and Mexico—55 percent.[3]

Managing Productivity

Improving productivity has become a major goal in virtually every organization. By productivity, we mean the overall output of goods or services produced divided by the inputs needed to generate that output. 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.

Increasing productivity is a key to global competitiveness. For instance, a great deal of Japan's economic prosperity in the 1980s can be explained in terms of improved manufacturing productivity in businesses. As Japanese businesses become more competitive, U.S. businesses responded by making dramatic improvements to increase their efficiency. For example, at heavy equipment manufacturer Caterpillar, Inc., investments in productivity enhancements of both its workforce and technology resulted in higher customer satisfaction, an increasing market share, and 27 percent greater sales with 29 percent fewer employees.[4] DaimlerChrysler found that making simple changes such as having assembly-line workers take coffee breaks in shifts rather than all at once increased worker productivity by 10 to 12 percent in just two years.[5]

Even today, organizations that hope to succeed globally are looking for ways to improve productivity. For example, McDonald's drastically reduced the amount of time it takes to cook its french fries—now only 65 seconds as compared to the 210 seconds it once took, saving time and other resources.[6] The Canadian Imperial Bank of Commerce based in Toronto automated its purchasing function, saving several million dollars annually.[7] And Skoda Auto a.s., the Czech car company owned by Germany's Volkswagen AG, improved its productivity through an intensive restructuring of its manufacturing process and now produces 500 cars per day, almost doubling the number it used to make.[8]

Productivity is a composite of people and operations variables. To improve productivity, managers must focus on both. W. Edwards Deming, a management consultant and quality expert, believed that managers, not workers, were the primary source of increased productivity. He outlined 14 points for improving management's productivity. (See Exhibit 19.2.) A close look at these suggestions reveals Deming's understanding of 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. For instance, field engineers for GE Medical Systems, a division of General Electric, used to haul around on service calls a trunkful of service and repair manuals weighing about 200 pounds to repair the company's massive imaging machines that were installed at hospitals and clinics around the world. If the technician didn't have the right manual on hand while working on the equipment, a trip to the car was necessary to get the right one. The engineers estimated that they wasted as much as 15 percent of their time during a service call going back and forth to their cars. The company solved the problem by equipping its field engineers (around 2,500 in the United States alone) with laptop computers that held all the information the technician might ever need. Although this investment in information technology cost millions of dollars, the field engineers' productivity rose by 9 percent.[9] The company recognized the important interplay between people and the operations system.

1. Plan for the long-term future.
2. Never be complacent concerning the quality of your product.
3. Establish statistical control over your production processes and require your suppliers to do so as well.
4. Deal with the best and fewest number of suppliers.
5. Find out whether your problems are confined to particular parts of the production process or stem from the overall process itself.
6. Train workers for the job that you are asking them to perform.
7. Raise the quality of your line supervisors.
8. Drive out fear.
9. Encourage departments to work closely together rather than to concentrate on departmental or divisional distinctions.
10. Do not adopt strictly numerical goals.
11. Require your workers to do quality work.
12. Train your employees to understand statistical methods.
13. Train your employees in new skills as the need arises.
14. Make top managers responsible for implementing these principles.

Exhibit 19.2 **Deming's 14 Points for Improving Management's Productivity**

Source: W.E. Deming, "Improvement of Quality and Productivity Through Action by Management," *National Productivity Review*, Winter 1981–1982, pp. 12–22. With permission. Copyright 1981 by Executive Enterprises, Inc., 22 West 21st St., New York, NY 10010-6904. All rights reserved.

click here to explore now

video example

Is productivity an individual or an organizational measure?

Strategic Role of Operations Management

The era of modern manufacturing originated over 95 years ago in the United States, primarily in Detroit's automobile factories. Then the success that U.S. manufacturers experienced during World War II led manufacturing executives to believe that troublesome production problems had been conquered and required little managerial attention. These executives focused on improving other functional areas such as finance and marketing. From the late 1940s through the mid-1970s, manufacturing activities in the United States were taken for granted, and to some extent, slighted. With an occasional exception (such as the aerospace industry), corporate managers gave manufacturing little attention.

Meanwhile, as U.S. executives neglected the production side of their businesses, managers in Japan, Germany, and other countries took the opportunity to develop modern, computer-based, and technologically advanced facilities that fully integrated manufacturing operations into strategic planning decisions. The competition's success realigned world manufacturing leadership. U.S. manufacturers soon discovered that foreign goods were being made not only less expensively but also with better quality. Finally, by the late 1970s, U.S. executives recognized that they were facing a true crisis and responded.[10] 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 manufacturers recognize the crucial role that operations management plays as part of the overall organizational strategy to establish and maintain global leadership.

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, which we discuss next.

go to page: 1 2 3 4 5 << previous | next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> Value Chain Management

It's 11 p.m., and you're listening to a voice mail from your parents saying they want to buy you a computer for your birthday this year. They want you to order it so you have it to help you in your studies this semester. You log on to Dell Computer's Web site and configure your dream machine that will serve even your most demanding computing needs for the remainder of your college years. You hit the order button and within three or four days, your dream computer is delivered to your front door, built to your exact specifications, ready to set up and use immediately to type that management assignment due tomorrow. Or consider Deere and Company's Horicon Works, which makes lawn and garden tractors. Managers set a goal of seven-day replenishment of any tractor to any dealer in North America with a 90 percent first-time fill rate. Similarly, at Wainwright Industries in St. Peters, Missouri, employees produce stampings for a General Motors van-assembly plant that's located about six miles away. However, employees also operate a warehouse/just-in-time (JIT) sequencing facility dedicated to serving that GM customer. This warehouse handles some 1,500 parts made by 50 different suppliers, including Wainwright's products. Every seven minutes or so, a truck leaves the warehouse to make deliveries to the GM plant with the parts arranged in racks sequenced by color, size, and style as they will be needed on the van assembly line.[11]

As these examples show, closely integrated work activities among so many different players are possible. How? How can organizations deliver to customers in such a timely manner products to meet their unique needs? The answer lies in value chain management. The concepts of value chain management are transforming operations management strategies and turning organizations around the world into finely tuned models of efficiency and effectiveness strategically positioned to exploit competitive opportunities as they arise. In this section, we explore a number of different aspects of value chain management by defining what it is, describing its goals, outlining the requirements for successfully implementing it, explaining its benefits, and identifying the obstacles to its successful implementation.

What Is Value Chain Management?

Every organization needs customers if it's going to survive and prosper. Even not-for-profit organizations 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 end users determine what has value.[12] Organizations must provide that value to attract and keep customers. Value is the performance characteristics, features and 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 Destiny Child's new CD at Best Buy, a new pair of Australian sheepskin Ugg boots online at the company's Web site, a Wendy's bacon cheeseburger at the drive-through location on campus, or a haircut from your local hair salon, you're exchanging (giving up) money in return for the value you need or desire from these products—providing music entertainment during your evening study time, keeping your feet warm *and* fashionable as winter cold sets in, alleviating the lunchtime hunger pangs quickly since your next class starts in 15 minutes, or looking professionally groomed for the job interview you've got next week. Or, using one of our earlier examples, even General Motors willingly exchanges money for the value of having on-time, as-needed delivery of presorted and prearranged parts to its van-assembly facility.

How *is* value provided to customers? Through the transformation of raw materials and other resources into some product or service that end users need or desire where, when, and how they want it. However, that seemingly simple act of turning a variety of 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 beginning with the processing of raw materials and ending with finished product in the hands of end users.[13] In its entirety, the value chain can encompass the supplier's suppliers to the customer's customer.[14]

The concept of a value chain was popularized by Michael Porter in his 1985 book *Competitive Advantage: Creating and Sustaining Superior Performance*. He wanted managers to understand the sequence of organizational activities that created value for customers. Although he primarily focused on what was happening within a single organization, he did emphasize that managers must understand how their organization's value chain fit into the industry's overall creation of value.

Understanding and capturing the value created throughout the value chain isn't an easy task. But that's what value chain management is designed to help managers do. Value chain management is the process of managing the entire sequence of integrated activities and information about product flows along the entire value chain. In contrast to supply chain management, which is internally oriented and focuses on the efficient flow of incoming materials (resources) to the organization, value chain management is externally oriented and focuses on both incoming materials and outgoing products and services. And, 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.[15]

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 that 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.[16] 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 in which customers are offered solutions that truly meet their unique needs incredibly fast and at a price that can't be matched by competitors. For example, in an effort to better anticipate customer demand and replenish customer stocks, Shell Chemical Company developed a supplier inventory management order network. The software used in this network allows managers to track shipment status, calculate safety stock levels, and prepare resupply schedules.

With this 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 is one in which a sequence of participants work 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.[17] 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 Iomega Corporation, a manufacturer of personal computer storage devices such as Zip drives, 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 intensified and improved, so did its connection with its customers, which ultimately pays off for all its value chain partners.[18]

Testing...Testing...1, 2, 3

Requirements for Value Chain Management

Managing an organization from a value chain perspective isn't easy. Approaches to giving customers what they wanted that may have worked in the past are likely no longer efficient or effective. Yet, today's dynamic competitive environment facing global organizations demands new solutions. Understanding how and why value is determined by the marketplace has led some organizations to experiment with a new business model—that is, a strategic design for how a company intends to profit from its broad array of strategies, processes, and activities. For example, IKEA, the home furnishings manufacturer, transformed itself from a small Swedish mail-order furniture operation into the world's largest retailer of home furnishings by reinventing the value chain in the home furnishings industry. How? The company offers customers well-designed products at substantially lower prices in return for their willingness to take on certain key tasks traditionally done by manufacturers and retailers—assembling furniture and getting it home.[19] The company's definition of a new business model and willingness to abandon old methods and processes have worked well.

So what *does* successful value chain management require? Exhibit 19.3 summarizes the six main requirements: coordination and collaboration, technology investment, organizational processes, leadership, employees, and organizational culture and attitudes. Let's look more closely at each.

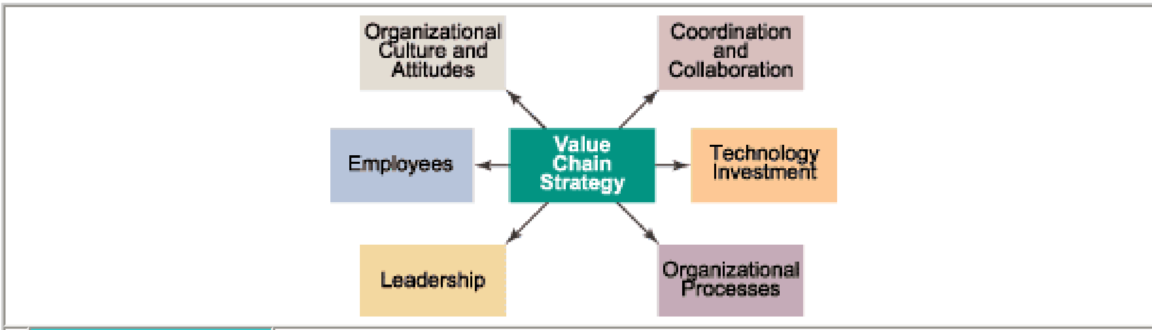


Exhibit 19.3 **Six Requirements for Successful Value Chain Management**

Coordination and Collaboration

For the value chain to achieve its goal of meeting and exceeding customers' needs and desires, comprehensive and seamless integration among all members of the chain is absolutely necessary. Collabora-tive relationships must be developed. All partners in the value chain must identify things that they may not value but that customers do. And 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 more open communication among the various value chain partners. For example, Furon Company, a manufacturer of specialty polymer products, believes that better communication with customers and with suppliers has facilitated timely delivery of goods and services and opened up additional business opportunities.[20]

click here to explore now

video example

Take a closer look at the concepts and issues you've been reading about.

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, Rollerblade Inc. invested significant dollars in developing a Web site and uses it to educate customers about its products. Although the company has chosen not to sell its products over the Web for fear of antagonizing its dealer network, managers remain flexible about the issue and would reconsider if they felt that value could be better delivered to customers by doing so.[21]

What types of technology are important? According to value chain management experts, the key tools include a supporting enterprise resource planning software (ERP) system that links all an organization's activities, sophisticated work planning and scheduling software, customer relationship management systems, business intelligence capabilities, and e-business connections with trading network partners. For instance, Dell Computer manages its supplier relationships almost exclusively online. The company has one Web site for customers and one for suppliers. The supplier Web site is the primary mode of communication between Dell and 33 of its largest suppliers.[22] The company's investment in this type of information technology allows it to meet customers' needs in a way that competitors haven't been able to match.

Organizational Processes

Value chain management radically changes organizational processes—that is, the ways that organizational work is done.[23] When managers decide to manage operations using value chain management, old processes are no longer appropriate. Managers must critically evaluate all organizational processes from beginning to end by looking at core competencies—the organization's major skills, capabilities, and resources—to determine 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. For example, when managers at Deere and Company implemented value chain management in its Worldwide Commercial and Consumer Equipment Division, a thorough process evaluation revealed that work activities needed to be better synchronized and interrelationships between multiple links in the value chain better managed. They changed numerous work processes division-wide in order to do this.[24]

Three important conclusions about how organizational processes must change can be made. 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), Wal-Mart and Warner-Lambert's Consumer Group (now a division of Pfizer, Inc.) collaborated on improving product demand forecast information. Through their mutual efforts, the partners boosted Wal-Mart's sales of Listerine by $6.5 million, an excellent outcome for supplier and retailer. Customers also benefited (were provided value) 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, Furon Company places its own employees in customer sites and brings in employees of suppliers and customers to work on its premises. Furon's CEO J. Michael Hagan says this type of collaboration is essential if an organization wants to "go from being a mere component supplier to being a solutions provider."[25]

Finally, new metrics (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 a value chain management approach, it redesigned its metrics system to focus on one consistent set of measurements—including, among other measures, accuracy of demand forecasts and production plans, on-time delivery, and customer service levels—that allowed them to more quickly identify problems and take actions to resolve them.[26]

Leadership

The importance of leadership to value chain management is plain and simple—successful value chain management isn't possible without strong and committed leadership.[27] From top organizational levels to lower levels, managers must support, facilitate, and promote the implementation and ongoing practice of value chain management. J. Michael Hagan, CEO of Furon Company, describes his role as follows, "Value is a mindset that not only has to be driven from the top down, but also from the bottom up. Everyone has to be asking whether a given task adds value, and if it doesn't, why do it?"[28] Managers must make a serious commitment to identifying what value is, how that value can best be provided, and how successful those efforts have been. That type of organizational atmosphere or culture in which 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, this should start with a vision or mission statement that expresses the organization's commitment to identifying, capturing, and providing the highest possible value to customers. For instance, when American Standard Companies of Piscataway, New Jersey, began its pursuit of value chain management, CEO Emmanueal A. Kampouris at dozens of meetings across the country explained the new competitive environment and why the company needed to create better working relationships with its value chain partners in order to better serve the needs of its customers.[29] Throughout the organization, 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. For example, managers at American Standard Companies identified clear requirements for suppliers and was prepared to drop any that couldn't meet them. The company was so serious about its expectations that it did cut hundreds of suppliers from its plumbing, air-conditioning, and automotive businesses. The upside, though, was that those suppliers that met the expectations benefited from more business and American Standard had partners willing to work with it in delivering better value to customers.

Employees/Human Resources

We know from our discussions of management theories and approaches throughout this textbook that employees are the organization's most important resource. Without employees, there would be no products produced or services delivered—in fact, there would be no organized efforts in the pursuit of common goals. So, not surprisingly, 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 description of job design in a value chain management organization. Traditional functional job roles—such as marketing, sales, accounts payable, customer service, and so forth—are inadequate in a value chain management environment. Instead, jobs need to be designed around work processes that link all functions involved in creating and providing value to customers. For example, at American Standard Companies, one employee carries the title of "process owner of chinaware order fulfillment." This employee is responsible for the delivery of all the company's chinaware, which involves overseeing every aspect from demand forecasting to collecting payment. This type of flexible job design supports the company's commitment to providing superb customer value.[30] In designing jobs for a value chain approach, the focus needs to be on how each activity performed by an employee can best contribute to the creation and delivery of customer value. That requires flexibility in what employees do and how they do it.

The fact that jobs in a value chain management organization must be flexible contributes to the second requirement concerning employees—that is, flexible jobs require employees who are flexible. In a value chain organization, employees may be assigned to work teams that tackle a given process and are often asked to do different things on different days depending on need. In such an environment in which customer value is best delivered through focusing on collaborative relationships that may change as customer needs change and in which there are no standardized processes or job descriptions, 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.

Finally, the need for flexibility also requires that there be a significant investment in continual and ongoing employee training. Whether the 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. That means providing them with training opportunities. For example, at defense contractor Alenia Marconi Systems based in Portsmouth, England, ongoing training is part of the company's commitment to efficiently and effectively meeting the needs of customers. Employees continually receive technical training as well as training in strategic issues including the importance of emphasizing people and customers, not just sales and profits.[31]

Organizational Culture and Attitudes

The last requirement for value chain management we need to discuss is the importance of having a supportive organizational culture and attitudes. From our extensive description of value chain management, you could probably guess the type of organizational culture and attitudes that are going to support its successful implementation. Those cultural attitudes include sharing, collaborating, openness, flexibility, mutual respect, and trust. And these attitudes encompass not only the internal partners in the value chain but extend to external partners as well. For instance, American Standard Companies has chosen to practice these attitudes the old-fashioned way—with lots of face time and telephone calls. One of the company's suppliers, St. Louis–based White Rodgers, described their relationship as follows: "Their goals are our goals, because both companies are focused on growth. The keys to the relationship are mutual respect and open communication at all levels. No one has to go through a liaison. If our engineers need to talk to theirs, we just go right to the source."[32] However, Dell Computer has taken a completely different approach as it works with its value chain partners almost exclusively through cyberspace.[33] Both approaches, however, reflect each company's commitment to developing long-lasting, mutually beneficial value chain relationships that best meet customers' needs.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Benefits of Value Chain Management

Collaborating with external and internal partners in creating and managing a successful value chain strategy isn't easy! It takes significant investment in time, energy, and other resources, and a serious commitment by all chain partners. Given this, why would managers ever choose to implement value chain management in their organizations? There are several significant benefits that organizations receive from value chain management. Exhibit 19.4 highlights the results of a survey of manufacturers that had embarked on value chain management initiatives and the benefits they perceived.[34]

Value chain survey respondents indicated the following are a "major benefit" from sharing information with partners:

	% of companies in excellent or very good chains	% of companies in poor chains	% of all companies
Increased sales	41%	14%	26%
Cost savings	62%	22%	40%
Increased market share	32%	12%	20%
Inventory reductions	51%	18%	35%
Improved quality	60%	28%	39%
Accelerated delivery times	54%	27%	40%
Improved logistics management	43%	15%	27%
Improved customer service	66%	22%	44%

Exhibit 19.4 **Value Chain Benefits**

Source: G. Taninecz, "Forging the Chain," *Industry Week*, May 15, 2000, p. 44.

Improved customer service was the major benefit that companies (44 percent) reported. Managing from a value chain perspective gives organizations a better handle on customer needs at all points along the chain. As value chain partners collaborate and optimize their processes to better meet customers' needs, customer service *should* improve.

The next two most cited benefits from value chain management reported by companies were cost savings and accelerated delivery times (40 percent). As inefficiencies and non-value-added activities are driven out of the value chain, companies will achieve cost savings in different work activities and areas. In addition, as value chain partners collaborate by sharing information and linking important activities, delivery times can be accelerated.

The next most important benefit cited by survey respondents was improved quality (39 percent). As work processes are evaluated for value-added potential, quality should be one of the measures used.

Inventory reductions were the next most important benefit identified by survey respondents (35 percent). Inventory storage—both raw materials and finished products—can represent significant costs for organizations. Through close and careful collaboration among value chain partners, the flow of materials and information through the chain can be improved, leading to inventory reductions. For example, Deere and Company found that working with its suppliers to better control the suppliers' inventories had a positive impact on its own ability to respond to changes in product mix and volumes.[35]

As Exhibit 19.4 shows, three additional benefits are possible through value chain management. These include improved logistics management (27 percent), increased sales (26 percent), and increased market share (20 percent). Each of these benefits is important and desirable, as well.

Obstacles to Value Chain Management

As desirable as these benefits may be, managers must deal with several obstacles in managing the value chain including organizational barriers, cultural attitudes, required capabilities, and people. (See Exhibit 19.5.)

Exhibit 19.5	Obstacles to Successful Value Chain Management

Organizational Barriers

Organizational barriers are among the most difficult obstacles managers handle. These barriers include refusal or reluctance to share information, reluctance to shake up the status quo, and security issues. Without shared information, close coordination and collaboration are impossible. And the reluctance or refusal of employees to shake up the status quo can impede efforts toward value chain management and prevent its successful implementation. Finally, because value chain management relies heavily on a substantial information technology infrastructure, system security and Internet security breaches are issues that need to be addressed. Many companies feel that if an organization such as the Pentagon can't keep its Web site secure, then they will never be able to.[36]

Cultural Attitudes

Unsupportive cultural attitudes—especially trust and control—also can be obstacles to value chain management. The trust issue is a critical one, both lack of trust and too much trust. To be effective, partners in a value chain must trust each other. There must be a mutual respect for, and honesty about, each partner's activities all along the chain. When that trust doesn't exist, the partners will be reluctant to share information, capabilities, and processes. But too much trust also can be a problem. Just about any organization is vulnerable to theft of intellectual property—that is, proprietary company information that's critical to its efficient and effective functioning and competitiveness. A study by the American Society for Industrial Security found that those cultivating a trusting relationship with a company pose the most serious threat for intellectual property loss.[37] Although value chain partners need to trust each other, the potential for theft can be minimized by better understanding each other's operations and by being careful with proprietary intellectual property.

Another cultural attitude that can be an obstacle to successful value chain management is the belief that when an organization collaborates with external and internal partners, it no longer controls its own destiny. However, this just isn't the case. Even with the intense collaboration that must take place, organizations still control critical decisions including what customers value, how much value they desire, and what distribution channels are important.[38]

Required Capabilities

We know from our earlier discussion of requirements for successful implementation of value chain management that there are a number of capabilities that value chain partners must have. Several of these, including extreme coordination and collaboration, the ability to configure products to satisfy customers and suppliers, and the ability to educate internal and external partners, aren't easy to develop or to do. But they're essential to capturing and exploiting the value chain. Many of the companies we've described throughout this section—American Standard Companies, Deere and Company, Furon Company, and so forth—endured critical and often difficult self-evaluations of their capabilities and processes in order to become more effective and efficient at managing their value chains.

People

The final obstacles to successful value chain management can be an organization's members. Without their unwavering commitment and willingness to do whatever it takes, value chain management isn't going to be successful. If employees refuse or are reluctant to be flexible, it's going to be difficult to make the necessary changes to meet changing situational demands. After all, it's the employees who do the work. If they're not willing to be flexible in what work they do, and how and with whom they work, critical collaboration and cooperation throughout the value chain will be hard to achieve.

In addition, value chain management takes an incredible amount of time and energy by an organization's employees. Managers must motivate those high levels of effort from employees. It's not easy to do.

Finally, a major human resource problem faced by organizations pursuing value chain management is the lack of experienced managers who are able to lead value chain management initiatives. Because it's a relatively new approach to managing operations, there aren't a lot of managers who've done it successfully. However, this obstacle hasn't prevented progressive organizations from pursuing the benefits to be gained from value chain management.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

> Current Issues in Operations Management

Capitalize on e-manufacturing technology! Successfully implement quality initiatives! Achieve ISO 9000 certification! These issues currently are at the top of managers' lists for improving operations management. Because managers consider them to be essential for making products and services competitive in global markets, we'll review each in this section.

Technology's Role in E-Manufacturing

As we know from our previous discussion of value chain management, today's competitive marketplace has put tremendous pressure on organizations to deliver products and services that customers value in a timely manner. And with all the hype about online purchasing and sales, it's easy to assume that operations management plays no role in e-businesses. However, smart companies are looking at ways to harness Web technology to improve operations management. For example, Schneider Automation Inc. (a North Andover, Massachusetts–based division of the French multinational, Schneider Electric SA) implemented its Transparent Factory initiative—a framework for linking plant-floor automation with enterprise-wide business network systems. With millions of device sensors and actuators on its factory floors running on stand-alone software but with no way to connect to the factory's system network, managers saw prime opportunities to capitalize on information technology solutions to manage its operations more effectively and efficiently.[39]

Although e-manufacturing is being driven by the recognition that the customer is king, managers still need to realize that the organization's production activities must be more responsive. For instance, operations managers need systems that can reveal available capacity, status of orders, and product quality while products are in the process of being manufactured, not just after the fact. To connect more closely with customers, operations across the enterprise, including manufacturing, must be synchronized. To avoid production and delivery bottlenecks, the manufacturing function must be a full partner in the entire e-business architecture.

What's making this type of extensive involvement and collaboration possible is technology. Technology is also allowing manufacturing plants to control costs particularly in the areas of predictive maintenance, remote diagnostics, and utility cost savings. For instance, let's look at how e-manufacturing technology is affecting the equipment maintenance function—an important operations management activity. New generations of Internet-compatible equipment contain embedded Web servers that can communicate proactively—that is, if a piece of equipment breaks or reaches certain preset parameters that it's about to break, it can ask for help. But technology can do more than sound an alarm or light up an indicator button. For instance, some devices have the ability to initiate e-mail or signal a pager at a supplier, the maintenance department, or contractor describing the specific problem and requesting parts and service. How much is such e-enabled maintenance control worth? It can be worth quite a lot if it prevents equipment breakdowns and subsequent production downtime.

Managers who understand the power of technology to contribute to more effective and efficient performance know that managing operations is more than the traditional view of manufacturing's role in producing the product. Instead, the emphasis is on working together with all the organization's business functions to find solutions to customers' business problems.

Quality Initiatives

$2.1 billion. That's the amount that Toshiba Corporation paid to settle a lawsuit over defects in its laptop computers. (Your second author received a settlement of about $1,300 for the alleged problem with Toshiba laptops.) Palm, Inc., the leading manufacturer of personal digital assistants (PDAs), revealed that its first model with a color screen—first offered for sale in February 2000—had a tendency to crack. It offered customers free replacements for cracked units. Patriot Computer Corporation of Markham, Ontario, Canada, had to halt production when it discovered that a power-supply unit built in China was malfunctioning.[40] Alleged defects in certain Bridgestone/Firestone tires are believed to have led to serious sport-utility vehicle accidents. These are just a few of the quality problems still being experienced by businesses around the world.

Although quality management has been a part of many organizations' operations management strategies for several years, as the previous examples show, it *does* continue to be an important issue for managers. Many experts believe that organizations that do not produce high-quality products will be unable to compete successfully in the global marketplace. In fact, in an annual census of U.S. manufacturers conducted by *Industry Week*, a majority of corporate and plant-level executives stated that strategic initiatives that promoted quality and continuous improvement were critical to manufacturing excellence and their ultimate success.[41] One respondent, the vice president and general manager of Bettis Corporation in Waller, Texas (a manufacturer of pneumatic and hydraulic valve actuators), said, "I am a believer that you cannot afford not to focus on quality. You're just going to pay the price when something bad happens. A failure in the quality of our product could shut down a customer's plant. Continuous improvement is something we have to do to survive in the marketplace."[42] And look back at the chapter-opening Manager's Dilemma. Managers at Grupo Industrial Bimbo SA knew they would have to produce quality products in order to be a strong competitor in the intensely competitive global candy market.

What is quality? When you consider a product or service to have quality, what does that mean to you? 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? Does it mean that the product does what it's supposed to do? Or does quality mean something else? Exhibit 19.6 provides a description of several quality dimensions. 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.

Product Quality Dimensions

1. Performance—Operating characteristics
2. Features—Important special characteristics
3. Flexibility—Meeting operating specifications over some period of time
4. Durability—Amount of use before performance deteriorates
5. Conformance—Match with preestablished standards
6. Serviceability—Ease and speed of repair or normal service
7. Aesthetics—How a product looks and feels
8. Perceived quality—Subjective assessment of characteristics (product image)

Service Quality Dimensions

1. Timeliness—Performed in promised period of time
2. Courtesy—Performed cheerfully
3. Consistency—Giving all customers similar experiences each time
4. Convenience—Accessibility to customers
5. Completeness—Fully serviced, as required
6. Accuracy—Performed correctly each time

Exhibit 19.6	Quality Dimensions of Goods and Services

Source: Adapted from J.W. Dean, Jr., and J.R. Evans, *Total Quality: Management, Organization and Society* (St. Paul, MN: West Publishing Company, 1994); H.V. Roberts and B.F. Sergesketter, *Quality Is Personal* (New York: The Free Press, 1993); D. Garvin, *Managed Quality: The Strategic and Competitive Edge* (New York: The Free Press, 1988); and M.A. Hitt, R.D. Ireland, and R.E. Hoskisson, *Strategic Management*, 4th ed. (Cincinnati, OH: South-Western, 2001), p. 211.

How is quality achieved? That's the issue managers must address. A good way to address quality initiatives is to think in terms of the management functions—planning, organizing, leading, and controlling—that need to take place.

Planning for Quality

Managers must have quality improvement goals and strategies and plans formulated to achieve those goals. Goals can help focus everyone's attention toward some objective quality standard. For instance, at the Rockwell Collins avionics plant based in Decorah, Iowa (where Rockwell International's communications and navigation equipment is made), a quality goal being pursued by employees over the next four years is a 30 percent reduction in defects.[43] Although this goal is specific and challenging, managers and employees are partnering together to pursue well-designed strategies to achieve the goals and are confident they can do so.

Organizing and Leading for Quality

Since quality improvement initiatives are carried out by organizational employees, it's important for managers to look at how they can best organize and lead them. For instance, at the Rockwell Collins avionics plant, every employee participates in process improvement workshops. A Rockwell executive says, "The spirit within that plant is high. They do seem to be excited about what they have accomplished. This is not something we are doing to them. This is something they are doing with us."[44]

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 levels to lower levels must participate, it's not surprising that quality-driven organizations rely on well-trained, flexible, and empowered employees. For example, at Compaq Computer Corporations Americas' Software Manufacturing and Distribution facility in Nashua, New Hampshire, employees have been trained in people skills as well as statistical analysis. Each employee is encouraged and empowered to find ways to work smarter, not harder, and to stay focused on results that make a difference in total performance.[45] There's no doubt that, at this plant, empowered employees are making major differences.

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 any other operations management area, controlling for quality is important. For instance, at the Aeroquip-Inoac Company (AIC) plant in Livingston, Tennessee, a closely knit group of employees is dedicated to continuous improvement. They use employee suggestions, benchmarking visits, and other numerous quality initiatives and have built a reputation for delivering high-quality products. The company wasn't always this efficient or effective. Prior to 1992, the company's quality control was performed mainly by employees in the quality control department. However, when a new plant manager was hired, he wanted to see ownership of quality turned over to employees on the manufacturing floor. It wasn't an easy transformation as employees initially resisted any changes. However, the company's current quality assurance environment supports defect *prevention* rather than defect *detection*. Quality became the responsibility of *all* employees. Today, employees and managers work together to solve problems and provide customers with the quality products they value.[46]

These types of quality improvement success stories aren't just limited to U.S. companies. For example, at a Delphi Automotive Systems Corporation assembly plant in Matamoros, Mexico, employees have worked hard to improve quality and have made significant strides. For instance, the customer reject rate on shipped products is now 10 ppm (parts per million), down from 3,000 ppm just five years ago—an improvement of almost 300 percent.[47] Quality initiatives at several Australian companies including Alcoa of Australia, Wormald Security, and Carlton and United Breweries have led to significant quality improvements.[48] And at Valeo Klimasystemme GmbH of Bad Rodach, Germany, assembly teams build different climate-control systems for high-end German cars including the Mercedes E-Class, BMW 5 Series, and Opel Omega/Cadillac Catera. Quality initiatives by Valeo's employee teams have led to significant improvements in various quality standards.[49]

Quality Goals

To publicly demonstrate their quality commitment, many organizations worldwide have pursued challenging quality goals—the two best-known being ISO 9000 and Six Sigma.

ISO 9000

ISO 9000 is a series of international quality management standards established by the International Organization for Standardization that set uniform guidelines for processes to ensure that products conform to customer requirements. These standards cover everything from contract review to product design to product delivery. The ISO 9000 standards have become the internationally recognized standard for evaluating and comparing companies in the global marketplace. In fact, this type of certification is becoming a prerequisite for doing business globally. Gaining ISO 9000 certification provides proof that a quality operations system is in place. Exhibit 19.7 lists some reasons why companies pursue ISO 9000 registration.

- Customer demands and expectations
- Market advantage
- Competitive pressures
- Production costs
- Quality
- Corporate strategy

Exhibit 19.7 **Reasons for Pursuing ISO 9000 Certification**

Source: Based on "ISO 9000 Certified: To Be or Not to Be," *Modern Materials Handling*, November 1995, pp. 10–11.

The latest survey of ISO 9000 certificates showed that the number of registered sites worldwide exceeded nearly 272,000—an increase of almost 49,000.[50] New certifications of businesses in the United States and Italy led the increase. As a region, Europe continues to lead in the total number of ISO certificates with almost 61 percent of the total. However, other global regions continue to make strides in this area as businesses pursue quality initiatives.

Six Sigma

Motorola popularized the use of stringent quality standards more than 30 years ago through a trademarked quality improvement program called Six Sigma.[51] Very simply, Six Sigma is a quality standard that establishes a goal of no more than 3.4 defects per million units or procedures. 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 being defect free as you can get.[52] It's an ambitious quality goal! Although it may be an extremely high standard to achieve, many quality-driven businesses are using it to judge their suppliers. For instance, Motorola, AlliedSignal, and GE have told suppliers that this is the quality standard they must use if they want their business. GE realized approximately $2 billion in savings through its Six Sigma program in 1999.[53] Other well-known companies pursuing Six Sigma include DuPont, Texas Instruments, Inc., Sony Corporation, Nokia Corporation, and Johnson & Johnson.[54] What impact can Six Sigma have? Let's look at an example.

When AlliedSignal merged with Honeywell, Inc., two companies with highly successful quality improvement programs were joined.[55] The new merged company's program called Six Sigma Plus is paying big dividends. Savings in 1999 amounted to $600 million and approximately $700 million in 2000. How are these types of results possible? The company's Six Sigma Plus program includes several steps: defining a problem, measuring how the process performs, analyzing causes of problems, improving the process to reduce defects and variations, and controlling the process to ensure continued, improved performance. For example, a Six Sigma Plus team consisting of employees from Honeywell, a customer (Phoenix-based PING Inc.), and a supplier (Remington Arms Company) was able to produce a new type of golf club with Honeywell's PowderFlo metal-injection molding technology. Using Six Sigma Plus and e-business processes, the team was able to significantly reduce product development time (by 50 percent) and open up new markets for Honeywell and its customers (potentially $6 billion as new-product applications are developed in areas such as flatware, fan blades, and automobile turbine wheels).

Summary

Although it's important for managers to recognize that many positive benefits can accrue from obtaining ISO 9000 certification or Six Sigma, the key benefit comes from the quality improvement journey itself. In other words, the goal of quality certification should be having work processes and an operations system in place that enable organizations to meet customers' needs and employees to perform their jobs in a consistently high-quality way.

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

> Chapter Wrap-Up

You had a chance to voice your opinion about Titus Lokananta's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Deborah Barnhart
Director, Network Medical Management Support
St. John's Health System, Springfield, Missouri

Not working? Get Quicktime

To successfully implement a quality program in his plant, Lokananta needs to create a corporate culture of quality. Here are the steps I think he needs to take to do this.

- Ensure that top management is committed to the program and has dedicated sufficient

Cindy Brewer
Corporate Trainer
Sears, Inc., Chicago, Illinois

Not working? Get Quicktime

The parent company, Bimbo, knows that product quality is important. Although he has made the gummy bear plant more efficient, Lokananta must now work on product quality. There are several things he should do.

First, he should make sure that he has top management support for his quality management efforts. Then he's ready to take the quality resources to the efforts.

- Establish a reward and recognition program for quality-related activities.
- Provide training for all employees on the quality process.
- Recognize that quality is every employee's job.
- Establish a communication program, internal and external, that supports the quality program.
- Establish minimum standards for each functional department. Each department should also identify and monitor key processes and create control charts, tracking indicators over time.
- Develop feedback systems to increase understanding of what is valued by your customers.
- When opportunities for improvement are identified, develop an action plan, implement it, check to see if the actions resulted in the desired improvements, and incorporate the change into the process or continue to improve.
- Celebrate successes and efforts made by employees to improve quality.

management values to his employees. Employees should be educated as far as the need for quality. It's important that they "buy into" the need for managing quality. Employees should be provided quality management training. This may take some time.

Once employees have been educated and trained about managing quality, quality control programs should be implemented. It's important that employees be empowered to make necessary changes. Otherwise, if they see areas in which improvements can be made, the changes won't be made. Performance appraisal and reward and recognition systems should be designed around the company's culture of quality.

Finally, work quality needs to be stressed throughout the organization. Hold company-wide meetings to continually emphasize the importance of quality.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log on: Internet Based Exercise
- Working Together: Team Based Exercise
- Case Application

go to page: 1 2 3 4 5 << previous

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter Outline

Go to Student View
Table of Contents
Chapter Contents
Search
Rate the Difficulty
In the News
Internet Exercises
Robbins OnLine Learning System (R.O.L.L.S.)
Faculty Resources
Misc. Resources

Chapter 20: Controlling for Organizational Performance

In the News

legend: add to syllabus, add to favorites, provide feedback

Add to...

Made-to-order - First Computers, then Fast Food, Now Cars? (05/08/00)

How to Fire Your Dealers (07/15/99)

Internet Exercises

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Comparing the Performance of Health Care Providers (06/04/02)
	Commitment Based Control System at Work (02/07/01)
	Tools for Systems Thinking and Continuous Improvement (09/01/00)
	Poka-Yoke: Shigeo Shingo's Zero-Defect Quality (05/01/00)
	The Use of Control Charts in Monitoring Process and Performance (04/04/00)
	Total Quality Management (09/22/99)

Robbins OnLine Learning System (R.O.L.L.S.)

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Link to the R.O.L.L.S. Website with Self Assessment Library 2.0

Faculty Resources

legend: add to favorites, provide feedback

Add to...	
	Instructors Manual - chap20.doc

Lecture Presentation - chap20.ppt

Miscellaneous Resources

legend: add to syllabus, add to favorites, provide feedback

Add to...	
	Modules - modules.doc
	Preface - preface.doc
	Self Assessment Library 2.0 - selfas.doc
	Table of contents - toc.doc

Add to...	Just for Students
	Chapter Outlines - chapoutlines.doc

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> What's Ahead

A Manager's Dilemma

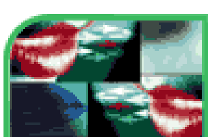
In Seattle, on June 23, 2000, music lovers around the world rejoiced as the Experience Music Project (EMP), an interactive museum located at the foot of the city's famous Space Needle, opened.[1] EMP is a tribute to American popular music, especially rock 'n' roll. Although Tom Chiado, project manager at EMP, may have one of the most fun and interesting jobs in the world, his job as manager isn't easy.

EMP is the brainchild of Microsoft co-founder, Paul Allen. Allen had amassed the world's largest collection of rock memorabilia including fragments of the electric guitar Jimi Hendrix smashed and burned at the 1967 Monterey International Pop Festival, feather boas worn by Janis Joplin, and turntables used by Grandmaster Flash. He needed a place to showcase it. About $100 million later, Allen's fascinating memorabilia had a home.

The building itself is a sight to see. Its wildly shaped exterior immediately attracts attention. But it's the interior that really grabs you. It's a technological fun house designed for experiencing music firsthand. Visitors can play live at the "on stage" exhibit and experience billowing smoke, lights sweeping the stage, and a filmed audience cheering wildly. Then there's the professional sound-mixing board where visitors can remix the Eurhythmics song "Sweet Dreams." There's even a crazy ride called Artist's Journey where visitors are strapped in for a ride that takes them from the middle of a filmed block party to a concert audience getting down with George Clinton's band.

Allen is determined to give visitors as much information as possible as they tour the museum. Therefore, upon arrival, visitors receive a handheld multimedia device equipped with a small screen, headphones, and 4 mb computer hard drive that they can use to call up music and text on virtually every object on display. Despite all the high-tech touches, Chiado has some down-to-earth managing to do. One of his tasks is assessing EMP's performance. Put yourself in his position. How can he monitor how effective and efficient EMP is?

What Would You Do?



click here to explore now

active poll <

What do you think? Voice your opinion and find out what others have to say.

click here to explore now

objectives

Take a moment to familiarize yourself with the key objectives of this chapter.

go to page: 1 2 3 4 5 next >>

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

Chapter 20

go to page: 2

Go to Student View
Table of Contents
Chapter Contents
Search
Add Annotation
View Annotations
Rate the Difficulty

Managers have many challenges when it comes to controlling for organizational performance. As the chapter-opening Manager's Dilemma points out, effectiveness and efficiency are just two of the measures that managers might use. In this chapter, we discuss several issues associated with controlling for organizational performance. We start by looking at what organizational performance is and why it's important to measure it. Then we look at different organizational performance measures and at some tools for monitoring and measuring organizational performance. We conclude the chapter by describing the manager's role in guiding organizations to high performance.

> Organizational Performance

Available seat-miles. Seat-miles flown. Revenue per passenger-miles. Passenger load factors. These are just a few of the important performance indicators that executives in the intensely competitive airline industry carefully measure and scrutinize. Then, of course, there's the Triple Crown—not the one awarded for winning three famous horse races—but the one awarded by the U.S. Department of Transportation's Air Travel Consumer Report for outstanding performance accomplishments in three areas: customer service, on-time performance, and baggage handling. One company, Southwest Airlines, has earned an unprecedented five consecutive Triple Crowns. Obviously, managers at Southwest Airlines recognized the importance of controlling for organizational performance. But managers in the airline industry aren't the only ones who want and need performance information. Managers in all types of businesses must manage organizational performance.

What Is Organizational Performance?

When you hear the word *performance* what do you think of? A summer evening concert given by a local community orchestra? An Olympic athlete pushing all out for the finish line in a close race? A Southwest Airlines ramp agent in Tulsa, Oklahoma, loading passengers as quickly and efficiently as possible in order to meet the company's 20-minute gate turnaround goal? A Web site designer at Prentice Hall Publishers creating an online learning site that professors and students will find valuable? Performance is all of these. It's the end result of an activity.[2] And whether that activity is hours of intense practice before a concert or race or whether it's 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 end results of all the organization's work processes and activities. It's a complex but important concept, and managers need to understand the factors that contribute to high organizational performance. After all, they don't want (or intend) to manage their way to mediocre performance. They *want* their organizations, work units, or work groups to achieve high levels of performance, no matter what mission, strategies, or goals are being pursued.

Why Is Measuring Organizational Performance Important?

Managers measure and control organizational performance because it leads to better asset management, to an increased ability to provide customer value, and to improved measures of organizational knowledge. In addition, measures of organizational performance do have an impact on an organization's reputation. (See Exhibit 20.1.)

Exhibit 20.1 **Why Is Measuring Organizational Performance Important?**

Better Asset Management

The year was 1984, and the Chicago Bulls team was about as bad as it could be. This mediocre team had never won an NBA championship. Barely 6,000 people showed up at a game paying $15 a seat to watch the team play. However, that year the franchise owners and managers made a decision that would have a profound effect on the organization (and eventually on basketball history). They signed a young guard from the University of North Carolina by the name of Michael Jordan. By the end of the 1998 season, attendance had skyrocketed (24,000+ spectators per game willing to pay an average of $30 a ticket), the team had won six NBA championships in eight years, and the franchise itself benefited handsomely as its value soared (much like Michael Jordan himself) by 1,000 percent.[3] By all relevant performance measures, the Chicago Bulls basketball organization was successful.

The point of this story is that an organization's assets are only valuable if they're managed in a way that captures that value. The value created by Michael Jordan and other assets of the Bulls (coach Phil Jackson; other talented team players including Scottie Pippen and Dennis Rodman; experienced marketing, operations, and financial employees; and other resources including the arena and practice facilities, available capital, etc.) was possible only because they were managed extremely well as a portfolio of assets. That's what managers at high-performing companies do—they manage the organizational assets in ways that exploit their value. Asset management is the process of acquiring, managing, renewing, and disposing of assets as needed, and of designing business models to take advantage of the value from these assets.[4] It's not just the top-level managers who are concerned with asset management. Managers at all organizational levels and in all work areas manage their available assets—people, information, equipment, and so forth—by making decisions that they hope will lead to high levels of performance. Because achieving high levels of organizational performance is important in both the short run and long run, managers look for ways to better manage their assets so that they look good on the key performance measures used by both internal *and* external evaluators.

Increased Ability to Provide Customer Value

Providing value to customers is important for organizations. If customers aren't receiving something of value from their interactions with organizations, they'll look elsewhere. Managers should monitor how well they're providing customer value, and they can do that when they measure performance. For example, at IBM's Industry Solutions Laboratories in Hawthorne, New York, Stuttgart, Germany, and Yamato, Japan, customers interact with IBM researchers to come up with technological solutions that meet their unique and challenging needs.[5] For instance, Britain's Safeway Stores PLC and the Hawthorne Lab collaborated on a consumer application that gives top customers the ability to conveniently create and maintain personalized grocery shopping lists and preorder groceries using a portable handheld device. And the Hawthorne Lab completed a project for Southwest Airlines that automated the crew-pairing process—a company logistics nightmare in which 2,700 pilots, 4,500 flight attendants, and more than 2,400 daily departures had to be logistically coordinated. It was important for the lab's managers to be able to measure how well they solved customer problems and to gauge their ability to provide customer value.

Impact on Organizational Reputation

You know that your personal reputation is important in what others think of you. It influences whether they will ask you for advice, listen to what you have to say, or trust you to complete assigned tasks. Organizations strive to have good reputations, as well. They want others—customers, suppliers, competitors, community, and so forth—to think highly of them. The advantages of a strong corporate reputation include greater consumer trust and the ability to command premium pricing.[6] In addition, there is a strong correlation between an organization's financial performance and its reputation. Which leads to the other? It's not always clear which comes first, but we do know it's difficult to have one without the other. In fact, a study of reputation and financial performance showed a strong correlation between good reputation and strong financial measures such as earnings growth and total return.[7]

Improved Measures of Organizational Knowledge

We know from our discussions in Chapters 2 and 10 that successful organizations of the twenty-first century must be able to learn and respond quickly—that is, they must be learning organizations. In learning organizations, organizational knowledge is recognized as a valuable asset, just like cash, equipment, or raw materials. What is organizational knowledge? It's knowledge that's created by means of collaborative information sharing and social interaction that lead to organizational members taking appropriate actions.[8] The key to valuable organizational knowledge is this connection between information and action. Organizational employees must share what they know and use that knowledge to make changes in work practices, processes, or products to achieve high levels of organizational performance.

Although intangible knowledge assets are increasingly overshadowing the value of tangible assets at many companies, it's not always easy to measure the value of organizational knowledge. In fact, the director of finance at defense contractor Lockheed Martin said, "We currently have no formal measure of knowledge assets, but these assets are our survival assets, and the most strategic for our long-term viability."[9] Successful managers do understand the importance of organizational knowledge to organizational performance even if it's much harder to manage knowledge assets than physical assets. And successful organizations have developed approaches to managing knowledge assets even though they have no formal measurement tools. For example, Genentech, Inc., the biotech firm, uses a metric of its own creation that looks at strategic research and development spending and the assets that are created from this spending.[10] It's not a perfect measure, but it works for them.

click here to explore now

video example

Describe this connection between information and action that's so important in organizational knowledge.

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Measures of Organizational Performance

At Shandwick International, a public relations firm whose global clients come from such diverse industries as entertainment, financial communications, and health care, employees were "more afraid of talking about money than we are of talking about sex."[11] However, the company's chief learning officer decided to change that by creating a series of training programs to help employees understand how the company made money. Employees were shown the connection between what work they did and the company's performance. "If you know what makes figures move in the right direction, you can do your job differently and push them in that direction."[12]

Management author Peter Drucker would agree that an organization's employees need to see the connection between what they do and the outcomes. He said, "The focus of the organization must be on performance . . . The spirit of organization is high performance standards, for the group as well as for each individual."[13] But before employees can see this connection and work toward achieving high performance, managers need to specify the performance outcomes that will be measured. The most frequently used organizational performance measures include organizational productivity, organizational effectiveness, and industry rankings.

Organizational Productivity

We defined productivity in Chapter 19 as the overall output of goods or services produced divided by the inputs needed to generate that output. Organizations strive to be productive. They want the most goods and services produced using the least amount of inputs. Output is measured by the sales revenue an organization receives when those goods and services are sold (selling price ¥ number sold). Input is measured by the costs of acquiring and transforming the organizational resources into the outputs.

It's management's job to increase this ratio. The easiest way to do this, of course, would be to raise the selling price of the outputs, but today's competitive environment makes this a risky choice that may, in fact, decrease the total output sold. The only other viable option, then, for increasing productivity is to decrease the input part of ratio—that is, the organization's expenses. Doing this means being more efficient in performing the organization's work activities. So, organizational productivity becomes a measure of how efficiently employees do their work.

Being efficient nowadays often means investing in technology. For example, when Ford Motor Company announced in February 2000 that it would provide each of its approximately 346,000 employees worldwide with a high-speed computer, a color printer, and unlimited Internet access for just $5 a month over three years, the company saw it not as an expense but as an investment in its employees' capabilities. The company's chief information officer said, "Even though the day-to-day tasks of many Ford employees don't currently involve the Internet, eventually everyone will be affected. We are increasing our company's capability by increasing the capability of our employees."[14] Ford was investing in its future productivity by making employees more efficient in their job-related use of the Internet.

Organizational Effectiveness

In Chapter 1, we defined managerial effectiveness as goal attainment. Can the same interpretation apply to organizational effectiveness? Yes, it can. Organizational effectiveness is a measure of how appropriate organizational goals are and how well an organization is achieving those goals. It's a common performance measure used by managers.

Other descriptions of organizational effectiveness have been suggested by management researchers.[15] For instance, the systems resource model of organizational effectiveness proposes that effectiveness is measured by the organization's ability to exploit its environment in acquiring scarce and valued resources. The process model emphasizes the transformation processes of the organization and how well the organization converts inputs into desired outputs. Then, finally, the multiple constituencies model says that several different effectiveness measures should be used, reflecting the different criteria of the organization's constituencies. For example, customers, advocacy groups, suppliers, and security analysts each would have their own measures of how well the organization was performing. Although each of these different effectiveness models may have merit in measuring certain aspects of organizational effectiveness, the bottom line for managers continues to be how well the organization accomplishes its goals. That's what guides managerial decisions in designing strategies, work processes, and work activities, and in coordinating the work of employees.

Industry Rankings

There's no shortage of different types of industry and company rankings. Exhibit 20.2 lists some of the more popular rankings that can be used to measure organizational performance. The rankings for each list are determined by specific performance measures. For instance, *Fortune's* Top Performing Companies of the *Fortune* 500 are determined by financial results including, for example, profits, return on revenue, and return on shareholder's equity; growth in profits for 1 year, 5 years, and 10 years; and revenues per employee, revenues per dollar of assets, and revenues per dollar of equity.[16] *Fortune's* 100 Best Companies to Work For are chosen by answers given by thousands of randomly 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 and a human resources questionnaire designed by Hewitt Associates, the largest compensation and benefits consultant in the United States.[17] *Industry Week's* Best Managed Plants are determined by organizational accomplishments and demonstrations of superior management skills in the areas of financial performance, innovation, leadership, globalization, alliances and partnerships, employee benefits and education, and community involvement.[18] The American Customer Satisfaction Index (ACSI) measures customer satisfaction with the quality of goods and services available to household consumers in the United States and then links the results to financial returns.[19] Each of the other rankings listed in Exhibit 20.2 is compiled from specific performance measures chosen by the organization doing the ranking.

Fortune

100 Best Companies to Work For
Fortune 1000
Fortune 1000 Top Performing Companies
Global 500
America's Most Admired Companies
World's Most Admired Companies
America's Best Wealth Creators
America's Best and Worst Boards of Directors
e50 Companies
America's 50 Best for Minorities

Forbes

Forbes 500
Forbes International 500
500 Top Private Companies
200 Best Small Companies

Business Week

Standard & Poor's 500
Global 1000

Industry Week

100 Best Managed Companies
World's Best Plants
Technology and Innovation Awards of the Year
Census of Manufacturers
25 Fastest Growing Companies
Industry Week 1000

Customer Satisfaction Indexes

American Customer Satisfaction Index—University of Michigan Business School
Customer Satisfaction Measurement Association

Exhibit 20.2 **Popular Industry and Company Rankings**

Industry rankings have expanded in recent years to include more than just the largest or most profitable firms. Newer measures include firms that focus on work-life issues or family-friendly benefits and honor those organizations whose managers consistently set new standards in these areas. *Working Woman* magazine, for instance, publishes an annual list of the 100 Best Companies for Working Mothers. One entry for the year 2000 is the Stride-Rite Corporation. What put this 81-year-old maker of children's footwear on the list for the eighth time? It adopted several greatly improved work/life benefits, despite declining sales, including longer vacations, larger tuition reimbursements, and longer leaves for new fathers and adoptive parents.

click here to explore now

video example

Why are these industry rankings viewed so positively? Aren't they simply a popularity contest?

click here to explore now

active concept check

Testing...Testing...1, 2, 3

Management (activebook), 7/e
Stephen P. Robbins   Mary Coulter

> Tools for Monitoring and Measuring Organizational Performance

Managers at Applebee's Neighborhood Grill & Bar restaurant chain play by their own rules. They're applying cutting-edge ideas to a traditional industry. Rather than carefully locating restaurants so that the sales of one don't eat into another's sales, Applebee's floods an area with stores in order to gain brand recognition and market dominance. For instance, in Kansas City, where its corporate headquarters are located, the company has 23 restaurants. In contrast, Chili's, its biggest competitor, only has four units. Applebee's philosophy: Faster is better. Get into a neighborhood before the competition. Keep things moving by giving customers a convenient experience.[20] What kinds of tools would Applebee's managers need for monitoring and measuring performance?

At Murata Manufacturing Company of Kyoto, Japan, managers know that performance will be measured against a challenging goal set by Yasutaka Morita, the company's chairman. That goal? Thirty percent of annual sales should come from new products. Since Murata manufactures components for information-age devices such as cellular phones, personal digital assistants, and so forth, measures of new-product innovation are key indicators.[21]

As these examples illustrate, managers need appropriate tools for monitoring and measuring organizational performance. Managers might use any of the following types of performance control tools: financial controls, information controls, balanced scorecard approach, or benchmarking best practices approach.

Financial Controls

One of the primary purposes of every business firm is to earn a profit. In pursuit of this objective, managers need financial controls. Managers might, for instance, carefully analyze quarterly income statements for excessive expenses. They might also perform several financial ratio tests to ensure that sufficient cash is available to pay ongoing expenses, that debt levels haven't become too high, or that assets are being used productively. Or they might look at some newer financial control tools such as market value added (MVA) to see if the company's market value is greater than the capital invested in it.

Financial ratios are widely reported in the business press and carefully watched by investors. When Deutsche Telekom's CEO Ron Sommer announced that his firm would shift its goals following smaller than expected profits late in 2000, some investors expressed their disappointment in the company's performance by selling their shares, which caused share value to drop. Sommer's plans, which he announced to journalists in a conference call about the company's latest financial results, include backing out of the bidding war for a wireless network in Europe to avoid overpaying for access to countries where the company had no customer base.

Traditional Financial Control Measures

Traditional financial measures managers might employ include ratio analysis and budget analysis. Exhibit 20.3 summarizes some of the most popular financial ratios used in organizations. Taken from the organization's main financial statements (the balance sheet and the income statement), they compare two significant figures and express them as a percentage or ratio. Because you've undoubtedly encountered these ratios in introductory accounting and finance courses, or you will in the near future, we aren't going to elaborate on how they're calculated.

Objective	Ratio	Calculation	Meaning
Liquidity	Current ratio	Current assets / Current liabilities	Tests the organization's ability to meet short-term obligations
	Acid test	Current assets less inventories / Current liabilities	Tests liquidity more accurately when inventories turn over slowly or are difficult to sell
Leverage	Debt to assets	Total debt / Total assets	The higher the ratio, the more leveraged the organization
	Times interest earned	Profits before interest and taxes / Total interest charges	Measures how far profits can decline before the organization is unable to meet its interest expenses
Activity	Inventory turnover	Sales / Inventory	The higher the ratio, the more efficiently inventory assets are being used
	Total asset turnover	Sales / Total assets	The fewer assets used to achieve a given level of sales, the more efficiently management is using the organizaiton's total assets
Profitability	Profit margin on sales	Net profit after taxes / Total sales	Identifies the profits that various products are generating

	Return on investment	Net profit after taxes / Total assets	Measures the efficiency of assets to generate profits

	Exhibit 20.3	**Popular Financial Ratios**

What do these ratios mean? The 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 the debt. The activity ratios measure how efficiently the firm is using its assets. Finally, the profitability ratios measure how efficiently and effectively the firm is using its assets to generate profits. We mention these ratios only briefly here to remind you that managers use such ratios as internal control devices for monitoring how efficiently and profitably the organization uses its assets, debt, inventories, and the like.

We discussed budgets as a planning tool in Chapter 9. When a budget is formulated, it's a planning tool because it gives direction to work activities. It indicates what activities are important and how much resources should be allocated to each activity. As we noted, however, budgets are used for both planning and controlling.

Budgets also provide managers with quantitative standards against which to measure and compare resource consumption. By pointing out deviations between standard and actual consumption, they become control tools. If the deviations are judged to be significant enough to require action, the manager will want to examine what has happened and try to uncover the reasons behind the deviations. With this information, he or she can take whatever action is necessary. For example, if you use a personal budget for monitoring and controlling your monthly expenses, you might find one month that your miscellaneous expenses were higher than you had budgeted for. At that point, you might cut back spending in another area or work extra hours to try to get more income.

Other Financial Control Measures

In addition to the traditional financial tools, managers are using measures such as economic value added (EVA) and market value added (MVA). The fundamental concept behind both of these financial tools is that companies are supposed to take in capital from investors and make it worth more. When managers do that, they've created wealth. When they take in capital and make it worth less, they've destroyed wealth.

Economic value added (EVA) is a tool for measuring corporate and divisional performance. It's calculated by taking after-tax operating profit minus the total annual cost of capital.[22] EVA is a measure of how much economic value is being created by what a company does with its assets, less any capital investments the company has made in its assets. As a performance control tool, EVA focuses managers' attention on earning a rate of return over and above the cost of capital. Companies such as Hewlett-Packard, Equifax, Boise Cascade Corporation, and even the U.S. Postal Service have integrated EVA measures into their organizations and improved their performance as a result.[23] When EVA is used as a performance measure, employees soon learn that they can improve their organization's or business unit's EVA by earning more profit without using more capital, by using less capital, or by investing capital in high-return projects.[24]

Market value added (MVA) adds a market dimension because it measures the stock market's estimate of the value of a firm's past and expected capital investment projects. If the company's market value (value of all outstanding stock plus the company's debt) is greater than all the capital invested in it (from shareholders, bondholders, and retained earnings), it has a positive MVA indicating that managers have created wealth. If the company's market value is less than all the capital invested in it, the MVA will be negative indicating that managers have destroyed wealth. Studies have shown that EVA is a predictor of MVA and that consecutive years of positive EVA generally lead to a high MVA.[25]

Both EVA and MVA can be powerful tools for managers as they monitor and measure organizational performance. In fact, they're becoming so popular that some people feel that they may replace some of the more traditional financial ratio measures such as return on investment.[26]

click here to explore now
active concept check
Testing...Testing...1, 2, 3

Information Controls

Information can be critical to monitoring and measuring an organization's performance. Managers need the right information at the right time and in the right amount. Inaccurate, incomplete, excessive, or delayed information will seriously impede performance. How can managers use information for control?

Management Information Systems

Although there's no universally agreed-upon definition of a management information system (MIS), we'll define it as a system used to provide management with needed information on a regular basis. In theory, this system can be manual or computer based, although all current discussions focus on computer-supported applications. The term *system* in MIS implies order, arrangement, and purpose. Furthermore, an MIS focuses specifically on providing managers with *information*, not merely *data*. These two points are important and require elaboration.

A library provides a good analogy. Although it can contain millions of volumes, a library doesn't do users much good if they can't find what they 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. There's no lack of data. There is, however, an inability to process those data so that the right information is available to the right person when he or she needs it. Likewise, a library is almost useless if it has the book you need immediately but you can't find it or the library takes a week to retrieve it from storage. An MIS, on the other hand, has organized data in some meaningful way and can access the information in a reasonable amount of time. Data are raw, unanalyzed facts, such as numbers, names, or quantities. Raw unanalyzed facts are relatively useless to managers. When data are analyzed and processed, they become information. An MIS collects data and turns them into relevant information for managers to use.

How Are Information Systems Used in Controlling?

Managers need information to monitor organizational performance and to control organizational activities. Without information, they would find it difficult to perform the activities we discussed in Chapter 18 as part of the controlling process. For instance, in measuring actual performance, managers need information about what is, in fact, happening within their area of responsibility. They need information about what the standards are in order to be able to compare actual performance with the standards; they need information to help them determine acceptable ranges of variation within these comparisons; and they rely on information to help them develop appropriate courses of action if there are significant deviations between actual and standard. As you can see, information is an important tool in monitoring and measuring organizational performance.

Balanced Scorecard Approach

The balanced scorecard approach to performance measurement was introduced as a way to evaluate organizational performance from more than just the financial perspective.[27] The balanced scorecard is a performance measurement tool that looks at four areas—financial, customer, internal processes, and people/innovation/growth assets—that contribute to a company's performance. According to this approach, managers should develop goals in each of the four areas and measures to determine if these goals are being met. For instance, a company might include cash flow, quarterly sales growth, and return on investment (ROI) as measures for success in the financial area. Or it might include percentage of sales coming from new products as a measure of customer goals.[28] The intent of the balanced scorecard is to emphasize that all of these areas are important to an organization's success and that there should be a balance among them.

Although a balanced scorecard makes sense, unfortunately, managers still tend to focus on areas that they believe drive their organization's success.[29] Their scorecards reflect their strategies. If those strategies center around the customer, for example, then the customer area is likely to get more attention than the other three areas. Yet, managers need to recognize that you really can't focus on one performance area without affecting the others. For instance, at IBM Global Services in Houston, managers developed a scorecard around an overriding strategy of customer satisfaction. However, the other areas (financial, internal processes, and people/innovation/ growth) are intended to support that central strategy. The solutions manager for the balanced scorecard described the division's approach as follows, "The internal processes part of our business is directly related to responding to our customers in a timely manner, and the learning and innovation aspect is critical for us since what we're selling to our customers above all is our expertise. Of course, how successful we are with those things will affect our financial component."[30] And, in Canada, the Ontario Hospital Association developed a scorecard for 89 hospitals designed to evaluate four main areas: clinical utilization and outcomes, financial performance and financial condition of the hospital, patient satisfaction, and how the hospital was investing for the future. The scorecard was purposefully designed to recognize the synergies among each of these measures. After hospitals were evaluated on the scorecard measures, the results of the scorecard evaluations were made available to patients, giving them an objective basis for choosing a hospital.[31]

Benchmarking of Best Practices

When the first 2001 Chrysler Sebring convertible rolled off the assembly line at DaimlerChrysler's assembly plant, the company was able to avoid $100 million in production costs because of manufacturing best practices shared by Mercedes-Benz, Chrysler's German owner.[32] We first introduced the concept of benchmarking in Chapter 9. Remember that benchmarking is the search for the best practices among competitors or noncompetitors that lead to their superior performance. At its most fundamental level, benchmarking means learning from others.[33] As a tool for monitoring and measuring organizational performance, benchmarking can be used to help identify specific performance gaps and potential areas of improvement.[34] But managers shouldn't just look at external organizations for best practices. It's also important for managers to look for internal best practices that can be shared.

Did you ever work somewhere that had an employee suggestion box on a wall in an office or in the workplace? When an employee had an idea about a new way of doing something—such as reducing costs, improving delivery time, and so forth—it went into the suggestion box where it usually sat until someone decided to empty the box. Businesspeople frequently joked about the suggestion box and cartoons lambasted the futility of putting ideas in the employee suggestion box.

Unfortunately, this attitude about suggestion boxes still persists in many organizations, and it shouldn't. Research shows that best practices frequently already exist within an organization but usually go unidentified and unused.[35] That's a lot of valuable knowledge going to waste. In today's environment, organizations striving for high performance levels can't afford to ignore such potentially valuable information. Remember our discussion of knowledge management and the need to share performance-related information with others inside the organization. Some companies already have recognized the potential of internally benchmarking best practices as a tool for monitoring and measuring performance. For example, Toyota Motor Corporation developed a suggestion-screening system to prioritize best practices based on potential impact, benefits, and difficulty of implementation. Accenture and EDS, Inc. have hired knowledge managers who oversee and disseminate information about internal best practices. W. R. Grace & Company, a supplier of specialty chemical, construction, and container products, regularly updates profiles of its top salespeople as role models for others to learn from. And General Motors Corporation sends employees—from upper management to line employees—to different plants where they learn about internal and external best practices.[36]

Exhibit 20.4 provides a summary of what managers must do to implement an internal benchmarking best practices program.

Exhibit 20.4 **Steps to Successfully Implement an Internal Benchmarking Best Practices Program**

Source: Based on T. Leahy, "Extracting Diamonds in the Rough," *Business Finance*, August 2000, pp. 33–37.

click here to explore now

video example

I thought benchmarking was a way to learn how other organizations do things. Now you're telling me it's also a way to control for organizational performance. How is that possible?

go to page: 1 2 3 4 5 << previous | next >>

> A Manager's Role in Helping Organizations Achieve High Performance Levels

Only General Electric Company, Avon Products Inc., Cisco Systems, Inc., Cemex SA de CV, and 24 other companies have been named to *Industry Week's* 100 Best Managed Companies list for five straight years (1996–2000).[37] What distinguishes these high-performing companies from countless others worldwide? What do they do differently that leads to such accomplishments? Two judges who helped choose the companies for this prestigious list said, "All of the companies understand that the key to competitive advantage in this century will be the capacity of top leadership to create social architecture capable of penetrating intellectual capital. The best-managed companies are able to integrate and implement the new-economy virtues of speed and e-commerce with the old-economy virtues of generating profit, market share, and excellent customer service."[38]

Who guides these organizations in these directions? Who makes these decisions and choices? Note that these companies have the distinction of being best-*managed* companies. Obviously, managers have played an important role in their companies' achieving these high levels of performance. What role *do* managers play in achieving high performance? We made the point earlier that there are no managers who want to manage their way to mediocrity. Exhibit 20.5 identifies important responsibilities of managers in leading their employees and organizations to achieve at exemplary levels of performance.

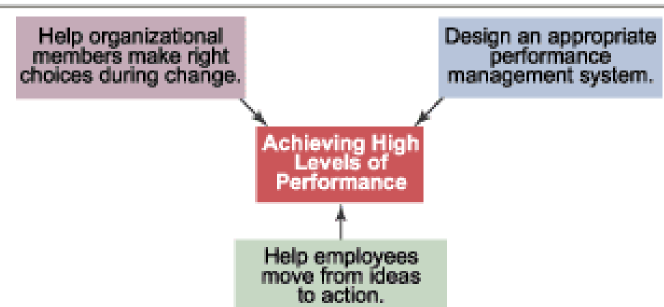


Exhibit 20.5 **A Manager's Responsibilities in Helping Organizations Achieve High Levels of Performance**

One of the manager's first responsibilities in leading organizations to high performance levels is helping organizational members make the right choices during periods of organizational change.[39] We know that, for most organizations, change is a given in today's environment. Managers must provide direction by answering employees' questions about what the change entails, what it means for them, how their performance will now be evaluated, and what tools and support will be provided to them. These employee concerns are the same whether the change is organization-wide or simply within the work group. By providing direction and encouragement during periods of change, managers can influence employees to make choices about their work activities that will help them achieve high performance levels. And when employees are performing at high levels, the organization will be also.

Another responsibility of managers is to design a performance management system that identifies appropriate performance measures and addresses common performance measurement problems. It's an accepted fact in organizations that what gets measured is what gets done.[40] People will work on those things on which they're going to be evaluated. So managers have to make sure that they're measuring the right things. For instance, performance measures used at General Motors can tell you anything you want to know about the car's outcome—such as how much of every type of material that went into it, how many defects it has, and how many labor-hours were expended in making it. In fact, the company has about 1,000 outcome measures. But what it lacks are work process performance measures. There are no measures to tell employees what they might be doing wrong and how they might improve their performance.[41]

So what *should* organizations measure? They should measure what's important to their customers, to the work processes they use to provide goods or services, and to the company itself.[42] It goes back to the importance of establishing appropriate goals during the planning function. If the chosen goals are important enough to be pursued, then they should be important enough to serve as performance measures.

Knowing what to measure is only half the battle. Managers must also address common problems that plague the performance measurement and reporting process. Exhibit 20.6 identifies the most common problems in performance measuring and reporting. Managers can resolve these problems by focusing on the key facts and figures that support organizational goals and reporting them in a way that's clear, specific, and timely.[43]

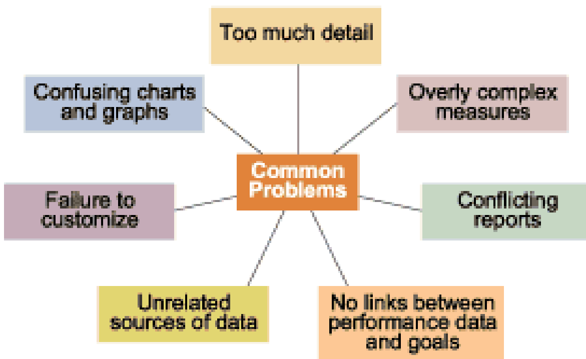


Exhibit 20.6 **Common Performance Measuring and Reporting Problems**

Source: Based on T. Leahy, "10 Cures for Performance Reporting Anxiety," *Business Finance*, December 1999, pp. 63–65.

Finally, an important responsibility of managers in helping achieve high levels of performance is moving from ideas to action. Managers should encourage employ- ees to develop great ideas and to think of these ideas as things that can actually be done.[44] In high-performing organizations, specific desired results are defined and employees map out the entire implementation process from conception to delivery. That's how companies such as Air Liquide in Paris has developed a great reputation for exemplary customer service, Baan NV in the Netherlands has implemented a successful product development process, and employees at General Electric have mastered problem-solving skills and techniques in its Six Sigma quality program.[45] Managers in these organizations have created an atmosphere in which employees turn ideas into action.

click here to explore now
active concept check

Management (activebook), 7/e
Stephen P. Robbins Mary Coulter

Chapter 20

go to page: 5

[Go to Student View](#)
[Table of Contents](#)
[Chapter Contents](#)
[Search](#)
[Add Annotation](#)
[View Annotations](#)
[Rate the Difficulty](#)

> Chapter Wrap-Up

You had a chance to voice your opinion about Paul Allen's dilemma at the beginning of this chapter. Now listen as two managers share their views.

Catherine R. Holmes
Occupational Health Manager
Army & Air Force Exchange Service, Dallas, Texas

[Not working? Get Quicktime](#)

Tom's first task is to develop a written model of the desired EMP customer's experience. This must be the model against which he judges organizational effectiveness and efficiency. Once he has defined what he hopes customers experience during their visits, he can then determine if he is meeting that goal. Second, a diverse, knowledgeable, friendly, and helpful workforce is a necessity. Basic policies must be in place to ensure appropriate training and culture that exudes excitement and maximizes the visitor's overall experience. In addition, employees are in a unique position to assess organizational efficiency and can be a valuable source of information for improvements.

There are many ways to assess performance by obtaining visitor feedback or using focus

Adam Ferguson
Data Resource Coordinator
Cox Health Systems, Springfield, Missouri

[Not working? Get Quicktime](#)

One key to any successful business is the ability to quantify and accurately report work activity. With an elaborate technology system in place, Tom can collect data from visitors on an individual basis. Questions could be asked of visitors throughout the entire stay using their personal handheld device in a way so that the person wouldn't even be aware of the query *and* in a manner that wouldn't detract, or distract, from the experience. Tom could also program the devices to monitor what visitors are asking for. If a visitor isn't calling up any supplemental information, that might be a flag that he or she is not engaged with the experience.

What he chooses to track is the real question for Tom. Building a database and noting when changes to the museum experience

groups. In addition, getting statistics on the number of visitors and developing a method for identifying repeat visitors will help Tom judge his organization's performance.	have been made, he could have a very valuable tool for monitoring, improving, projecting, and knowing if EMP is having the desired impact on people.

> end-of-chapter resources

- Chapter Summary
- Practice Quiz
- Video Q & A
- Key Terms
- Thinking About Management Issues
- Log on: Internet Based Exercise
- Working Together: Team Based Exercise
- Case Application
- Managing Entrepreneurial Ventures

go to page: 1 2 3 4 5 << previous