

# Introduction to Management and Organizational Behavior

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*Adopted by Barbara Carlin and Marina Sebastijanovic, Source: OpenStax*

OPENSTAX



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# OpenStax Chapter Resources

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Chapter – Chapter Source

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# I - MANAGEMENT

## Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. What is the role of management?
2. What are the four types of planning?
3. What are the primary functions of managers in organizing activities?
4. How do leadership styles influence a corporate culture?
5. How do organizations control activities?
6. What roles do managers take on in different organizational settings?
7. What set of managerial skills is necessary for managerial success?
8. What trends will affect management in the future?

## EXPLORING BUSINESS CAREERS

*Jalem Getz*

BuyCostumes.com/Wantable, Inc. You might ask, “How does one come to work in the world of online costume retail?” A passion for holiday make-believe and dress-up? A keen eye for business potential? The drive to capitalize on a competitive advantage? If you’re Jalem Getz, the answer is: all of these. Getz is the founder of BuyCostumes.com, an online costume and accessories retailer and, most recently, founder of Wantable, Inc.

As with most businesses, BuyCostumes.com and Wantable, Inc., are the result of careful planning. BuyCostumes.com was a response to what Getz saw as inherent flaws of resource allocation with the business model of brick-and-mortar costume retailers. “As a brick-and-mortar business, we were the gypsies of retail, which caused scale problems since we started over every year. Because we only were in a mall four or five months a year, locations we had one year often were rented the next. So we had to find new stores to rent each year. Then we had to find management to run the stores, and train employees to staff them. We also had to shuffle the inventory around each year to stock them. It’s almost impossible to grow a business like that.” By turning to the internet, however, Getz was able to bypass all of those issues. The virtual “space” was available year-round, and inventory and staff were centralized in a single warehouse location.

Getz grew BuyCostumes.com to a multimillion-dollar business before selling it, with a staff of about 600 employees during its peak season. Before Getz sold the business, it carried over 10,000 Halloween items and had upwards of 20 million visitors each holiday season. In one year, it shipped over 1 million costumes across the world, including 45 countries outside the United States. “We say that our goal is to ensure that

anytime anyone buys a costume anywhere in the world, it will be from BuyCostumes.com. And, although to some extent we're kidding, we're also very serious."

To keep track of all this action, Getz mixed ideals of a strong work ethic, a willingness to take risks, and an interest in having fun while making a profit. Given the size of the company, BuyCostumes.com organized its management to help keep the company focused on the corporate goal of continued growth. For Getz, his role in the management hierarchy was to "hire excellent people who have similar goals and who are motivated the same way I am and then put them in a position where they can succeed." Beyond that? "Inspect what you expect." This maxim is a concise way to say that, although he does not believe in constantly watching over his employees' shoulders, he does believe in periodically checking in with them to ensure that both he and they are on the same page. By considering the process of management a conversation between himself and his employees, he exhibits a strong participative leadership style.

Getz will joke that he wishes he could say that he spent his childhood dreaming of the day he could work with costumes. The truth, though, is that he saw an opportunity, grabbed it, and hasn't let go since. And sometimes, especially during Halloween, truth can be even more satisfying than fiction.

After selling BuyCostumes.com, Getz experimented with other digital start-ups but quickly realized he worked best with retail. In 2012, he launched Wantable, Inc., an online personal shopping service. In its first four years, Getz led the company to exceed 28,000% annual revenue growth and to hire more than 100 employees. It became profitable in 2016 and looked to double its income the following year.

Sources: "About Wantable," <http://blog.wantable.com>, accessed October 27, 2017; "Wantable Surpasses 100 Employees," <http://www.prweb.com>, April 3, 2017; Jeff Engel, "Jalem Getz's Latest Retail Startup Wantable Targets Women, Fast Growth," <https://www.xconomy.com>, April 21, 2014.

Today's companies rely on managers to guide daily operations using human, technological, financial, and other resources to create a competitive advantage. For many beginning business students, being in "management" is an attractive but somewhat vague future goal. This vagueness is due in part to an incomplete understanding of what managers do and how they contribute to organizational success or failure. This chapter introduces the basic functions of management and the skills managers need to drive an organization toward its goals. We will also discuss how leadership styles influence a corporate culture and highlight the trends that are shaping the future role of managers.

# 1.1 The Role of Management

## 1. What is the role of management?

Management is the process of guiding the development, maintenance, and allocation of resources to attain organizational goals. Managers are the people in the organization responsible for developing and carrying out this management process. Management is dynamic by nature and evolves to meet needs and constraints in the organization's internal and external environments. In a global marketplace where the rate of change is rapidly increasing, flexibility and adaptability are crucial to the managerial process. This process is based in four key functional areas of the organization: planning, organizing, leading, and controlling. Although these activities are discussed separately in the chapter, they actually form a tightly integrated cycle of thoughts and actions.

From this perspective, the managerial process can be described as (1) anticipating potential problems or opportunities and designing plans to deal with them, (2) coordinating and allocating the resources needed to implement plans, (3) guiding personnel through the implementation process, and (4) reviewing results and making any necessary changes. This last stage provides information to be used in ongoing planning efforts, and thus the cycle starts over again. The four functions are highly interdependent, with managers often performing more than one of them at a time and each of them many times over the course of a normal workday.

The four management functions can help managers increase organizational efficiency and effectiveness. Efficiency is using the least possible amount of resources to get work done, whereas effectiveness is the ability to produce a desired result. Managers need to be both efficient and effective in order to achieve organizational goals. For example in 2016, Delta, one of the most efficient network U.S. airlines, operated at revenue of 12.15 cents per seat-mile, which is the revenue the company makes on one seat (occupied or not) the distance of one mile. No other airline came close to operating this efficiently except Southwest, which flew seats that produced 12.51 cents a mile, the best performance of all U.S. airlines.<sup>1</sup> There are many ways that airlines can manage to produce higher revenue per seat-mile. For instance, they can raise ticket prices, fill more of their seats, operate more efficient aircraft that utilize less fuel, or negotiate favorable salaries with their employees. While efficiency and effectiveness are sometimes lauded by investors, airlines also need to account for customer satisfaction, which can mean extra costs.<sup>2</sup>

To meet the demands of rapid growth, Skechers hired a new chief financial officer, John Vandemore, which allowed their existing CFO (David Weinberg) to concentrate on international expansion. Skechers CEO Robert Greenberg commented: "As international now represents more than 50 percent of our total business, we must continue to ramp up operations and infrastructure to meet the demand. David (Weinberg) understands how to do it the right way at the right speed to maintain our forward momentum. With John (Vandemore) handling CFO responsibilities, David will now have the bandwidth to travel and find opportunities to maximize our efficiencies around the globe."<sup>3</sup>

As these examples and **Table 1.1** show, good management uses the four management functions to increase a company's efficiency and effectiveness, which leads to the accomplishment of organizational goals and objectives. Let's look more closely at what each of the management functions entails.

---

## What Managers Do and Why

Good management consists of these four activities:

Which results in

And leads to

### Planning

- Set objectives and state mission
- Examine alternatives
- Determine needed resources
- Create strategies to reach objectives

### Leading

- Lead and motivate employees to accomplish organizational goals
- Communicate with employees
- Resolve conflicts
- Manage change

### Organizing

- Design jobs and specify tasks
- Create organizational structure
- Staff positions
- Coordinate work activities
- Set policies and procedures
- Allocate resources

### Controlling

- Measure performance
- Compare performance to standards
- Take necessary action to improve performance

Leads to

Organizational efficiency and effectiveness

Leads to

Achievement of organizational mission and objectives

---

**Table 1.1**

## CONCEPT CHECK

1. Define the term *management*.
2. What are the four key functions of managers?
3. What is the difference between efficiency and effectiveness?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 1.2 Planning

### 2. What are the four types of planning?

Planning begins by anticipating potential problems or opportunities the organization may encounter. Managers then design strategies to solve current problems, prevent future problems, or take advantage of opportunities. These strategies serve as the foundation for goals, objectives, policies, and procedures. Put simply, planning is deciding what needs to be done to achieve organizational objectives, identifying when and how it will be done, and determining who should do it. Effective planning requires extensive information about the external business environment in which the firm competes, as well as its internal environment.

There are four basic types of planning: strategic, tactical, operational, and contingency. Most of us use these different types of planning in our own lives. Some plans are very broad and long term (more strategic in nature), such as planning to attend graduate school after earning a bachelor's degree. Some plans are much more specific and short term (more operational in nature), such as planning to spend a few hours in the library this weekend. Your short-term plans support your long-term plans. If you study now, you have a better chance of achieving some future goal, such as getting a job interview or attending graduate school. Like you, organizations tailor their plans to meet the requirements of future situations or events. A summary of the four types of planning appears in **Table 1.2**.

Strategic planning involves creating long-range (one to five years), broad goals for the organization and determining what resources will be needed to accomplish those goals. An evaluation of external environmental factors such as economic, technological, and social issues is critical to successful strategic planning. Strategic plans, such as the organization's long-term mission, are formulated by top-level managers and put into action at lower levels in the organization. For example, when Mickey Drexler took over as CEO of J.Crew, the company was floundering and had been recently purchased by a private equity group. One of Drexler's first moves was to change the strategic direction of the company by moving it out of the crowded trend-following retail segment, where it was competing with stores such as Gap, American Eagle, and Abercrombie and back into the preppie, luxury segment where it began. Rather than trying to sell abundant inventory to a mass market, J.Crew cultivated scarcity, making sure items sold out early rather than hit the sale rack later in the season. The company also limited the number of new stores it opened during a two-year span but planned to double the number of stores in the next five to six years. Drexler led the company through public offerings and back to private ownership before bringing on a new CEO in 2017. He remained chairman with ownership in the company.<sup>4</sup>

Types of Planning						
Type of Planning	Time Frame	Level of Management	Extent of coverage	Purpose and Goal	Breadth of Content	Accuracy and Predictability
Strategic	1–5 years	Top management (CEO, vice presidents, directors, division heads)	External environment and entire organization	Establish mission and long-term goals	Broad and general	High degree of uncertainty
Tactical	Less than 1 year	Middle management	Strategic business units	Establish mid-range goals for implementation	More specific	Moderate degree of certainty
Operational	Current	Supervisory management	Geographic and functional divisions	Implement and activate specific objectives	Specific and concrete	Reasonable degree of certainty
Contingency	When an event occurs or a situation demands	Top and middle management	External environment and entire organization	Meet unforeseen challenges and opportunities	Both broad and detailed	Reasonable degree of certainty once event or situation occurs

Table 1.2

## CATCHING THE ENTREPRENEURIAL SPIRIT

### *Changing Strategy Can Change Your Opportunities*

Since 1949, Gordon Bernard, a printing company in Milford, Ohio, focused exclusively on printing fundraising calendars for a variety of clients, such as cities, schools, scout troops, and fire departments. The company's approximately 4,000 clients nationwide, 10 percent of which have been with the company for over 50 years, generated \$4 million in revenue in 2006. In order to better serve customers, company president Bob Sherman invested \$650,000 in the purchase of a Xerox iGEN3 digital color press so that the company could produce in-house a part of its calendar product that had been outsourced. The high-tech press did more for the company than simply reduce costs, however.

The new press gave the company four-color printing capability for the first time in its history, and that led the management of Gordon Bernard to rethink the company's strategy. The machine excels at short runs, which means that small batches of an item can be printed at a much lower cost than on a traditional press. The press also has the capability to customize every piece that rolls off the machine. For example, if a pet store wants to print 3,000 direct mail pieces, every single postcard can have a personalized greeting and text. Pieces targeted to bird owners can feature pictures of birds, whereas the dog owners' brochure will contain dog pictures. Text and pictures can be personalized for owners of show dogs or overweight cats or iguanas.

Bob Sherman created a new division to oversee the implementation, training, marketing, and creative aspects of the new production process. The company even changed how it thinks of itself. No longer does Gordon Bernard consider itself a printing firm, but as a marketing services company with printing capabilities. That change in strategy prompted the company to seek more commercial work. For example, Gordon Bernard will help clients of its new services develop customer databases from their existing information and identify additional customer information they might want to collect. Even though calendar sales accounted for 97 percent of the firm's revenues, that business is seasonal and leaves large amounts of unused capacity in the off-peak periods. Managers' goals for the new division were to contribute 10 percent of total revenue within a couple years of purchase.

#### Critical Thinking Questions

1. What type of planning do you think Gordon Bernard is doing?
2. Because Gordon Bernard's strategy changed only after it purchased the iGEN3, does the shift constitute strategic planning? Why or why not?

Sources: GBC Fundraising Calendars, <http://www.gordonbernard.com/>, accessed September 15, 2017; Gordon Bernard Co Inc., <https://www.manta.com>, accessed September 15, 2017; Karen Bells, "Hot Off the Press; Milford Printer Spends Big to Fill New Niche," *Cincinnati Business Courier*, July 15, 2005, pp. 17–18.

An organization's mission is formalized in its mission statement, a document that states the purpose of the organization

and its reason for existing. For example, Twitter's mission statement formalizes both concepts while staying within its self-imposed character limit; see **Table 1.3**.

---

**Twitter's Mission, Values, and Strategy**

**Mission:** Give everyone the power to create and share ideas and information instantly, without barriers.

**Values:** We believe in free expression and think every voice has the power to impact the world.

**Strategy:** Reach the largest daily audience in the world by connecting everyone to their world via our information sharing and distribution platform products and be one of the top revenue generating Internet companies in the world.

Twitter combines its mission and values to bring together a diverse workforce worldwide to fulfill its strategy.

The 3 Parts of a Company Mission Statement:

- Purpose
  - Value
  - Action
- 

**Table 1.3** Sources: "About" and "Our Values," <https://about.twitter.com>, accessed October 30, 2017; Justin Fox, "Why Twitter's Mission Statement Matters," *Harvard Business Review*, <https://hbr.org>, accessed October 30, 2017; Jeff Bercovici, "Mission Critical: Twitter's New 'Strategy Statement' Reflects Shifting Priorities," *Inc.*, <https://www.inc.com>, accessed October 30, 2017.

In all organizations, plans and goals at the tactical and operational levels should clearly support the organization's mission statement.

Tactical planning begins the implementation of strategic plans. Tactical plans have a shorter (less than one year) time frame than strategic plans and more specific objectives designed to support the broader strategic goals. Tactical plans begin to address issues of coordinating and allocating resources to different parts of the organization.

Under Mickey Drexler, many new tactical plans were implemented to support J.Crew's new strategic direction. For example, he severely limited the number of stores opened each year, with only nine new openings in the first two years of his tenure (he closed seven). Instead, he invested the company's resources in developing a product line that communicated J.Crew's new strategic direction. Drexler dumped trend-driven apparel because it did not meet the company's new image. He even cut some million-dollar volume items. In their place, he created limited editions of a handful of garments that he thought would be popular, many of which fell into his new luxury strategy. For example, J.Crew now buys shoes directly from the same shoe manufacturers that produce footwear for designers such as Prada and Gucci. In general, J.Crew drastically tightened inventories, a move designed to keep reams of clothes from ending up on sale racks and to break its shoppers' habit of waiting for discounts.

This part of the plan generated great results. Prior to Drexler's change in strategy, half of J.Crew's clothing sold at a discount. After implementing tactical plans aimed to change that situation, only a small percentage does. The shift to limited editions and tighter inventory controls has not reduced the amount of new merchandise, however. On the contrary, Drexler created a J.Crew bridal collection, a jewelry line, and Crew Cuts, a line of kids' clothing. The results of Drexler's tactical plans were impressive. J.Crew saw same-store sales rise 17 percent in one year.<sup>5</sup>

Operational planning creates specific standards, methods, policies, and procedures that are used in specific functional areas of the organization. Operational objectives are current, narrow, and resource focused. They are designed to help guide and control the implementation of tactical plans. In an industry where new versions of software have widely varying development cycles, Autodesk, maker of software tools for designers and engineers, implemented new operational plans that dramatically increased profits. Former CEO Carol Bartz shifted the company away from the erratic release schedule it had been keeping to regular, annual software releases. By releasing upgrades on a defined and predictable schedule, the company is able to use annual subscription pricing, which is more affordable for small and midsize companies. The new schedule keeps Autodesk customers on the most recent versions of popular software and has resulted in an overall increase in profitability.<sup>6</sup>

The key to effective planning is anticipating future situations and events. Yet even the best-prepared organization must sometimes cope with unforeseen circumstances, such as a natural disaster, an act of terrorism, or a radical new technology. Therefore, many companies have developed contingency plans that identify alternative courses of action for very unusual or crisis situations. The contingency plan typically stipulates the chain of command, standard operating procedures, and communication channels the organization will use during an emergency.

An effective contingency plan can make or break a company. Consider the example of Marriott Hotels in Puerto Rico. Anticipating Hurricane Maria in 2017, workers at the San Juan Marriott had to shift from their regular duties to handling the needs of not only customers, but everyone who needed assistance in the wake of the hurricane that devastated the island. A contingency plan and training for events such as this were a key part of managing this crisis.<sup>7</sup> The company achieved its goal of being able to cater to guest and general needs due to planning and training while having a contingency plan in place. One guest commented on TripAdvisor, “Could not believe how friendly, helpful & responsive staff were even during height of hurricane. Special thanks to Eydie, Juan, Jock, Ashley and security Luis. They kept us safe & were exemplary. Will always stay at Marriott from now on.”<sup>8</sup> Within one month after Hurricane Maria hit, operations were back to normal at the San Juan Marriott.<sup>9</sup>

## MANAGING CHANGE

### *Boeing Takes Off in New Direction*

Boeing and Airbus have been locked in fierce competition for the world’s airplane business for decades. What characterized most of that time period was a focus on designing larger and larger airplanes. Since its development in the 1970s, Boeing revamped its pioneering B747 numerous times and at one time boasted over 1,300 of the jumbo jets in operation around the world. As part of this head-to-head competition for bragging rights to the largest jet in the air, Boeing was working on a 747X, a super-jumbo jet designed to hold 525 passengers. In what seemed to be an abrupt change of strategy, Boeing conceded the super-jumbo segment of the market to its rival and killed plans for the 747X. Instead of trying to create a plane with more seats, Boeing engineers began developing planes to fly fewer people at higher speeds. Then, as the rising price of jet fuel surpassed the airlines’ ability to easily absorb its increasing cost, Boeing again changed its strategy, this time focusing on developing jets that use less fuel. In the end, Boeing’s strategy changed from plane capacity to jet efficiency.

The new strategy required new plans. Boeing managers identified gaps in Airbus’s product line and immediately set out to develop planes to fill them. Boeing announced a new 787 “Dreamliner,” which boasted better fuel efficiency thanks to lightweight composite materials and next-generation engine design. Even though the 787 has less than half the seating of the Airbus A380, Boeing’s Dreamliner is a hit in the market. Orders for the new plane have been stronger than anticipated, forcing Boeing to change its production plans to meet demand. The company decided to accelerate its planned 787 production rate buildup, rolling out a new jet every two days or so.

Airbus was not so lucky. The company spent so much time and energy on its super-jumbo that its A350



(the plane designed to compete with Boeing's 787) suffered. The 787 uses 15 percent less fuel than the A350, can fly nonstop from Beijing to New York, and is one of the fastest-selling commercial planes ever.

The battle for airline supremacy continues to switch between the two global giants. In 2017, Boeing beat Airbus on commercial jet orders at the Paris Air Show and continues to push forward. A spokesperson has hinted at a hybrid fuselage for midrange planes, which could carry passengers farther at lower costs. If successful, Boeing will regain market share lost to the Airbus A321.

#### Critical Thinking Questions

1. What seems to be the difference in how Boeing and Airbus have approached planning?
2. Do you think Airbus should change its strategic plans to meet Boeing's or stick with its current plans? Explain.

Sources: Gillian Rich, "Why Boeing's Paris Air Show Orders Are 'Staggering,'" <http://www.investors.com>, June 22, 2017; Jon Ostrower, "Boeing vs. Airbus: A New Winner Emerges at the Paris Air Show," CNN, <http://money.cnn.com>, June 22, 2017; Gillian Rich, "'Hybrid' Design for New Boeing Midrange Jet Could Hit This Sweet Spot," <http://www.investors.com>, June 20, 2017; Alex Taylor, III, "Boeing Finally Has a Flight Plan," *Fortune*, June 13, 2005, pp. 27–28; J. Lynn Lunsford and Rod Stone, "Boeing Net Falls, but Outlook Is Rosy," *The Wall Street Journal*, July 28, 2005, p. A3; Carol Matlack and Stanley Holmes, "Why Airbus Is Losing Altitude," *Business Week*, June 20, 2005, p. 20; J. Lynn Lunsford, "UPS to Buy 8 Boeing 747s, Lifting Jet's Prospects," *The Wall Street Journal*, September 18, 2005, p. A2; "Airbus to Launch A350 Jet in October," *Xinhua News Agency*, September 14, 2005, online; "Boeing Plans Major Change," *Performance Materials*, April 30, 2001, p. 5.

## CONCEPT CHECK

1. What is the purpose of planning, and what is needed to do it effectively?
2. Identify the unique characteristics of each type of planning.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

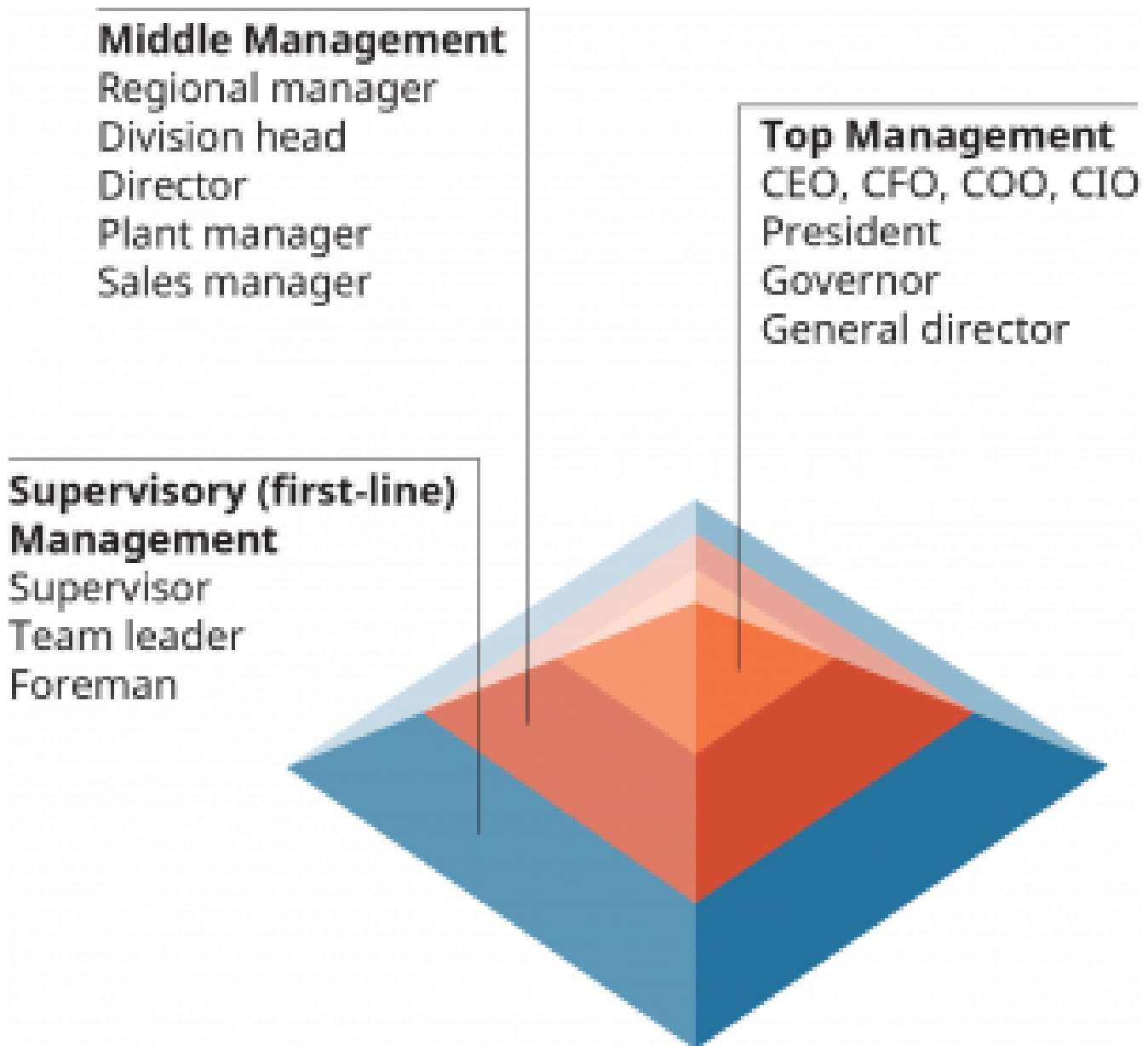
## 1.3 Organizing

### 3. What are the primary functions of managers in organizing activities?

A second key function of managers is organizing, which is the process of coordinating and allocating a firm's resources in order to carry out its plans. Organizing includes developing a structure for the people, positions, departments, and activities within the firm. Managers can arrange the structural elements of the firm to maximize the flow of information and the efficiency of work processes. They accomplish this by doing the following:

- Dividing up tasks (*division of labor*)
- Grouping jobs and employees (*departmentalization*)
- Assigning authority and responsibilities (*delegation*)

These and other elements of organizational structure are discussed in detail elsewhere. In this chapter, however, you should understand the three levels of a managerial hierarchy. This hierarchy is often depicted as a pyramid, as in **Exhibit 1.1**. The fewest managers are found at the highest level of the pyramid. Called top management, they are the small group of people at the head of the organization (such as the CEO, president, and vice president). Top-level managers develop *strategic plans* and address long-range issues such as which industries to compete in, how to capture market share, and what to do with profits. These managers design and approve the firm's basic policies and represent the firm to other organizations. They also define the company's values and ethics and thus set the tone for employee standards of behavior. For example, Jack Welch, the former CEO of General Electric, was a role model for his managers and executives. Admirers say that he had an extraordinary capacity to inspire hundreds of thousands of people in many countries and he could change the direction of a huge organization like General Electric as if it were a small firm. Following his leadership, General Electric's executives turned in impressive results. During his tenure, General Electric's average annual shareholder return was 25 percent.<sup>10</sup>



**Exhibit 1.1** The Managerial Pyramid (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

The second and third tiers of the hierarchy are called middle management and supervisory (first-line) management, respectively. Middle managers (such as division heads, departmental managers, and regional sales managers) are responsible for beginning the implementation of strategic plans. They design and carry out *tactical plans* in specific areas of the company. They begin the process of allocating resources to meet organizational goals, and they oversee supervisory managers throughout the firm. Supervisors, the most numerous of the managers, are at the bottom of the managerial pyramid. These managers design and carry out *operational plans* for the ongoing daily activities of the firm. They spend a great deal of their time guiding and motivating the employees who actually produce the goods and services.

## CONCEPT CHECK

1. Explain the managerial function of organizing.
2. What is the managerial pyramid?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 1.4 Leading, Guiding, and Motivating Others

### 4. How do leadership styles influence a corporate culture?

**Leadership**, the third key management function, is the process of guiding and motivating others toward the achievement of organizational goals. A leader can be anyone in an organization, regardless of position, able to influence others to act or follow, often by their own choice. Managers are designated leaders according to the organizational structure but may need to use negative consequences or coercion to achieve change. In the organization structure, top managers use leadership skills to set, share, and gain support for the company's direction and strategy—mission, vision, and values, such as Jeff Bezos does at Amazon. Middle and supervisory management use leadership skills in the process of directing employees on a daily basis as the employees carry out the plans and work within the structure created by management. Top-level leadership demonstrated by Bezos was also exhibited by Jack Welch while leading General Electric and led to many studies of his approach to leadership. Organizations, however, need strong effective leadership at all levels in order to meet goals and remain competitive.

To be effective leaders, managers must be able to influence others' behaviors. This ability to influence others to behave in a particular way is called power. Researchers have identified five primary sources, or bases, of power:

- Legitimate power, which is derived from an individual's position in an organization
- Reward power, which is derived from an individual's control over rewards
- Coercive power, which is derived from an individual's ability to threaten negative outcomes
- Expert power, which is derived from an individual's extensive knowledge in one or more areas
- Referent power, which is derived from an individual's personal charisma and the respect and/or admiration the individual inspires

Many leaders use a combination of all of these sources of power to influence individuals toward goal achievement. While CEO of Procter & Gamble, A. G. Lafley got his legitimate power from his position. His reward power came from reviving the company and making the stock more valuable. Also, raises and bonus for managers who met their goals was another form of reward power. Lafley also was not hesitant to use his coercive power. He eliminated thousands of jobs, sold underperforming brands, and killed weak product lines. With nearly 40 years of service to the company, Lafley had a unique authority when it came to P&G's products, markets, innovations, and customers. The company's sales doubled during his nine years as CEO, and its portfolio of brands increased from 10 to 23. He captained the purchase of Clairol, Wella AG, and IAMS, as well as the multibillion-dollar merger with Gillette. As a result, Lafley had a substantial amount of referent power. Lafley is also widely respected, not only by people at P&G, but by the general business community as well. Ann Gillin Lefever, a managing director at Lehman Brothers, said, "Lafley is a leader who is liked. His directives are very simple. He sets a strategy that everybody understands, and that is more difficult than he gets credit for."<sup>11</sup>

## Leadership Styles

Individuals in leadership positions tend to be relatively consistent in the way they attempt to influence the behavior of others, meaning that each individual has a tendency to react to people and situations in a particular way. This pattern of behavior is referred to as leadership style. As **Table 1.4** shows, leadership styles can be placed on a continuum that encompasses three distinct styles: autocratic, participative, and free rein.

Autocratic leaders are directive leaders, allowing for very little input from subordinates. These leaders prefer to make decisions and solve problems on their own and expect subordinates to implement solutions according to very specific and detailed instructions. In this leadership style, information typically flows in one direction, from manager to

subordinate. The military, by necessity, is generally autocratic. When autocratic leaders treat employees with fairness and respect, they may be considered knowledgeable and decisive. But often autocrats are perceived as narrow-minded and heavy-handed in their unwillingness to share power, information, and decision-making in the organization. The trend in organizations today is away from the directive, controlling style of the autocratic leader.

Instead, U.S. businesses are looking more and more for participative leaders, meaning leaders who share decision-making with group members and encourage discussion of issues and alternatives. Participative leaders use a democratic, consensual, consultative style. One CEO known for her participative leadership style is Meg Whitman, former CEO at Hewlett Packard. When Whitman worked at eBay, a team in the German-based operation began a promotional “treasure hunt,” launching registration pages, clues, and an hourly countdown clock. Trouble was, the launch violated eBay’s well-established corporate project-development processes. When the treasure hunt began, 10 million contestants logged on, crashing the local servers. Rather than shut the project down, the VP in charge of the German operation allowed the promotion to be fixed and fly under the radar of corporate headquarters. Successful innovations emerged, such as an Easy Lister feature and separate registration processes for private and business sellers. When the VP shared this experience with Meg Whitman, she fostered the idea of rapid prototyping throughout the organization, which “breaks rules to get something done,” and modeled such behavior for the entire organization.<sup>12</sup>


Leadership Styles of Managers		
		
Amount of authority held by the leader		
Autocratic Style	Participative Style (Democratic, Consensual, Consultative)	Free-Rein (Laissez-Faire) Style
<ul style="list-style-type: none"><li>• Manager makes most decisions and acts in authoritative manner.</li><li>• Manager is usually unconcerned about subordinates' attitudes toward decisions.</li><li>• Emphasis is on getting task accomplished.</li><li>• Approach is used mostly by military officers and some production line supervisors.</li></ul>	<ul style="list-style-type: none"><li>• Manager shares decision-making with group members and encourages teamwork.</li><li>• Manager encourages discussion of issues and alternatives.</li><li>• Manager is concerned about subordinates' ideas and attitudes.</li><li>• Manager coaches subordinates and helps coordinate efforts.</li><li>• Approach is found in many successful organizations.</li></ul>	<ul style="list-style-type: none"><li>• Manager turns over virtually all authority and control to group.</li><li>• Members of group are presented with task and given freedom to accomplish it.</li><li>• Approach works well with highly motivated, experienced, educated personnel.</li><li>• Approach is found in high-tech firms, labs, and colleges.</li></ul>
Amount of authority held by group members		
		

Table 1.4

ETHICS IN PRACTICE

Scott Stephenson: *Balancing the Duality of Ethics*

Whether it's Bernie Madoff defrauding investors, Wells Fargo having to respond to creating fake accounts

in the names of real customers, or Mylan N.V. imposing huge price increases on its life-saving EpiPen, it seems like there is never a shortage of ethical issues being an important aspect of business. As shown by these examples, unethical decisions permeate different parts of the business and occur for different reasons.

In the case of Bernie Madoff, it was the greed of one person using a Ponzi scheme to defraud thousands of customers. In the case of Wells Fargo, the culprits were managers putting excessive pressure on workers to meet new account quotas. The case of Mylan included the dramatic rise in the price of the EpiPen in a short time span and reports that CEO Heather Bresch and other executives received compensation that increased over 700 percent during the same time frame. Adding to the Mylan case was the fact that Bresch is the daughter of West Virginia Senator Joseph Manchin, and prior to being appointed CEO at Mylan, Bresch served as Mylan's chief lobbyist and helped craft the Generic Drug User Fee Amendments and the School Access to Emergency Epinephrine Act.

Where does the responsibility of managing ethical behavior in organizations reside? The answer is *everyone* in the organization is responsible to act in an ethical manner. The primary responsibility resides, however, with the CEO and also with the chief financial officer, who has the responsibility to oversee financial compliance with laws and regulations. Scott Stephenson, the CEO of Verisk Analytics, recently commented on how he approaches the duality of what he terms a “loose–tight” approach to leadership where he provides his employees with the discretion and responsibility to make critical decisions in crisis situations where ethics might be involved. That's the loose part. He also works on communicating and building trust in his employees so that he has the confidence they will act responsibly and make the correct decisions in crisis situations. That's the tight part of his leadership duality.

#### Critical Thinking Questions

1. Do you think Verisk Analytics, a technology company that needs innovation breakthroughs, benefits from Stephenson's “loose–tight” approach? What if Stephenson had been an autocratic leader? Explain your reasoning.
2. What kind of participative leader (described below) does Stephenson seem to be? Explain your choice.

Sources: Scott Stephenson, “The Duality of Balanced Leadership,” *Forbes*, <https://www.forbes.com>, November 29, 2017; Matt Egan, “Wells Fargo Uncovers Up to 1.4 Million More Fake Accounts,” *CNN Money*, <http://money.cnn.com>, August 31, 2017; Jesse Heitz, “The EpiPen Scandal and the Perception of the Washington Establishment,” *The Hill*, <http://thehill.com>, September 1, 2016; “Decade's Top 10 Ethics Scandals,” *The Wall Street Journal*, <https://www.wsj.com>, August 9, 2010.

Participative leadership has three types: democratic, consensual, and consultative. Democratic leaders solicit input from all members of the group and then allow the group members to make the final decision through a voting process. This approach works well with highly trained professionals. The president of a physicians' clinic might use the democratic approach. Consensual leaders encourage discussion about issues and then require that all parties involved agree to the final decision. This is the general style used by labor mediators. Consultative leaders confer with subordinates before making a decision but retain the final decision-making authority. This technique has been used to dramatically increase the productivity of assembly-line workers.

The third leadership style, at the opposite end of the continuum from the autocratic style, is free-rein or laissez-faire (French for “leave it alone”) leadership. Managers who use this style turn over all authority and control to subordinates. Employees are assigned a task and then given free rein to figure out the best way to accomplish it. The manager doesn't

get involved unless asked. Under this approach, subordinates have unlimited freedom as long as they do not violate existing company policies. This approach is also sometimes used with highly trained professionals as in a research laboratory.

Although one might at first assume that subordinates would prefer the free-rein style, this approach can have several drawbacks. If free-rein leadership is accompanied by unclear expectations and lack of feedback from the manager, the experience can be frustrating for an employee. Employees may perceive the manager as being uninvolved and indifferent to what is happening or as unwilling or unable to provide the necessary structure, information, and expertise.

No leadership style is effective all the time. Effective leaders recognize employee growth and use situational leadership, selecting a leadership style that matches the maturity and competency levels of those completing the tasks. Newly hired employees may respond well to authoritative leadership until they understand the job requirements and show the ability to handle routine decisions. Once established, however, those same employees may start to feel undervalued and perform better under a participative or free-rein leadership style. Using situational leadership empowers employees as discussed next.

## Employee Empowerment

Participative and free-rein leaders use a technique called empowerment to share decision-making authority with subordinates. Empowerment means giving employees increased autonomy and discretion to make their own decisions, as well as control over the resources needed to implement those decisions. When decision-making power is shared at all levels of the organization, employees feel a greater sense of ownership in, and responsibility for, organizational outcomes.

Management use of employee empowerment is on the rise. This increased level of involvement comes from the realization that people at all levels in the organization possess unique knowledge, skills, and abilities that can be of great value to the company. For example, when Hurricane Katrina hit the Gulf Coast, five miles of railroad tracks were ripped off a bridge connecting New Orleans to Slidell, Louisiana. Without the tracks, which fell into Lake Pontchartrain, Norfolk Southern Railroad couldn't transport products between the East and West Coasts. Before the storm hit, however, Jeff McCracken, a chief engineer at the company, traveled to Birmingham with equipment he thought he might need and then to Slidell with 100 employees. After conferring with dozens of company engineers and three bridge companies, McCracken decided to try to rescue the miles of track from the lake. (Building new tracks would have taken several weeks at the least.) To do so, he gathered 365 engineers, machine operators, and other workers, who lined up eight huge cranes and, over the course of several hours, lifted the five miles of sunken tracks in one piece out of the lake and bolted it back on the bridge.<sup>13</sup> By giving employees the autonomy to make decisions and access to required resources, Norfolk Southern was able to avoid serious interruptions in its nationwide service.

### Corporate Culture

The leadership style of managers in an organization is usually indicative of the underlying philosophy, or values, of the organization. The set of *attitudes, values, and standards of behavior* that distinguishes one organization from another is called corporate culture. A corporate culture evolves over time and is based on the accumulated history of the organization, including the vision of the founders. It is also influenced by the dominant leadership style within the organization. Evidence of a company's culture is seen in its heroes (e.g., the late Andy Grove of Intel<sup>14</sup>), myths (stories about the company passed from employee to employee), symbols (e.g., the Nike swoosh), and ceremonies. The culture at Google, working in teams and fostering innovation, sometimes is overlooked while its employee perks are drooled over. But both are important to the company's corporate culture. Since 2007 Google has been at or near the top of *Fortune's* list of the "100 Best Companies to Work For," an annual list based on employee survey results tabulated by an independent company: Great Place to Work®.<sup>15</sup> "We have never forgotten since our startup days that great things



happen more frequently within the right culture and environment,” a company spokesperson said in response to the company first taking over the top spot.<sup>16</sup>

Culture may be intangible, but it has a tremendous impact on employee morale and a company’s success. Google approaches morale analytically. When it found that mothers were leaving the company in higher rates than other employee groups, the company improved its parental-leave policies. The result was a 50 percent reduction in attrition for working moms. An analytical approach along with culture-building activities such as town halls led by Black employees and allies, support for transgender employees, and unconscious-bias workshops are why employees say Google is a safe and inclusive place to work.<sup>17</sup> Clearly Google leaders recognize culture is critical to the company’s overall success.

## CONCEPT CHECK

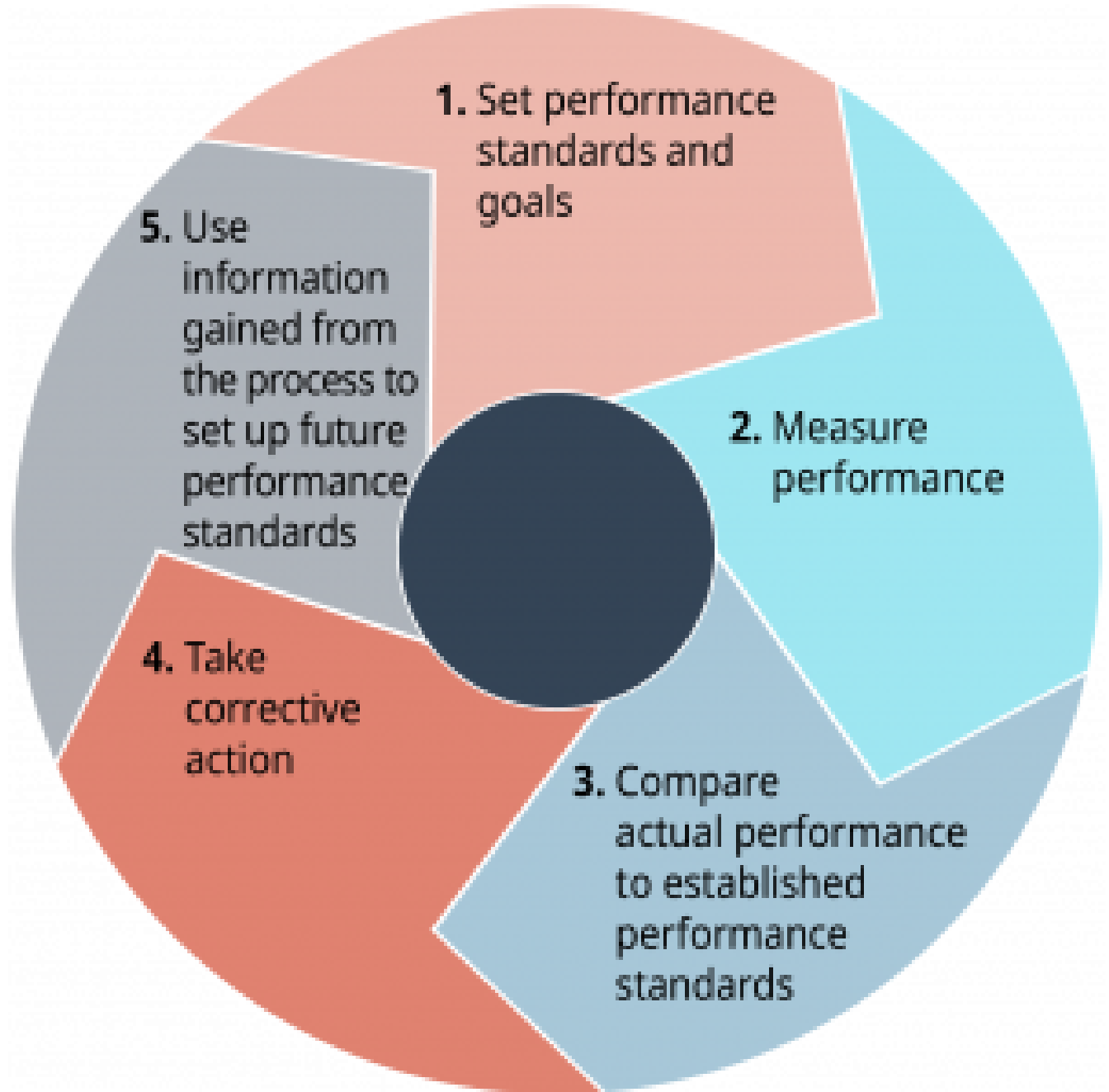
1. How do leaders influence other people’s behavior?
2. How can managers empower employees?
3. What is corporate culture?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 1.5 Controlling

### 5. How do organizations control activities?

The fourth key function that managers perform is controlling. Controlling is the process of assessing the organization's progress toward accomplishing its goals. It includes monitoring the implementation of a plan and correcting deviations from that plan. As **Exhibit 1.2** shows, controlling can be visualized as a cyclical process made up of five stages:



**Exhibit 1.2 The Control Process** (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

Performance standards are the levels of performance the company wants to attain. These goals are based on its strategic, tactical, and operational plans. The most effective performance standards state a measurable behavioral

objective that can be achieved in a specified time frame. For example, the performance objective for the sales division of a company could be stated as “\$200,000 in gross sales for the month of January.” Each individual employee in that division would also have a specified performance goal. Actual firm, division, or individual performance can be measured against desired performance standards to see if a gap exists between the desired level of performance and the actual level of performance. If a performance gap does exist, the reason for it must be determined and corrective action taken.

Feedback is essential to the process of control. Most companies have a reporting system that identifies areas where performance standards are not being met. A feedback system helps managers detect problems before they get out of hand. If a problem exists, the managers take corrective action. Toyota uses a simple but effective control system on its automobile assembly lines. Each worker serves as the customer for the process just before his or hers. Each worker is empowered to act as a quality control inspector. If a part is defective or not installed properly, the next worker won't accept it. Any worker can alert the supervisor to a problem by tugging on a rope that turns on a warning light (i.e., feedback). If the problem isn't corrected, the worker can stop the entire assembly line.

Why is controlling such an important part of a manager's job? First, it helps managers to determine the success of the other three functions: planning, organizing, and leading. Second, control systems direct employee behavior toward achieving organizational goals. Third, control systems provide a means of coordinating employee activities and integrating resources throughout the organization.

## CONCEPT CHECK

1. Describe the control process.
2. Why is the control process important to the success of the organization?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 1.6 Managerial Roles

### 6. What roles do managers take on in different organizational settings?

In carrying out the responsibilities of planning, organizing, leading, and controlling, managers take on many different roles. A role is a set of behavioral expectations, or a set of activities that a person is expected to perform. Managers' roles fall into three basic categories: *informational roles*, *interpersonal roles*, and *decisional roles*. These roles are summarized in **Table 1.5**. In an informational role, the manager may act as an information gatherer, an information distributor, or a spokesperson for the company. A manager's interpersonal roles are based on various interactions with other people. Depending on the situation, a manager may need to act as a figurehead, a company leader, or a liaison. When acting in a decisional role, a manager may have to think like an entrepreneur, make decisions about resource allocation, help resolve conflicts, or negotiate compromises.

### Managerial Decision Making

In every function performed, role taken on, and set of skills applied, a manager is a decision maker. Decision-making means choosing among alternatives. Decision-making occurs in response to the identification of a problem or an opportunity. The decisions managers make fall into two basic categories: programmed and nonprogrammed. Programmed decisions are made in response to routine situations that occur frequently in a variety of settings throughout an organization. For example, the need to hire new personnel is a common situation for most organizations. Therefore, standard procedures for recruitment and selection are developed and followed in most companies.

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### The Many Roles Managers Play in an Organization

Role	Description	Example
<b>Information Roles</b>		
Monitor	<ul style="list-style-type: none"><li>Seeks out and gathers information relevant to the organization</li></ul>	<ul style="list-style-type: none"><li>Finding out about legal restrictions on new product technology</li></ul>
Disseminator	<ul style="list-style-type: none"><li>Provides information where it is needed in the organization</li></ul>	<ul style="list-style-type: none"><li>Providing current production figures to workers on the assembly line</li></ul>
Spokesperson	<ul style="list-style-type: none"><li>Transmits information to people outside the organization</li></ul>	<ul style="list-style-type: none"><li>Representing the company at a shareholders' meeting</li></ul>
<b>Interpersonal Roles</b>		
Figurehead	<ul style="list-style-type: none"><li>Represents the company in a symbolic way</li></ul>	<ul style="list-style-type: none"><li>Cutting the ribbon at ceremony for the opening of a new building</li></ul>
Leader	<ul style="list-style-type: none"><li>Guides and motivates employees to achieve organizational goals</li></ul>	<ul style="list-style-type: none"><li>Helping subordinates to set monthly performance goals</li></ul>
Liaison	<ul style="list-style-type: none"><li>Acts as a go-between among individuals inside and outside the organization</li></ul>	<ul style="list-style-type: none"><li>Representing the retail sales division of the company at a regional sales meeting</li></ul>
<b>Decisional Roles</b>		
Entrepreneur	<ul style="list-style-type: none"><li>Searches out new opportunities and initiates change</li></ul>	<ul style="list-style-type: none"><li>Implementing a new production process using new technology</li></ul>
Disturbance handler	<ul style="list-style-type: none"><li>Handles unexpected events and crises</li></ul>	<ul style="list-style-type: none"><li>Handling a crisis situation such as a fire</li></ul>
Resource allocator	<ul style="list-style-type: none"><li>Designates the use of financial, human, and other organizational resources</li></ul>	<ul style="list-style-type: none"><li>Approving the funds necessary to purchase computer equipment and hire personnel</li></ul>
Negotiator	<ul style="list-style-type: none"><li>Represents the company at negotiating processes</li></ul>	<ul style="list-style-type: none"><li>Participating in salary negotiations with union representatives</li></ul>

---

**Table 1.5**

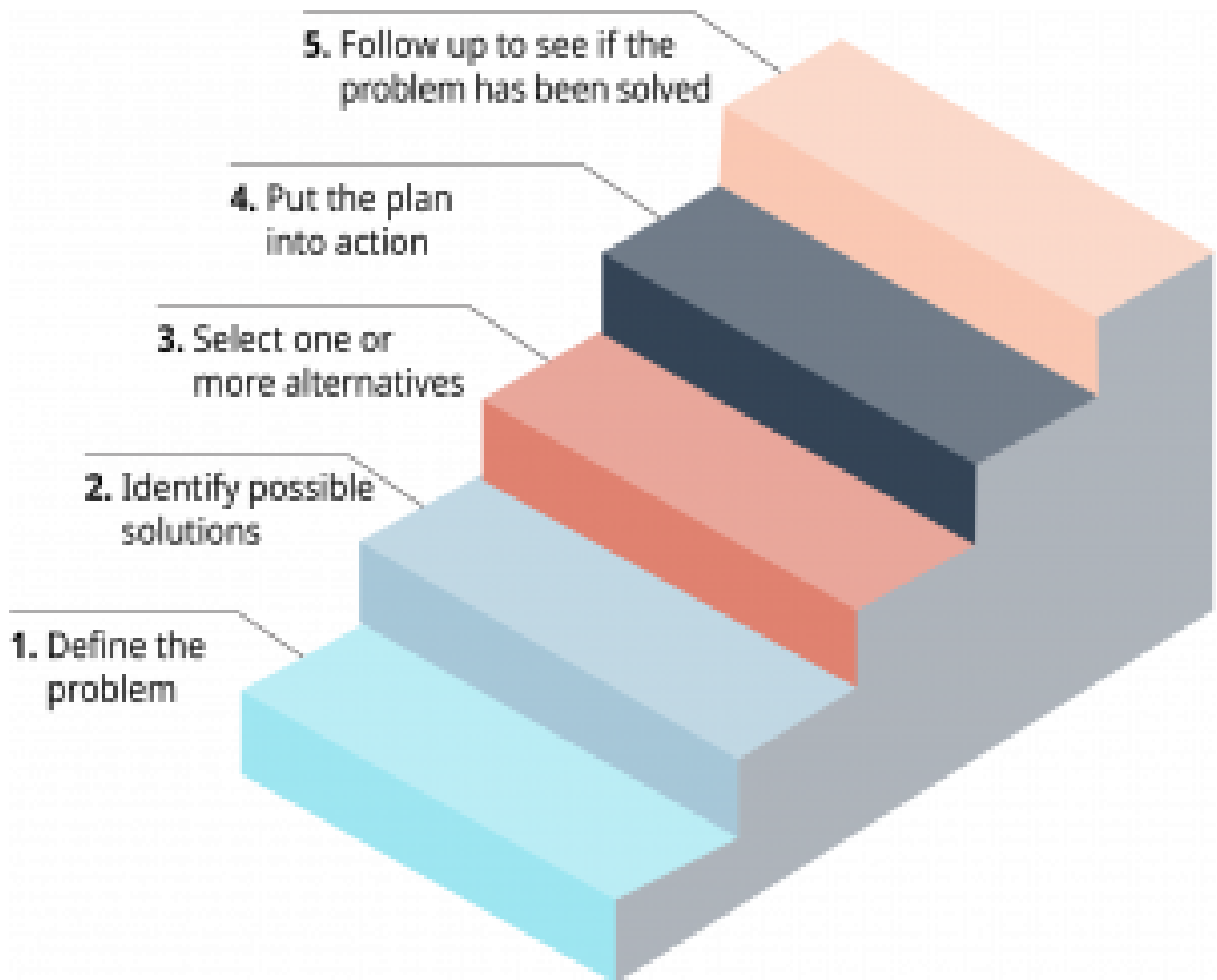
Infrequent, unforeseen, or very unusual problems and opportunities require nonprogrammed decisions by managers. Because these situations are unique and complex, the manager rarely has a precedent to follow. The earlier example of the Norfolk Southern employee, who had to decide the best way to salvage a five-mile-long piece of railroad track from the bottom of Lake Pontchartrain, is an example of a nonprogrammed decision. Likewise, when Hurricane Katrina was forecast to make landfall, Thomas Oreck, then CEO of the vacuum manufacturer that bears his name, had to

make a series of nonprogrammed decisions. Oreck's corporate headquarters were in New Orleans, and its primary manufacturing facility was in Long Beach, Mississippi. Before the storm hit, Oreck transferred its computer systems and call-center operations to backup locations in Colorado and planned to move headquarters to Long Beach. The storm, however, brutally hit both locations. Oreck executives began searching for lost employees, tracking down generators, assembling temporary housing for workers, and making deals with UPS to begin distributing its product (UPS brought food and water to Oreck from Atlanta and took vacuums back to the company's distribution center there). All of these decisions were made in the middle of a very challenging crisis environment.

Whether a decision is programmed or non-programmed, managers typically follow five steps in the decision-making process, as illustrated in **Exhibit 1.3**:

1. Recognize or define the problem or opportunity. Although it is more common to focus on problems because of their obvious negative effects, managers who do not take advantage of new opportunities may lose competitive advantage to other firms.
2. Gather information so as to identify alternative solutions or actions.
3. Select one or more alternatives after evaluating the strengths and weaknesses of each possibility.
4. Put the chosen alternative into action.
5. Gather information to obtain feedback on the effectiveness of the chosen plan.

It can be easy (and dangerous) for managers to get stuck at any stage of the decision-making process. For example, entrepreneurs can become paralyzed evaluating the options. For the Gabby Slome, the cofounder of natural pet food maker Ollie, the idea for starting the company came after her rescue dog began having trouble digesting store-bought pet food after living on scraps. Slome decided that the pet food industry, a \$30 billion a year business, was ripe for a natural food alternative. She laments, however, that she let perfect be the enemy of the very good by indulging in "analysis paralysis."<sup>18</sup>



**Exhibit 1.3 The Decision-Making Process** (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

### CONCEPT CHECK

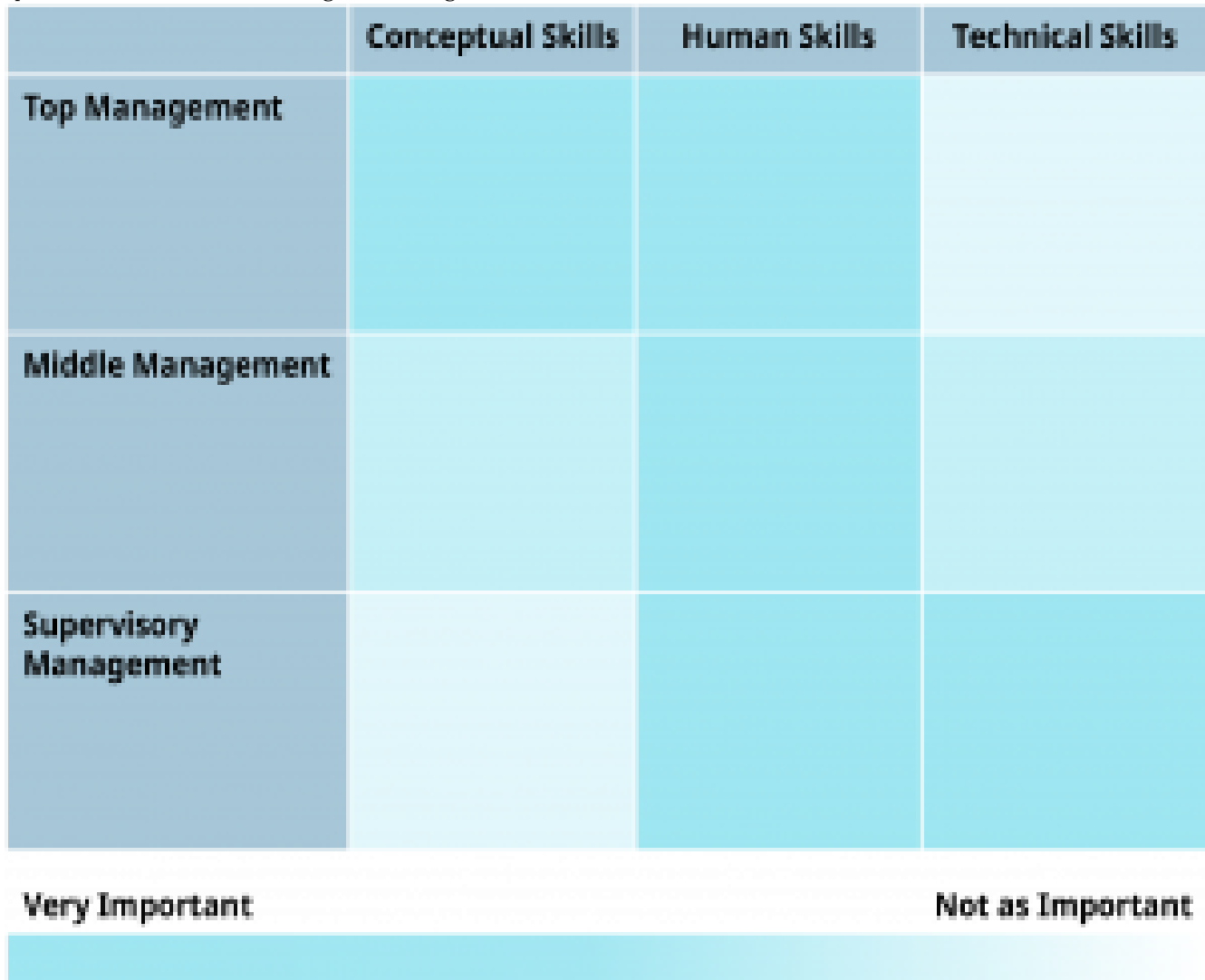
1. What are the three types of managerial roles?
2. Give examples of things managers might do when acting in each of the different types of roles.
3. List the five steps in the decision-making process.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 1.7 Managerial Skills

### 7. What set of managerial skills is necessary for managerial success?

In order to be successful in planning, organizing, leading, and controlling, managers must use a wide variety of skills. A *skill* is the ability to do something proficiently. Managerial skills fall into three basic categories: technical, human relations, and conceptual skills. The degree to which each type of skill is used depends upon the level of the manager's position as seen in **Exhibit 1.4**. Additionally, in an increasingly global marketplace, it pays for managers to develop a special set of skills to deal with global management issues.



**Exhibit 1.4 The Importance of Managerial Skills at Different Management Levels**(Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

### Technical Skills

Specialized areas of knowledge and expertise and the ability to apply that knowledge make up a manager's technical



skills. Preparing a financial statement, programming a computer, designing an office building, and analyzing market research are all examples of technical skills. These types of skills are especially important for supervisory managers because they work closely with employees who are producing the goods and/or services of the firm.

## Human Relations Skills

Human relations skills are the interpersonal skills managers use to accomplish goals through the use of human resources. This set of skills includes the ability to understand human behavior, to communicate effectively with others, and to motivate individuals to accomplish their objectives. Giving positive feedback to employees, being sensitive to their individual needs, and showing a willingness to empower subordinates are all examples of good human relations skills. Identifying and promoting managers with human relations skills are important for companies. A manager with little or no people skills can end up using an authoritarian leadership style and alienating employees.

## Conceptual Skills

Conceptual skills include the ability to view the organization as a whole, understand how the various parts are interdependent, and assess how the organization relates to its external environment. These skills allow managers to evaluate situations and develop alternative courses of action. Good conceptual skills are especially necessary for managers at the top of the management pyramid, where strategic planning takes place.

### CONCEPT CHECK

1. Define the basic managerial skills.
2. How important is each of these skill sets at the different levels of the management pyramid?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# 1.8 Trends in Management and Leadership

## 8. What trends will affect management in the future?

Four important trends in management today are crisis management, outside directors, the growing use of information technology, and the increasing need for global management skills.

### Crisis Management

Crises, both internal and external, can hit even the best-managed organization. Sometimes organizations can anticipate crises, in which case managers develop contingency plans, and sometimes they can't. Take, for example, the sudden death of McDonald's CEO Jim Cantalupo. The company had a solid succession plan in place and immediately named Charlie Bell as new CEO. Only a few months later, Bell announced that he had terminal cancer. Even though the company had prepared for the event of its leader's untimely death, surely it couldn't have anticipated that his successor would also be stricken by a terminal illness at almost the same time. Likewise, consider the devastation caused by Hurricanes Harvey, Irma, Maria, and Nate in 2017. Part of Marriott Hotels' crisis management plan included relaxing its "no pets" policy and allowing patrons fleeing the storm to check in with their pets because it was the right thing to do.<sup>19</sup>

Crises cannot be fully anticipated, but managers can develop contingency plans to help navigate through the aftermath of a disaster. For example, consider the challenges that faced Rajiv Joseph, the author of several plays including *Bengal Tiger at the Baghdad Zoo*, who was in Houston preparing to open his new play, *Describe the Night*, at the Alley Theater when Hurricane Harvey hit and flooded the theater a few weeks prior to opening night. The six New York-based actors, the director, the stage manager, and Joseph decided to help in the relief efforts and made their way to the George Brown Convention Center, which had become the central location for relief efforts. When they arrived and the staffers discovered they were theater artists, they were deployed to handle the writing and deployment of public address announcements and manage the incoming crowds. What made the relief efforts successful was planning—matching the skill sets of volunteers with tasks they are best able to perform.<sup>20</sup> Even though those in charge of the relief efforts had contingency plans, they still needed to make dozens of nonprogrammed decisions to effectively manage the ever-changing situation.<sup>21</sup>

No manager or executive can be completely prepared for these types of unexpected crises. However, how a manager handles the situation could mean the difference between disaster, survival, and even financial gain. No matter the crisis, there are some basic guidelines managers should follow to minimize negative outcomes. Managers should not become immobilized by the problem or ignore it. Managers should face the problem head on. Managers should always tell the truth about the situation and then put the best people on the job to correct the problem. Managers should ask for help if they need it, and finally, managers must learn from the experience to avoid the same problem in the future.<sup>22</sup> **Table 1.6** describes what CEOs and other leaders learned about crisis management.

### Managers and Information Technology

The second trend having a major impact on managers is the proliferation of data and analytics in information technology. An increasing number of organizations are selling technology, and an increasing number are looking for cutting-edge technology to make and market the products and services they sell. One particularly useful type of technology is dashboard software. Much like the dashboard in a car, dashboard software gives managers a quick look into the relevant information they need to manage their companies. Most large companies are organized in divisions, and often each

division relies on a particular type of application or database software. Dashboard software allows employees to access information from software they don't routinely use, for example, from an application used by a different division from their own. More important, however, is the ability of a dashboard to show up-to-the-minute information and to allow employees to see all the information they need—such as financial and performance data—on a single screen.

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#### Lessons Leaders Learned about Managing Crises

Howard Schultz Chairman, Starbucks	Learn from one crisis at a time. After the Seattle earthquake of 2001, the company invested in a notification system that could handle text messaging. The night before Hurricane Katrina hit, Starbucks sent out 2,300 phone calls to associates in the region, telling them about available resources.
Gary Loveman CEO, Harrah's	Make life easier for your employees. Before the storm hit, management announced that in the event of total entertainment disaster, employees would be paid for at least 90 days. The decision was meant to provide employees with some certainty during a very uncertain time.
J. W. Marriott CEO, Marriott	Communicate for safety. Marriott moved its email system out of New Orleans before Katrina hit. As a result, employees were able to communicate with each other and vendors to get food and water to affected areas. A massive publicity campaign (Dial 1-800-Marriott) helped the company find 2,500 of its 2,800 people in the region.
Geno Auriemma University of Connecticut Basketball Coach	It's about doing it in a way that it can't be done any better. That is the goal every day.
Danny Gavin VP, Brian Gavin Diamonds	"Create an unforgettable customer experience" may sound like a cliché, but this is our golden rule. Despite waist-high water and treacherous conditions, we had several international orders that needed to be shipped the Wednesday after Hurricane Harvey hit. FedEx and UPS had ceased operations around the Houston area during the storm, but our CEO Brian Gavin was determined to deliver an outstanding customer service experience. That's why he drove with the packages in hand to the nearest FedEx store that was open: College Station. The standard three-hour round trip ended up taking five hours.
Bob Nardelli CEO, Home Depot	Prepare for the next big one. After each catastrophic event, Home Depot does a postmortem on its response efforts so that employees and managers can become more experienced and better prepared. Before Katrina hit, the company prestaged extra supplies and generators, sent 1,000 relief associates to work in the stores in the Gulf Region, and made sure that area stores were overstocked with first-response items such as insecticides, water, and home generators.
Scott Ford CEO, Alltel	Take care of everybody. When Katrina hit, Alltel was missing 35 employees. When the company had found all but one, managers used the company's network infrastructure to track her phone activity, contact the last person she had called, and work with the army to find her.
Paul Pressler CEO, Gap	Empower the workforce. Gap had 1,300 employees affected by Katrina, and one of the biggest problems the company faced was getting people their paychecks. The company, which had extended payroll by 30 days to affected employees, now encourages all employees to use direct deposit as a means to ensure access to their pay.
Jim Skinner CEO, McDonald's	Be flexible with company assets. McDonald's had 280 restaurants close in the immediate aftermath of the storm, but shortly afterward, 201 were already open. During the crisis, McDonald's converted its human resource service center into a crisis command center. The quickly formed help center fielded 3,800 calls.
Robert Baugh COO, Chiles Restaurants	With Hurricane Irma approaching, Baugh communicated with staff for several days before the storm to prepare and to find out which employees would be evacuating, which would be staying, and which had special needs. The Chiles Group used Hot Schedules, a platform all employees log into, to create a timeline to secure all three restaurants (since these restaurants have lots of outdoor seating and outdoor bars, it was a huge chore) and to broadcast when the restaurants would reopen. Team leaders were responsible for communicating with their members. Vendors and chefs were told earlier in the week to reduce food orders to minimize loss. Freezers and refrigerators were packed with hundreds of bags of ice.

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**Table 1.6** Sources: Danny Gavin, "Customer Service Lessons Learned in the Wake of Hurricane Harvey," *Forbes*, September 26, 2017; Jay Steinfeld, "5 Lessons Learned from Hurricane Harvey," *Inc.*, September 21, 2017; Susan Burns and David Hackett, "Business Lessons from Hurricane Irma," 94ICEO, November–December 2017; "New Lessons to Learn," *Fortune*, October 3, 2005, pp. 87–88; AZQuotes, Accessed February 25, 2018, <http://www.azquotes.com/quote/863856>.

Such integrated functionality made dashboards extremely popular. A Gartner commentary suggests that companies put data and analytics at the heart of every company business decision.<sup>23</sup> Despite the increasing popularity of dashboard technology, the control tool has some drawbacks, such as focusing too intently on short-term results and ignoring the

overall progress toward long-term goals. And some employees might bristle at being monitored as closely as dashboard tools allow.

Nonetheless, companies are seeing real results from implementing dashboard software. Robert Romanoff, a partner at the law firm of Levenfeld Romanoff in Chicago, uses dashboards that aggregate data from clients, strategic partners, and internal staff from the mailroom to the boardroom to improve what he calls the 3 Ps. The 3 Ps are process efficiency, project management, and strategic pricing.<sup>24</sup>

## Managing Multinational Cultures

The increasing globalization of the world market has created a need for managers who have global management skills, that is, the ability to operate in diverse cultural environments. With more and more companies choosing to do business in multiple locations around the world, employees are often required to learn the geography, language, and social customs of other cultures. It is expensive to train employees for foreign assignments and pay their relocation costs; therefore, choosing the right person for the job is especially important. Individuals who are open minded, flexible, willing to try new things, and comfortable in a multicultural setting are good candidates for international management positions.

As companies expand around the globe, managers will continue to face the challenges of directing the behavior of employees around the world. They must recognize that because of cultural differences, people respond to similar situations in very different ways. The burden, therefore, falls on the manager to produce results while adapting to the differences among the employees they manage.

How a manager gets results, wins respect, and leads employees varies greatly among countries, cultures, and individuals. For example, different cultures have different approaches to time. American, German, and Swiss cultures, among others, take a linear view of time, whereas southern European countries such as Italy take a multi-active time approach, and many Eastern cultures, such as China, take a cyclic approach. An American manager with a linear view of time will approach scheduling planning with a different approach than colleagues with a multi-active or cyclic approach.<sup>25</sup> Despite differences such as these (examples of which can be cited for every country in the world), managing within a different culture is only an extension of what managers do every day: working with differences in employees, processes, and projects.

### CONCEPT CHECK

1. How can information technology aid in decision-making?
2. What are three principles of managing multinational cultures?
3. Describe several guidelines for crisis management.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Key Terms

**autocratic leaders**

Directive leaders who prefer to make decisions and solve problems on their own with little input from subordinates

**coercive power**

Power that is derived from an individual's ability to threaten negative outcomes.

**conceptual skills**

A manager's ability to view the organization as a whole, understand how the various parts are interdependent, and assess how the organization relates to its external environment.

**consensual leaders**

Leaders who encourage discussion about issues and then require that all parties involved agree to the final decision.

**consultative leaders**

Leaders who confer with subordinates before making a decision but who retain the final decision-making authority.

**contingency plans**

Plans that identify alternative courses of action for very unusual or crisis situations; typically stipulate the chain of command, standard operating procedures, and communication channels the organization will use during an emergency.

**controlling**

The process of assessing the organization's progress toward accomplishing its goals; includes monitoring the implementation of a plan and correcting deviations from the plan.

**corporate culture**

The set of attitudes, values, and standards that distinguishes one organization from another.

**decisional roles**

A manager's activities as an entrepreneur, resource allocator, conflict resolver, or negotiator.

**democratic leaders**

Leaders who solicit input from all members of the group and then allow the members to make the final decision through a vote.

**effectiveness**

The ability to produce the desired result or good.

**efficiency**

Using the least amount of resources to accomplish the organization's goals.

**empowerment**

The process of giving employees increased autonomy and discretion to make decisions, as well as control over the resources needed to implement those decisions.

**expert power**

Power that is derived from an individual's extensive knowledge in one or more areas.

**free-rein (laissez-faire) leadership**

A leadership style in which the leader turns over all authority and control to subordinates.

**global management skills**

A manager's ability to operate in diverse cultural environments.

**human relations skills**

A manager's interpersonal skills that are used to accomplish goals through the use of human resources.

**informational roles**

A manager's activities as an information gatherer, an information disseminator, or a spokesperson for the company.

**interpersonal roles**

A manager's activities as a figurehead, company leader, or liaison.

**leadership**

The process of guiding and motivating others toward the achievement of organizational goals.

**leadership style**

The relatively consistent way that individuals in leadership positions attempt to influence the behavior of others.

**legitimate power**

Power that is derived from an individual's position in an organization.

**management**

The process of guiding the development, maintenance, and allocation of resources to attain organizational goals.

**middle management**

Managers who design and carry out tactical plans in specific areas of the company.

**mission**

An organization's purpose and reason for existing; its long-term goals.

**mission statement**

A formal document that states an organization's purpose and reason for existing and describes its basic philosophy.

**nonprogrammed decisions**

Responses to infrequent, unforeseen, or very unusual problems and opportunities where the manager does not have a precedent to follow in decision-making.

**operational planning**

The process of creating specific standards, methods, policies, and procedures that are used in specific functional areas of the organization; helps guide and control the implementation of tactical plans.

**organizing**

The process of coordinating and allocating a firm's resources in order to carry out its plans.

**participative leaders**

Leaders who share decision-making with group members and encourage discussion of issues and alternatives; includes democratic, consensual, and consultative styles.

**planning**

The process of deciding what needs to be done to achieve organizational objectives; identifying when and how it will be done; and determining who should do it.

**power**

The ability to influence others to behave in a particular way.

**programmed decisions**

Decisions made in response to frequently occurring routine situations.

**referent power**

Power that is derived from an individual's personal charisma and the respect and/or admiration the individual inspires.

**reward power**

Power that is derived from an individual's control over rewards.

**situational leadership**

Selecting a leadership style based on the maturity and competency level of those who will complete the task.

**strategic planning**

The process of creating long-range (one to five years), broad goals for the organization and determining what resources will be needed to accomplish those goals.

**supervisory (first-line) management**

Managers who design and carry out operation plans for the ongoing daily activities of the firm.

**tactical planning**

The process of beginning to implement a strategic plan by addressing issues of coordination and allocating resources to different parts of the organization; has a shorter time frame (less than one year) and more specific objectives than strategic planning.

**technical skills**

A manager's specialized areas of knowledge and expertise, as well as the ability to apply that knowledge.

**top management**

The highest level of managers; includes CEOs, presidents, and vice presidents, who develop strategic plans.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Summary of Learning Outcomes

## 1.1 The Role of Management

### 1. What is the role of management?

Management is the process of guiding the development, maintenance, and allocation of resources to attain organizational goals. Managers are the people in the organization responsible for developing and carrying out this management process. The four primary functions of managers are planning, organizing, leading, and controlling. By using the four functions, managers work to increase the efficiency and effectiveness of their employees, processes, projects, and organizations as a whole.

## 1.2 Planning

### 2. What are the four types of planning?

Planning is deciding what needs to be done, identifying when and how it will be done, and determining who should do it. Managers use four different types of planning: strategic, tactical, operational, and contingency planning. Strategic planning involves creating long-range (one to five years), broad goals and determining the necessary resources to accomplish those goals. Tactical planning has a shorter time frame (less than one year) and more specific objectives that support the broader strategic goals. Operational planning creates specific standards, methods, policies, and procedures that are used in specific functional areas of the organization. Contingency plans identify alternative courses of action for very unusual or crisis situations.

## 1.3 Organizing

### 3. What are the primary functions of managers in organizing activities?

Organizing involves coordinating and allocating a firm's resources in order to carry out its plans. It includes developing a structure for the people, positions, departments, and activities within the firm. This is accomplished by dividing up tasks (division of labor), grouping jobs and employees (departmentalization), and assigning authority and responsibilities (delegation).

## 1.4 Leading, Guiding, and Motivating Others

### 4. How do leadership styles influence a corporate culture?

Leading is the process of guiding and motivating others toward the achievement of organizational goals. Managers have unique leadership styles that range from autocratic to free-rein. The set of attitudes, values, and standards of behavior



that distinguishes one organization from another is called corporate culture. A corporate culture evolves over time and is based on the accumulated history of the organization, including the vision of the founders.

## 1.5 Controlling

### 5. How do organizations control activities?

Controlling is the process of assessing the organization's progress toward accomplishing its goals. The control process is as follows: (1) set performance standards (goals), (2) measure performance, (3) compare actual performance to established performance standards, (4) take corrective action (if necessary), and (5) use information gained from the process to set future performance standards.

## 1.6 Managerial Roles

### 6. What roles do managers take on in different organizational settings?

In an informational role, the manager may act as an information gatherer, an information distributor, or a spokesperson for the company. A manager's interpersonal roles are based on various interactions with other people. Depending on the situation, a manager may need to act as a figurehead, a company leader, or a liaison.

## 1.7 Managerial Skills

### 7. What set of managerial skills is necessary for managerial success?

Managerial skills fall into three basic categories: technical, human relations, and conceptual skills. Specialized areas of knowledge and expertise and the ability to apply that knowledge make up a manager's technical skills. Human relations skills include the ability to understand human behavior, to communicate effectively with others, and to motivate individuals to accomplish their objectives. Conceptual skills include the ability to view the organization as a whole, understand how the various parts are interdependent, and assess how the organization relates to its external environment.

## 1.8 Trends in Management and Leadership

### 8. What trends will affect management in the future?

Three important trends in management today are preparing for crises management, the increasing use of information technology, and the need to manage multinational cultures. Crisis management requires quick action, telling the truth about the situation, and putting the best people on the task to correct the situation. Finally, management must learn from the crisis in order to prevent it from happening again. Using the latest information technology, such as dashboard software, managers can make quicker, better-informed decisions. As more companies "go global," the

need for multinational cultural management skills is growing. Managers must set a good example, create personal involvement for all employees, and develop a culture of trust.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Preparing for Tomorrow's Workplace Skills

1. Would you be a good manager? Do a self-assessment that includes your current technical, human relations, and conceptual skills. What skills do you already possess, and which do you need to add? Where do your strengths lie? Based on this exercise, develop a description of an effective manager. (Resources, Information)
2. Successful managers map out what they want to do with their time (planning), determine the activities and tasks they need to accomplish in that time frame (organizing), and make sure they stay on track (controlling). How well do you manage your time? Do you think ahead, or do you tend to procrastinate? Examine how you use your time, and identify at least three areas where you can improve your time management skills. (Resources)
3. Often researchers cast leadership in an inspirational role in a company and management in more of an administrative role. That tendency seems to put leadership and management in a hierarchy. Do you think one is more important than the other? Do you think a company can succeed if it has bad managers and good leaders? What about if it has good managers and bad leaders? Are managers and leaders actually the same? (Systems)
4. Today's managers must be comfortable using all kinds of technology. Do an inventory of your computer skills, and identify any gaps. After listing your areas of weakness, make a plan to increase your computer competency by enrolling in a computer class on or off campus. You may want to practice using common business applications such as Microsoft Excel by building a spreadsheet to track your budget, Microsoft PowerPoint by creating slides for your next class project, and Microsoft Outlook by uploading your semester schedule. (Information, Technology)
5. **Team Activity** One of the most common types of planning that managers do is operational planning, or the creation of policies, procedures, and rules and regulations. Assemble a team of three classmates, and work together to draft an operational plan that addresses employee attendance (or absenteeism). (Interpersonal, Systems)

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Ethics Activity

Are top executives paid too much? A study of CEO compensation revealed that CEO bonuses rose considerably—from 20 percent to 30 percent—even at companies whose revenues or profits dropped or those that reported significant employee layoffs. Such high pay for CEOs at underperforming companies, as well as CEO compensation at companies with stellar results, has raised many questions from investors and others. The highest gap in pay was in 2000. CEO pay at the largest U.S. firms was 376 times higher than that of average workers. The gap has shrunk to only 271 times higher in 2016, but that is still a lot higher than the 59-to-1 ratio in 1989. The Securities and Exchange Commission (SEC) now requires public companies to disclose full details of executive compensation, including salaries, bonuses, pensions, benefits, stock options, and severance and retirement packages.

Even some CEOs question the high levels of CEO pay. Edgar Woolard, Jr., former CEO and chairman of DuPont, thinks so. “CEO pay is driven today primarily by outside consultant surveys,” he says. Companies all want their CEOs to be in the top half, and preferably the top quarter, of all CEOs. This leads to annual increases. He also criticizes the enormous severance packages that company boards give to CEOs that fail. For example, Carly Fiorina of Hewlett-Packard received \$20 million when she was fired.

Using a web search tool, locate articles about this topic, and then write responses to the questions in the Ethical Dilemma section below. Be sure to support your arguments and cite your sources.

**Ethical Dilemma:** Are CEOs entitled to increases in compensation when their company's financial situation worsens, because their job becomes more challenging? If they fail, are they entitled to huge severance packages for their efforts? Should companies be required to divulge all details of compensation for their highest top managers, and what effect is such disclosure likely to have on executive pay?

Sources: U.S. Securities and Exchange Commission, “SEC Adopts Rule for Pay Ratio Disclosure,” <https://www.sec.gov>, accessed September 21, 2017; Jeff Cox, “CEOs Make 271 Times the Pay of Most Workers,” CNBC, <https://www.cnbc.com>, July 20, 2017; Irv Becker, “Why CEOs Aren’t Overpaid,” *Fortune*, <http://fortune.com>, June 11, 2017; “CEOs are Overpaid, Says Former DuPont CEO Edgar Woolard Jr.,” *PR Newswire*, February 9, 2006, <http://proquest.umi.com>; Elizabeth Souder, “Firm Questions Exxon CEO’s Pay,” *Dallas Morning News*, December 15, 2005, <http://galenet.thomsonlearning.com>; “Weaker Company Performance Does Not Seem to Slow CEO Pay Increases,” *Corporate Board*, September–October 2005, p. 27, <http://galenet.thomsonlearning.com>; “What Price CEO Pay?” *The Blade* (Toledo, Ohio), January 20, 2006, <http://www.toledoblade.com>.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Working the Net

1. Are you leadership material? See how you measure up at Your Leadership Legacy, <http://www.yourleadershiplegacy.com/assessment.html>. Read the commentary, and take the test. Study the outcome, and provide an example of how you would put each item into action.
2. Strategic Advantage, <http://www.balancedscorecard.org/>, offers many reasons why companies should develop strategic plans, as well as a strategy tip of the month, assessment tools, planning exercises, and resource links. Explore the site to learn the effect of strategic planning on financial performance, and present your evidence to the class. Then select a planning exercise, and with a group of classmates, perform it as it applies to your school.
3. Congratulations! You've just been promoted to your first supervisory position. However, you are at a loss as to how to actually manage your staff. This guide to general management, <https://www.thebalance.com/management-4073997>, brings together a variety of materials to help you. Check out Management Skills, as well as other resources. Develop a plan for yourself to follow.
4. How do entrepreneurs develop the corporate culture of their companies? Do a search of the term “corporate culture” on *Inc.* (<https://www.inc.com>), *Entrepreneur* (<https://www.entrepreneur.com>), or *Fast Company* (<https://www.fastcompany.com>). Prepare a short presentation for your class that explains the importance of corporate culture and how it is developed in young firms.
5. Good managers and leaders know how to empower their employees. The Business e-Coach at <http://www.1000ventures.com> explains why employee empowerment is so important in today's knowledge economy. After reviewing the information at this site, prepare a brief report on the benefits of employee empowerment. Include several ideas you would like a manager to use to empower you.
6. Get some leadership tips from 7 Steps to Closure at the Learning Center, <http://www.learningcenter.net>. Complete the Closure Planning Form to develop your own personal Success-Oriented Action Plan.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Critical Thinking Case

## *Managing an Extreme Makeover*

During a tour of a Toyota Corolla assembly plant located near their headquarters in Bangalore, India, executives of Wipro Ltd. hit on a revolutionary idea—why not apply Toyota’s successful manufacturing techniques to managing their software development and clients’ back-office operations business?

“Toyota preaches continuous improvement, respect for employees, learning, and embracing change,” says T. K. Kurien, 45, former head of Wipro’s 13,600-person business-process outsourcing unit. “What we do is apply people, technology, and processes to solve a business problem.”

Among the problems spotted early on by Kurien? Cubicles. They’re normal for programmers but interrupt the flow for business-process employees. Deciding to position people side by side at long tables assembly-line style “was a roaring disaster,” admits Kurien. “The factory idea concerned people.” So based on feedback from his middle managers, Kurien arranged classes to explain his concepts and how they would ultimately make life easier for employees.

Wipro also adopted Toyota’s *kaizen* system of soliciting employee suggestions. Priya, who has worked for Wipro for years, submitted several *kaizen* and was delighted when her bosses responded promptly to her suggestions. “Even though it’s something small, it feels good. You’re being considered,” she says. Empowerment in the workplace washed over into her private life. As the first woman in her family to attend college, she told her parents they may arrange her marriage only to a man who will not interfere with her career.

Kurien and his managers work hard at boosting employee morale, offering rewards—pens, caps, or shirts—to employees who submit suggestions to *kaizen* boxes. And each week, a top-performing employee receives a cake. Murthy, an accountant who hopes to be Wipro’s chief financial officer someday, spearheaded an effort to cut government import approval times from 30 to 15 days. He got a cake with his name written on it in honey. “I was surprised management knew what I was doing,” he says. “Now I want to do more projects.”

With multibillions in revenues, thousands of employees, and a U.S.-traded stock that advanced 230 percent in a two-year period, Wipro is a star of India’s burgeoning information technology industry. The company’s paperwork processing operations bear a clear resemblance to a Toyota plant. Two shifts of young people line long rows of tables. At the start of each shift, team leaders discuss the day’s goals and divide up tasks. And just like in a Toyota factory, electronic displays mounted on the walls shift from green to red if things get bogged down.

This obsession with management efficiency has helped India become the back-office operation for hundreds of Western companies, resulting in the transfer of many thousands of jobs offshore. “If the Indians get this right, in addition to their low labor rates, they can become deadly competition,” says Jeffrey K. Liker, a business professor at the University of Michigan and author of *The Toyota Way*, a book about Toyota’s lean manufacturing techniques. If Kurien’s management initiatives succeed, experts may soon be extolling the Wipro way.

### Critical Thinking Questions

1. What type of manager is T. K. Kurien? How would you characterize his leadership style?
2. What managerial role does T. K. Kurien assume in his approach to attaining his division’s goal of improved customer service?
3. What management skill sets does he exhibit?

Sources: Steve Hamm, “Taking a Page from Toyota’s Playbook,” *Bloomberg Businessweek*, <https://www.bloomberg.com>, accessed November 17, 2017; Shilpa Phadnis, “T K Kurien to Leave Wipro This Month,” *The Times of India*, <https://timesofindia.indiatimes.com>, January 23, 2017; Toyota Resumes Efficiency Drive,” *BBC News*, <http://www.bbc.com>, March 26, 2015.

Source contents: [\*Principles of Management\*](#) and [\*Organizational Behavior\*](#). Please visit OpenStax for more details:  
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## 2 - ORGANIZATIONAL CULTURES AND ENVIRONMENT

### Learning Outcomes

**After reading this chapter, you should be able to understand these statements:**

1. Define the external environment of organizations.
2. Identify contemporary external forces pressuring organizations.
3. Identify different types of organizational structures and their strengths and weaknesses.
4. Explain how organizations organize to meet external market threats and opportunities.
5. Identify the fit between organizational cultures and the external environment.
6. Identify environmental trends, demands, and opportunities facing organizations.

#### **EXPLORING MANAGERIAL CAREERS**

##### **Jeff Bezos of Amazon**

Amazon's market value was estimated at \$1 trillion USD dollars in 2018. The company was recognized as the most innovative company in Fast Company's 2017 list, accounting for 44 percent of all U.S. e-commerce that year— approximately 4 percent of the U.S.'s total retail sales. Amazon market value is greater than the sum of the market capitalizations of Walmart, Target, Best Buy, Nordstrom, Kohl's, JCPenney, Sears, and Macy's. Jeff Bezos, founder and leader, has creatively accomplished what most large companies fail at: meshing size, scale, and external opportunities with agility. Sales figures reached \$100 billion in 2015 while the stock price climbed over 300% in the past five years. The company plans on creating over 50,000 new jobs starting in 2018. Bezos has blended his strategy of virtually reaching unlimited numbers of online customers while maintaining land-based distribution centers using Prime's \$99-per-year—\$119 in 2018—membership. Stephenie Landry, an Amazon's vice president, stated that Prime has reached 49 cities in seven countries. Over 100 million people in 2018 subscribe to the Prime service. She noted that the business has only to answer two questions from customers: "Do you have what I want, and can you get it to me when I need it?" The answer seems to be yes, especially with Bezos's strategy of having high-tech robots already working side by side with human employees— resembling a "factory of the future."

Bezos's digital commerce strategy has led the firm to become the leader of retail commerce. Amazon's digital strategy uses Prime memberships that are supplied and supported by land-based distribution centers; Prime takes in reaching about 60% of the total dollar value of all merchandise sold on the site. That accounts for 60 million customers in the United States who use Prime and who spend \$2,500 on Amazon annually. A study of 3,000 independent businesses, half of whom were retailers, listed competition from Amazon as their primary concern. Industry after industry is being disrupted, some replaced, by Bezos's strategy. He has said, "Everybody wants fast delivery. Low prices. I'm serious about this. Our job is to provide a great customer experience, and that is something that is universally desired all over the world".

Still, Amazon faces such challenges as high shipping cost (over \$11 billion annually), pressures on employees

(especially those working in warehouses that have been criticized for poor working conditions), shipping contractors who go on strike demanding higher wages and reduced workloads, and the possibilities of more governmental regulation (especially with regard to adding drones as a delivery method), as well as pressures to pay more taxes. Bezos has countered these arguments by adding more full-time jobs in different cities, promising to improve working conditions, supporting public spaces for the public, and most importantly, contributing to the U.S. economy.

Sources: <https://www.bloomberg.com/news/articles/2018-04-26/amazon-eyes-second-biggest-market-cap-surging-past-microsoft>. Noah Robischon, (2017). Why Amazon Is The World's Most Innovative Company Of 2017, <https://www.fastcompany.com/3067455/why-amazon-is-the-worlds-most-innovative-company-of-2017>; L. Thomas, (2018). Amazon grabbed 4 percent of all US retail sales in 2017, new study says, <https://www.cnn.com/2018/01/03/amazon-grabbed-4-percent-of-all-us-retail-sales-in-2017-new-study.html>

Organizations and industries are again at a crossroads when confronting new and challenging external environmental demands. Exceptional companies such as Amazon, in the opening case, Apple, Netflix, and Google/Alphabet Inc. exemplify evolving business models that combine strategic innovation, technological prowess, and organizational cultural agility that not only meet external environmental demands, but also shape them.

Many businesses with traditional business models, however, have failed or are not succeeding strategically, operationally, and organizationally by not realizing and/or adapting to changing external environments. Such firms that were once successful but did not anticipate and then adapt to such changes include Blockbuster, Toys R Us, Borders, Sun Microsystems, Motorola, Digital Equipment Corporation, Polaroid, and Kodak, to name only a few. A sample of contemporary external environmental trends and forces that currently challenge organizations' survival and effectiveness includes:

- Digital technologies and artificial intelligence (AI): Extensions of AI help automate a firm's value chain, thus speeding up and increasing efficient operations and service to customers—as Amazon exemplifies. A current survey showed that 59% of organizations are collecting information to develop AI strategies, while others are moving forward in piloting and/or adopting AI solutions to compete faster and at less cost.<sup>1</sup> However, there are also risks that accompany firms that incorporate new digital and online technologies without adequate security measures. For example, some newer online technologies can expose operational systems to cyberattacks and large-scale manipulation. Hacking is now both an illegal and ongoing “profession” for those who are able to paralyze organizations from accessing their data unless they pay a ransom. While hacking is not new, it is more widespread and lethal, to the point of even threatening national security. Evidence from the U.S. presidential election between Donald Trump and Hillary Clinton indicates that international hackers affected online U.S. election processes. In 2020, a major cyberattack penetrated multiple portions of the U.S. federal government, including the Departments of Homeland Security, Justice, Treasury, Energy, and Defense. Still, the future of most businesses is using some type of digital and AI technologies.
- The advent of blockchain technologies that are interrupting new industry practices. Blockchain is not a single technology; it is “an architecture that allows disparate users to make transactions and then creates an unchangeable record of those transactions.” It is “a public electronic ledger—similar to a relational database—that can be openly shared among disparate users and that creates an unchangeable record of their transactions, each one time-stamped and linked to the previous one.”<sup>2</sup> These technological inventions will continue to affect almost every

business process from procurement to legal management. The banking industry is already using it. It increases speed, security, and accuracy of transactions.

- Sharing-economy cultural and economic value-added business models that use information technologies to gain competitive advantage. Companies such as Airbnb and Uber have ushered in new business models that have already disrupted real estate, hotel, taxi, and other industries. Taking out the middle layer of management in transactions to increase efficiencies and customer satisfaction while cutting costs through the use of information and social media technologies will continue. This trend has already had both positive and disruptive effects on companies. Many customers are likely benefitted; businesses with outdated and ineffective business models have either failed or struggle to adapt.
- Shifts in learning and learning credentials. Identifying, recruiting, and retaining talent is crucial to organizations. An evolving crisis for the current generation—future talent—is the continued rise in higher educational institutions' tuitions, student debt, and the changing nature of jobs. With the advent of online resources, prospective students' inability to pay creates both a crisis and opportunity for traditional higher educational institutions. While bachelor's degrees remain a requirement for many companies hiring needed higher-level talent, online resources such as Khan Academy, Udacity, and Coursera are gaining recognition and legitimacy toward providing financially challenged students opportunities for entry-level jobs. While many higher-skilled students and professionals may not presently be included in this trend, companies seeking to pay lower wages while offering flexible working conditions are attracting students.<sup>3</sup> Again, how higher educational private, not-for-profit, and even for-profit educational institutions adapt, innovate, and manage their external environments is yet to be seen.
- Ethics, corporate social responsibility (CSR), and sustainability. Corruption, lying, and fraud have been and continue to be part of the landscape of governments and public- and private-sector corporations. However, public awareness through social and online media has awakened consumers and corporations to the impending dangers and drawbacks of illegal and unethical activities of certain large corporations. And external environmental problems, created in part by humans, such as pollution and climate change pressure companies to be responsible for their share of the costs associated with these problems.

This small sample of powerful external forces illustrates the continuing pressure companies encounter to innovate in their industries. Basic theories, concepts, and principles are presented in this chapter to help explain elements of external environments and how organizations and corporations can organize and are organizing to survive and thrive in the 21st century.

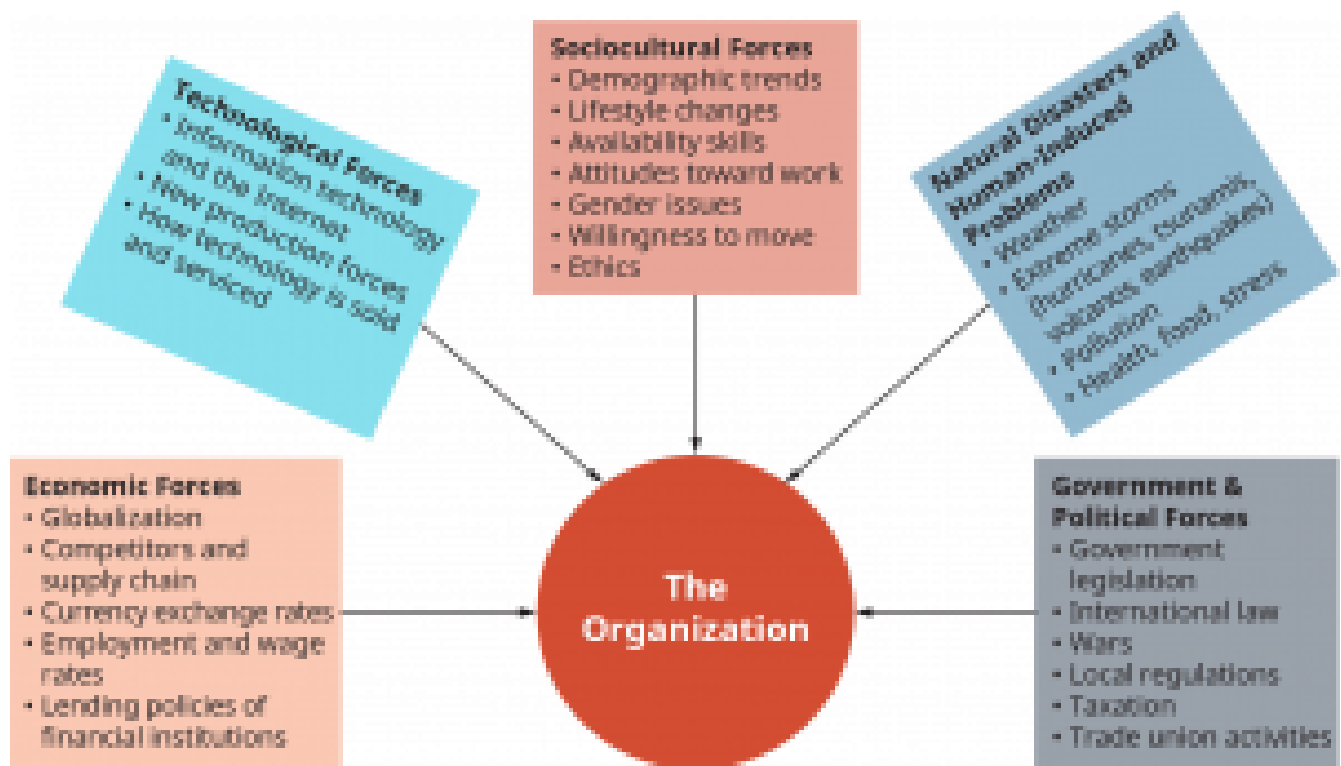
## 2.1 The Organization's External Environment

### 1. Define the external environment of organizations.

To succeed and thrive, organizations must adapt, exploit, and fit with the forces in their external environments. Organizations are groups of people deliberately formed together to serve a purpose through structured and coordinated goals and plans. As such, organizations operate in different external environments and are organized and structured internally to meet both external and internal demands and opportunities. Different types of organizations include not-for-profit, for-profit, public, private, government, voluntary, family owned and operated, and publicly traded on stock exchanges. Organizations are commonly referred to as companies, firms, corporations, institutions, agencies, associations, groups, consortiums, and conglomerates.

While the type, size, scope, location, purpose, and mission of an organization all help determine the external environment in which it operates, it still must meet the requirements and contingencies of that environment to survive and prosper. This chapter is primarily concerned with how organizations fit with their external environments and how organizations are structured to meet challenges and opportunities of these environments. Major takeaways for readers of this chapter include the following: 1) Be able to identify elements in any organization's external—and internal—environment that may interest or affect you as an employee, shareholder, family member, or observer. 2) Gain insights into how to develop strategies and tactics that would help you (and your organization) navigate ways to cope with or try to dominate or appeal to elements (e.g., market segments, stakeholders, political/social/economic/technological issues) in the environment.

The big picture of an organization's external environment, also referred to as the general environment, is an inclusive concept that involves all outside factors and influences that impact the operation of a business that an organization must respond or react to in order to maintain its flow of operations.<sup>4</sup> **Exhibit 2.1** illustrates types of general macro environments and forces that are interrelated and affect organizations: sociocultural, technological, economic, government and political, natural disasters, and human-induced problems that affect industries and organizations. For example, economic environmental forces generally include such elements in the economy as exchange rates and wages, employment statistics, and related factors such as inflation, recessions, and other shocks—negative and positive. Hiring and unemployment, employee benefits, factors affecting organizational operating costs, revenues, and profits are affected by global, national, regional, and local economies. Other factors discussed here that interact with economic forces include politics and governmental policies, international wars, natural disasters, technological inventions, and sociocultural forces. It is important to keep these dimensions in mind when studying organizations since many if not most or all changes that affect organizations originate from one or more of these sources—many of which are interrelated.



**Exhibit 2.1** Macro Forces and Environments (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Globalization is a combination of external forces shaping environments of organizations. Defined as the development of an integrated global economy and characterized by free trade, capital flows, communications, and cheaper foreign labor markets, the processes of globalization underlie the forces in the general international economic environment. This dimension continues to present opportunities and pressures to companies operating locally as well as globally. Globalization continues to affect industries and companies in ways that benefit some and not others. Amazon, for example, is thriving. The firm sells low-end products through its brand AmazonBasics. The company has individual retail websites for the United States, the United Kingdom and Ireland, France, Canada, Germany, Italy, Spain, the Netherlands, Australia, Brazil, Japan, China, India, and Mexico. Uber and Airbnb represent some of the larger sharing-economy companies that operate internationally and have to date prospered in the so-called new but fragmenting global economy.

In general, countries that have gained from globalization include Japan, South Korea, Taiwan, Malaysia, Singapore, Hong Kong, Thailand, and China. China's markets and growing economic prowess have particularly been noticed. China's GDP (gross domestic product) is estimated at \$13.2 trillion in 2018, outpacing the \$12.8 trillion combined total of the 19 countries that use the euro.<sup>5</sup> Corporations worldwide, large and small, online and land-based, strive to gain access to sell in China's vast markets. Moreover, China at the beginning of 2018 owns \$1.168 trillion of the United States' debt.<sup>6</sup> Japan, in second place, owes \$1.07 trillion of this debt. Any instability politically and economically with China could result in increasing inflation and interest rates in the U.S. economy that could, in turn, negatively affect U.S. businesses.

#### **Economic forces**

Economically, "The strategic challenge of the next decade is navigating a world that is simultaneously integrating and fragmenting. Stock markets have set new records and economic volatility has fallen to historic lows, while political

shocks on a scale unseen for generations have taken place. Seemingly contradictory realities do co-exist.”<sup>7</sup> Overall, while economic data indicates that globalization has had a positive effect on the world economy, a dark side also shows that two-thirds of all households in 25 advanced-economy countries had incomes stagnate and/or decline between 2005 and 2014. Moreover, the U.K. and U.S. witnessed falling wages. Wealth distribution in these countries continues to decline. Income inequality globally is also rising. Other trends that also affect the global, regional, and local economies are discussed in this chapter as well as below.

**Technological forces** are another ubiquitous environmental influence on organizations. Speed, price, service, and quality of products and services are dimensions of organizations’ competitive advantage in this era. Information technologies and social media powered by the Internet and used by sharing-economy companies such as Airbnb and Uber have democratized and increased, if not leveled, competition across several industries, such as taxis, real estate rentals, and hospitality services. Companies across industry sectors cannot survive without using the Internet, social media, and sophisticated software in R&D (research and development), operations, marketing, finance, and sales. To manage and use big data in all these functional areas, organizations rely on technology.

**Government and political forces** also affect industries and organizations. Recent events that have jarred the global economy—and are too early to predict the long-term outcomes of—are the United Kingdom’s exit from the European Union, wars in the Middle East, policies that question and disrupt free trade, health-care reform, and immigration—all of which increase uncertainty for businesses while creating opportunities for some industries and instability in others.

## *Sociocultural forces*

**Sociocultural environmental forces** include different generations’ values, beliefs, attitudes, customs and traditions, habits, and lifestyles. More specifically, other aspects of societal cultures are education, language, religion, law, politics, and social organizations. The millennial (ages 20 to 35) workforce, for example, generally seeks work that engages and interests them. Members of this generation are also health conscious and eager to learn. Since this and the newer generation (Generation Z) are adept and accustomed to using technology—social media in particular—organizations must be ready and equipped to provide wellness, interesting, and a variety of learning and work experiences to attract and retain new talent. Millennials are also estimated to be the United States’ largest living adult generation in 2019. This generation numbered about 71 million compared with 74 million baby boomers (ages 52 to 70) in 2016. By 2019, an estimated 73 million millennials and 72 million boomers are projected. Because of immigration, millennials are estimated to increase until 2036.

Other general sociocultural trends occurring in the United States and internationally that affect organizations include the following: (1) Sexual harassment at work in the era of #MeToo has pressured organizations to be more transparent about relationships between owners, bosses, and employees. Related to this trend, some surveys show new difficulties for men in workplace interactions and little effect on women’s career opportunities taking place in the short term. (2) While fewer immigrants have been entering the United States in recent years, diversity in the U.S. workplace continues. For example, 20 million Asian Americans trace their roots to over 20 countries in East and Southeast Asia and the Indian subcontinent—“each with unique histories, cultures, languages and other characteristics. The 19 largest origin groups together account for 94% of the total Asian population in the U.S.” (3) Young adults in the United States are living at home longer. “In 2016, 15% of 25- to 35-year-old Millennials were living in their parents’ home. This is 5 percentage points higher than the share of Generation Xers who lived in their parents’ home in 2000 when they were the same age (10%), and nearly double the share of the Silent Generation who lived at home in 1964 (8%).” (4) While women have made gains in the workplace, they still comprise a small share of top leadership jobs—across politics and government, academia, the nonprofit sector, and business. Women comprised only about 10% of CEOs (chief executive officers), CFOs (chief financial officers), and the next three highest-paid executives in U.S. companies in 2016–17. A 2018 study by McKinsey & Company “reaffirms the global relevance of the link between diversity—defined as a greater proportion of women and a more mixed ethnic and cultural composition in the leadership of large companies—and company financial

outperformance.” These and other related sociocultural trends impact organizational cultures and other dimensions involving human talent and diverse workforces.

## Natural disasters and human-related problems

**Natural disaster and human induced environmental problems** are events such as high- impact hurricanes, extreme temperatures and the rise in CO2 emissions as well as ‘man- made’ environmental disasters such as water and food crises; biodiversity loss and ecosystem collapse; large-scale involuntary migration are a force that affects organizations. The 2018 Global Risks Report identified risks in the environmental category that also affect industries and companies—as well as continents and countries. These risks were ranked higher than average for both likelihood and impact over a 10-year horizon. The report showed that 2017 was characterized by high-impact hurricanes, extreme temperatures, and the first rise in carbon dioxide emissions in four years; “man-made” environmental disasters; water and food crises; biodiversity loss and ecosystem collapse; and large-scale involuntary migration to name a few. Authors of this study noted that “Biodiversity is being lost at mass-extinction rates, agricultural systems are under strain and pollution of the air and sea has become an increasingly pressing threat to human health.”<sup>14</sup> Most vulnerable to rising seas are low-lying islands in the Indian and Pacific Oceans. The Republic of the Marshall Islands has more over 1,100 low-lying islands on 29 atolls that include island nations with hundreds of thousands of people. Predictions indicate that rising sea levels could reach 3 feet worldwide by 2300 or sooner. One report stated that in your child’s lifetime, Miami, Florida, could be underwater.<sup>15</sup> Large sections of Louisiana’s marshes separating the ocean from the coastline are submerging. Oil producers and other related corporations are being sued by that state, claiming that fossil fuel emissions have contributed to natural disasters such as climate change. Many new companies in the United States are already constructing buildings to withstand increasing flooding and predicted rising water levels.

### CONCEPT CHECK

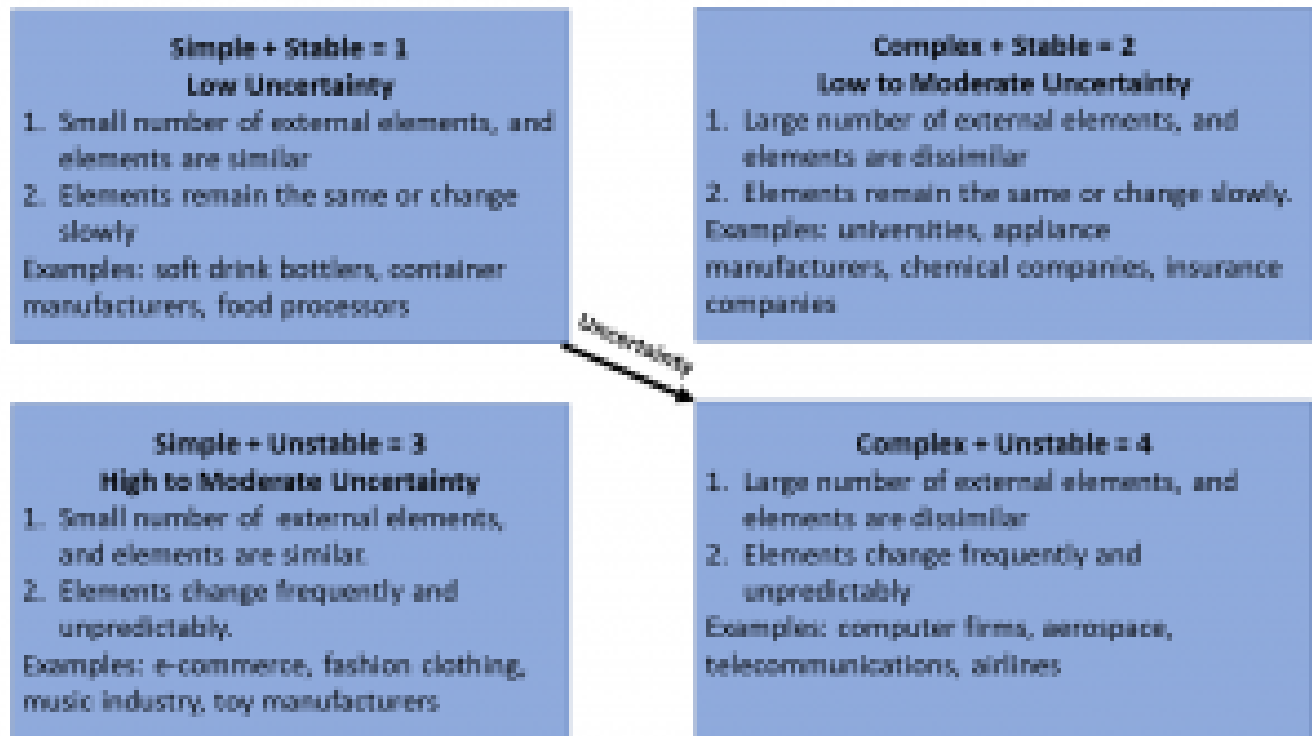
1. Define the components of the internal and the external business environments.
2. What factors within the economic environment affect businesses?
3. Why do demographic shifts and technological developments create both challenges and new opportunities for business?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 2.2 External Environments and Industries

2. Identify contemporary external forces pressuring organizations.

Industry and organizational leaders monitor environments to identify, predict, and manage trends, issues, and opportunities that their organizations and industries face. Some corporations, such as Amazon, anticipate and even create trends in their environments. Most, however, must adapt. External environments, as identified in the previous section, can be understood by identifying the uncertainty of the environmental forces. **Exhibit 2.2** illustrates a classic and relevant depiction of how scholars portray environment-industry-organization “fit,” that is, how well industries and organizations align with and perform in different types of environments.



**Exhibit 2.2** Company Industry Fit Adapted from: Duncan, R. (1972). Characteristics of organizational environments of uncertainty. *American Science Quarterly*, 17 (September), 313-327; Daft, R. *Organizational Theory and Design*, 12th edition, p. 151, Mason, OH, Cengage Learning.

The two dimensions of this figure represent “environmental complexity” (i.e., the number of elements in the environment, such as competitors, suppliers, and customers), which is characterized as either simple or complex, and “environmental change,” described as stable or unstable. How available monetary and financial resources are to support an organization’s growth is also an important element in this framework.<sup>16</sup> Certain industries— soft drink bottlers, beer distributors, food processors, and container manufacturers—would, hypothetically, fit and align more effectively in a stable (i.e., relative unchanging), simple, and low-uncertainty (i.e., has mostly similar elements) external environment—cell 1 in Exhibit 4.4. This is referred to when organizations are in a simple-stable environment. Of course unpredicted conditions, such as global and international turmoil, economic downturns, and so on, could affect these industries, but generally, these alignments have served as an ideal type and starting point for understanding the “fit” between environment and industries. In a stable but complex, low- to moderate-uncertainty environment, cell 2 in Exhibit 4.4, universities, appliance manufacturers, chemical companies, and insurance companies would generally



prosper. This is referred to when organizations are in a complex-stable environment. When the external environment has simple but high to moderate uncertainty, cell 3 of Exhibit 4.4, e-commerce, music, and fashion clothing industries would operate effectively. This is referred to when organizations are in a simple- unstable environment. Whereas in cell 4 of Exhibit 4.4, an environment characterized by a high degree of uncertainty with complex and unstable elements, industries and firms such as computer, aerospace, airlines, and telecommunications firms would operate more effectively. This is referred to when organizations are in a complex-unstable environment.

**Exhibit 2.2** is a starting point for diagnosing the “fit” between types of external environments and industries. As conditions change, industries and organizations must adapt or face consequences. For example, educational institutions that traditionally have been seen to operate best in low- to moderate-uncertainty environments, cell 2 of Exhibit 4.4, have during this past decade experienced more high to moderate uncertainty (cell 3)— and even high uncertainty (cell 4). For example, for-profit educational institutions such the University of Phoenix and others—as compared to not-for-profit universities and colleges, such as public state institutions, community colleges, and private nonprofit ones—have undergone more unstable and complex forces in the external environment over the past decade. Under the Obama administration, for-profit universities faced greater scrutiny regarding questionable advertising, graduation rates, and accreditation issues; lawsuits and claims against several of these institutions went forward, and a few of the colleges had to close. The Trump administration showed signs of alleviating aggressive governmental control and monitoring in this sector. Still, higher educational institutions in general currently face increasingly complex and unstable environments given higher tuition rates, increased competition from less-expensive and online programs, fewer student enrollments, and an overabundance of such institutions. Several private, not-for-profit higher educational institutions have merged and also ceased to exist. Adapting to increasingly rapid external change has become a rallying call for most industries and organizations as the 21st century evolves.

### **Organizational Complexity**

It is important to point out here that external (and internal) organizational complexity is not often as simple as it may seem. It has been defined as “...the amount of complexity derived from the environment where the organisation operates, such as the country, the markets, suppliers, customers and stakeholders; while internal complexity is the amount of complexity that is internal to the organisation itself, i.e. products, technologies, human resources, processes and organisational structure. Therefore, different aspects compose internal and external complexities.”<sup>17</sup>

The dilemma that organizational leaders and managers sometimes face is how to deal with external, and internal, complexity? Do you grow and nurture it or reduce it? Some strategies call for reducing and managing it at the local level while nurturing it at the global level—depending on the organization’s size, business model, and the nature of the environments. Without going into complicated detail, it is fair to say at the beginning of the chapter that you may want to read through the chapter first, then return here afterward.

In the meantime, here are some simple rules from organizational practitioners De Toni and De Zan to keep in mind for managing high levels of complexity from the external environment, internally, after you have diagnosed the nature of the external complexity—as we discuss throughout in this chapter: first, assemble “...a set of self-managing teams or autonomous business units,[known as modularized units] with an entrepreneurial responsibility to the larger organization.” These focused self-organizing teams use creative methods to deal with the diversity to the advantage of the organization. A second method when facing high external environmental complexity when you want to gain value from it is to find and develop “...simple rules to drive out creativity and innovation ... to keep the infrastructure and processes simple, while permitting complex outputs and behaviours.” An example offered is found in the rules of the Legos company: “(1) does the proposed product have the Lego look? (2) Will children learn while having fun? (3) Will parents approve? (4) Does the product maintain high quality standards? (5) Does it stimulate creativity?”

A third strategy for dealing with external complexity involves companies’ building on their own capabilities. If companies attempt to manage too much complexity it would lead to chaos. Some strategies to combat external complexity and improve a company’s capabilities include: (1) creating open networks internal and outside the organization to promote cooperation and integration, and (2) to develop and advance their brand and reputation. Some of those strategies include creating open networks internal and outside the organization to promote cooperation and integration and to develop brand and reputation. Also, sharing “...values, vision, strategy, organizational processes and

knowledge, through the development of trust and incorporation and promotion of leaders at all levels” can help internal teams exploit external complexity to the organization’s advantage. Keep these ideas in mind as you read through the chapter and think about how leaders, managers, employees, and you can learn to read external environmental clues that organizations can use to creatively and proactively use organizational resources to be more competitive, effective, and successful.

#### **CONCEPT CHECK**

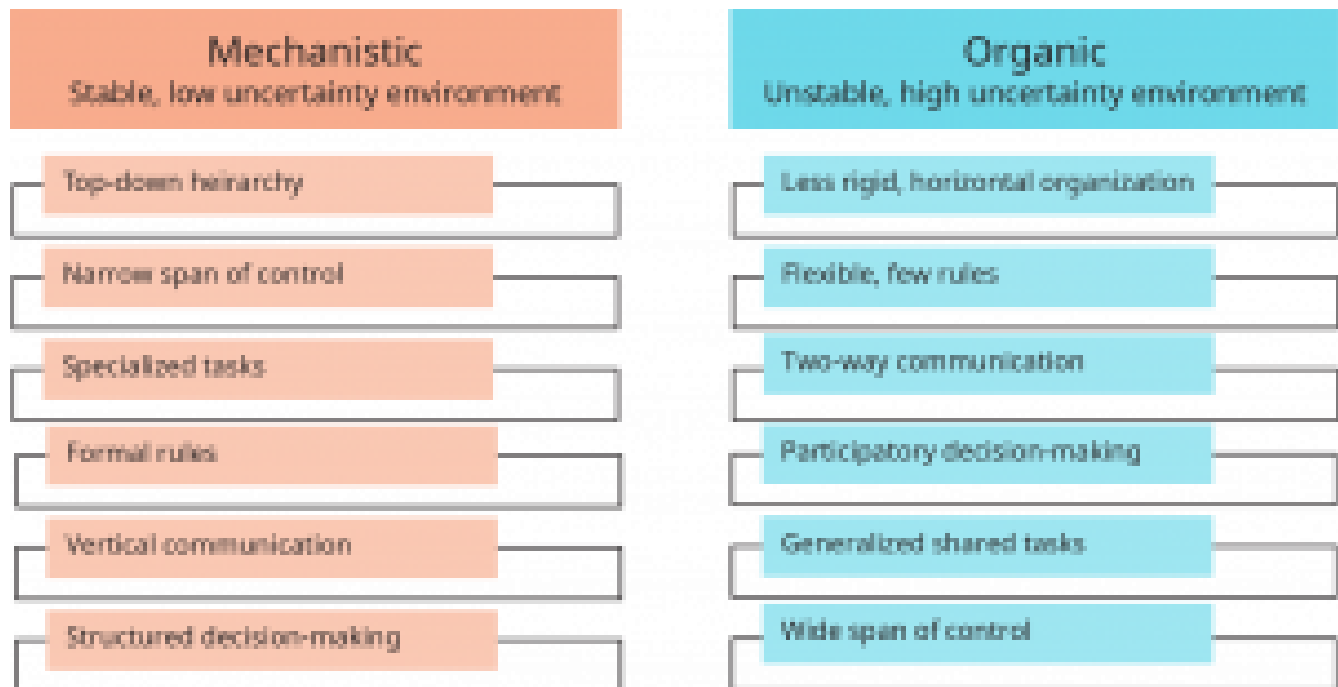
1. What factors within the economic environment affect businesses?
2. Why do change and shifts and technological developments create both challenges and new opportunities for business?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 2.3 Organizational Designs and Structures

3. Identify different types of organizational structures and their strengths and weaknesses.

A 2017 Deloitte source asked, before answering, “Why has organizational design zoomed to the top of the list as the most important trend in the Global Human Capital Trends survey for two years in a row?”<sup>19</sup> The source continued, “The answer is simple: The way high- performing organizations operate today is radically different from how they operated 10 years ago. Yet many other organizations continue to operate according to industrial-age models that are 100 years old or more.”



**Exhibit 2.3 Mechanistic and Organic Organizations** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Early organizational theorists broadly categorized organizational structures and systems as either mechanistic or organic.<sup>21</sup> This broad, generalized characterization of organizations remains relevant. Mechanistic organizational structures (**Exhibit 2.3**) are best suited for environments that range from stable and simple to low-moderate uncertainty (**Exhibit 2.2**) and are characterized by top-down hierarchies of control that are rule-based. The chain of command is highly centralized and uses formal authority; tasks are clearly defined and differentiated to be executed by specific specialized experts. Bosses and supervisors have fewer people working directly under them (i.e., a narrow span of control), and the organization is governed by rigid departmentalization (i.e., an organization is divided into different departments that perform specialized tasks according to the departments’ expertise). This form of organization represents a traditional type of structure that evolved in environments that were, as noted above, stable with low complexity. Historically, the U.S. Postal Service and other manufacturing types of industries (**Exhibit 4.4**) were mechanistic. Again, this type of organizational design may still be relevant, as **Exhibit 2.2** suggests, in simple, stable, low-uncertainty environments.

**Organic organizational structures** and systems, however, have opposite characteristics from mechanistic ones. As **Exhibit 2.2** shows, these organizational forms work best in unstable, complex, changing environments. Their structures are flatter, with participatory communication and decision-making flowing in different directions. There is more fluidity

and less-rigid ways of performing tasks; there may also be fewer rules. Tasks are more generalized and shared; there is a wider span of control (i.e., more people reporting to managers). **Exhibit 2.3** offers examples of organically structured industries, such as high tech, computer, aerospace, and telecommunications industries, that must deal with change and uncertainty. Contemporary corporations and firms engaged in fast-paced, highly competitive, rapidly changing, and turbulent environments are becoming more organic in different ways, as we will discuss in this chapter. However, not every organization or every part of most organizations may require an organic type of structure. Understanding different organizational designs and structures is important to discern when, where, and under what circumstances a type of mechanistic system or part of an organization would be needed. The following section discusses five types of structures with variations.

### **Types of Organizational Structures**

Within the context of mechanistic versus organic structures, specific types of organizational structures in the United States historically evolved over at least three eras, as we discuss here before explaining types of organizational designs. During the first era, the mid-1800s to the late 1970s, organizations were mechanistic self-contained, top-down pyramids.<sup>22</sup> Emphasis was placed on internal organizational processes of taking in raw materials, transforming those into products, and turning them out to customers.

Early organizational structures were focused on internal hierarchical control and separate functional specializations in order to adapt to external environments. Structures during this era grouped people into functions or departments, specified reporting relationships among those people and departments, and developed systems to coordinate and integrate work horizontally and vertically. As will be explained, the functional structure evolved first, followed by the divisional structure and then the matrix structured.

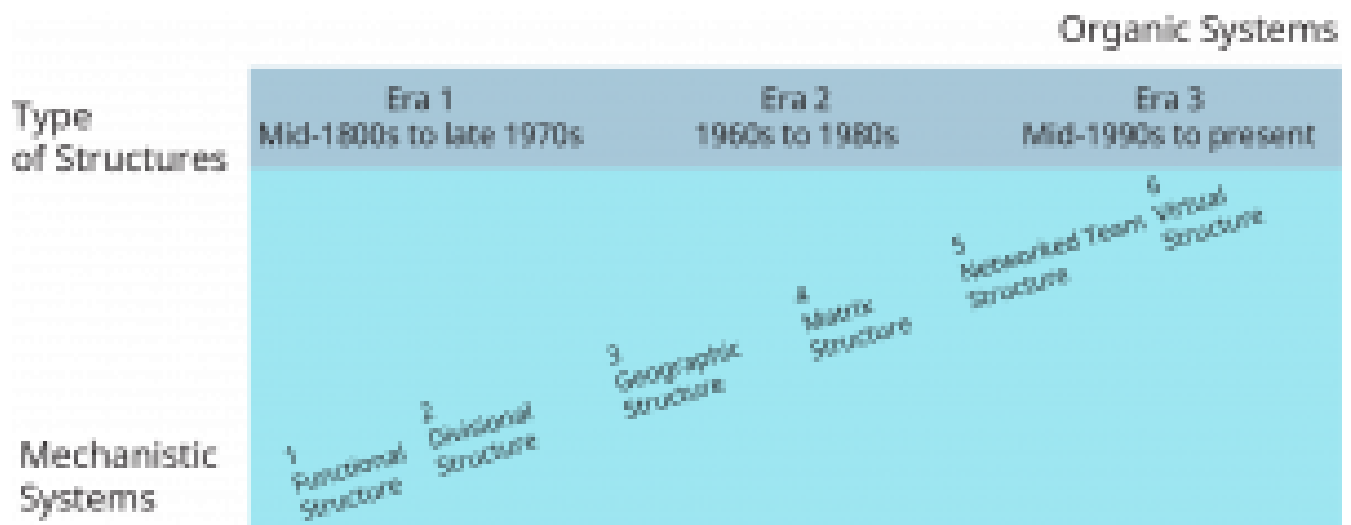
The second era started in the 1980s and extended through the mid-1990s. More-complex environments, markets, and technologies strained mechanistic organizational structures. Competition from Japan in the auto industry and complex transactions in the banking, insurance, and other industries that emphasized customer value, demand and faster interactions, quality, and results issued the need for more organic organizational designs and structures.

Communication and coordination between and among internal organizational units and external customers, suppliers, and other stakeholders required higher levels of integration and speed of informational processing. Personal computers and networks had also entered the scene. In effect, the so-called “horizontal organization” was born, which emphasized “reengineering along workflow processes that link organizational capabilities to customers and suppliers.” Ford, Xerox Corp., Lexmark, and Eastman Kodak Company are examples of early adopters of the horizontal organizational design, which, unlike the top-down pyramid structures in the first era, brought flattened hierarchical, hybrid structures and cross-functional teams.

The third era started in the mid-1990s and extends to the present. Several factors contributed to the rise of this era: the Internet; global competition—particularly from China and India with low-cost labor; automation of supply chains; and outsourcing of expertise to speed up production and delivery of products and services. The so-called silos and walls of organizations opened up; everything could not be or did not have to be produced within the confines of an organization, especially if corporations were cutting costs and outsourcing different functions of products to save costs. During this period, further extensions of the horizontal and organic types of structures evolved: the divisional, matrix, global geographic, modular, team-based, and virtual structures were created.

In the following discussion, we identify major types of structures mentioned above and discuss the advantages and disadvantages of each, referenced in **Exhibit 2.4**. Note that in many larger national and international corporations, there is a mix and match among different structures used. There are also advantages and disadvantages of each structure. Again, organizational structures are designed to fit with external environments. Depending on the type of environments from our earlier discussion in which a company operates, the structure should facilitate that organization’s capability to achieve its vision, mission, and goals.

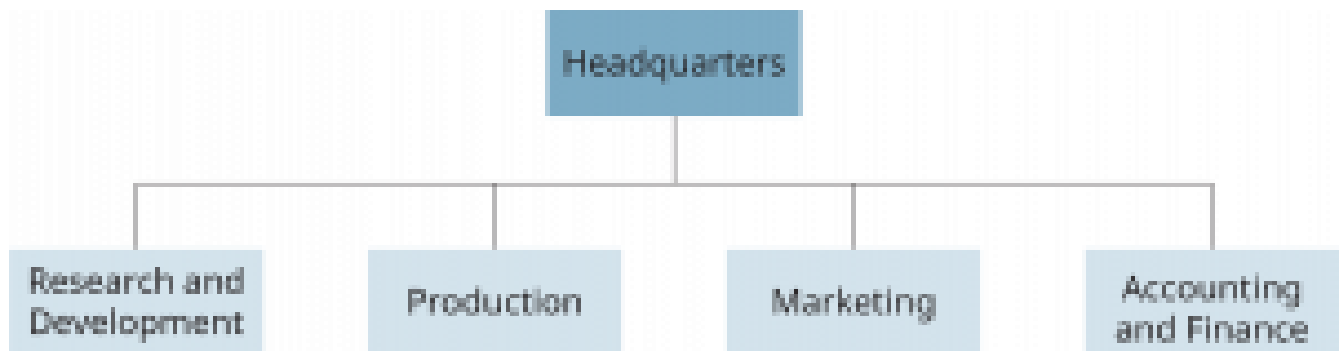
**Exhibit 2.4** offers a profile of different structures that evolved in our discussion above.



**Exhibit 2.4 Evolution of Organizational Structure** Adapted from: Daft, R., 2016, Organization Theory and Design, 12th edition, Cengage learning, Chapter 3; Warren, N., “Hitting the Sweet Spot Between Specialization and Integration in Organizational Design”, People and Strategy, 34, No. 1, 2012, pp. 24-30.

Note the continuum in **Exhibit 2.4**, showing the earliest form of organizational structure, functional, evolving with more complex environments to divisional, matrix, team-based, and then virtual. This evolution, as discussed above, is presented as a continuum from mechanistic to organic structures—moving from more simple, stable environments to complex, changing ones, as illustrated in **Exhibit 2.4**. The six types of organizational structures discussed here include functional, divisional, geographic, matrix, networked/team, and virtual.

The functional structure, shown in **Exhibit 2.5**, is among the earliest and most used organizational designs. This structure is organized by departments and expertise areas, such as R&D (research & development), production, accounting, and human resources. Functional organizations are referred to as pyramid structures since they are governed as a hierarchical, top-down control system.



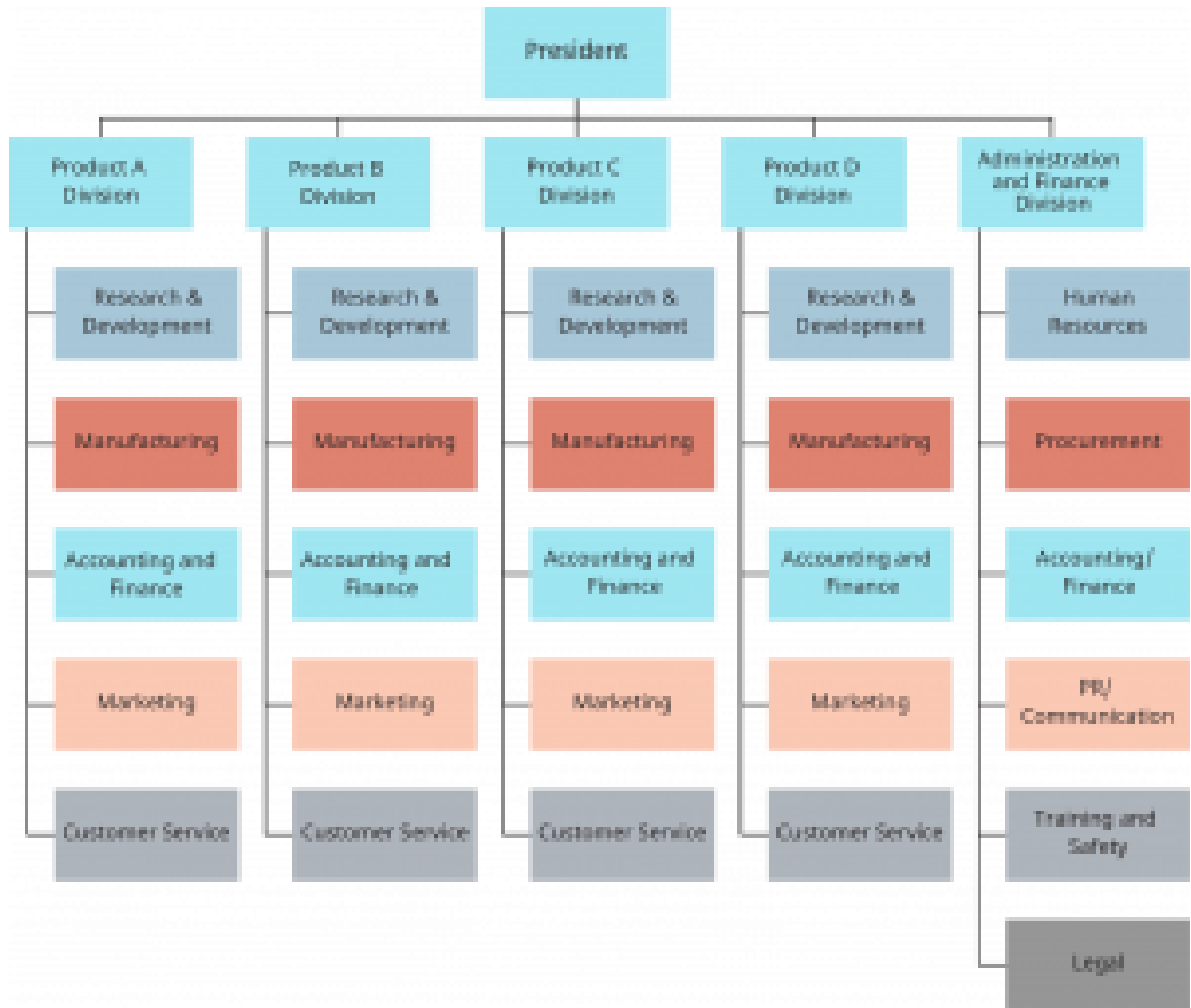
**Exhibit 2.5 Functional Structure** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Small companies, start-ups, and organizations working in simple, stable environments use this structure, as do many large government organizations and divisions of large companies for certain tasks.

The functional structure excels in providing for a high degree of specialization and a simple and straightforward reporting system within departments, offers economies of scale, and is not difficult to scale if and when the organization grows. Disadvantages of this structure include isolation of departments from each other since they tend to form “silos,”

which are characterized by closed mindsets that are not open to communicating across departments, lack of quick decision-making and coordination of tasks across departments, and competition for power and resources.

Divisional structures, see **Exhibit 2.6**, are, in effect, many functional departments grouped under a division head. Each functional group in a division has its own marketing, sales, accounting, manufacturing, and production team. This structure resembles a product structure that also has profit centers. These smaller functional areas or departments can also be grouped by different markets, geographies, products, services, or other whatever is required by the company's business. The market-based structure is ideal for an organization that has products or services that are unique to specific market segments and is particularly effective if that organization has advanced knowledge of those segments.

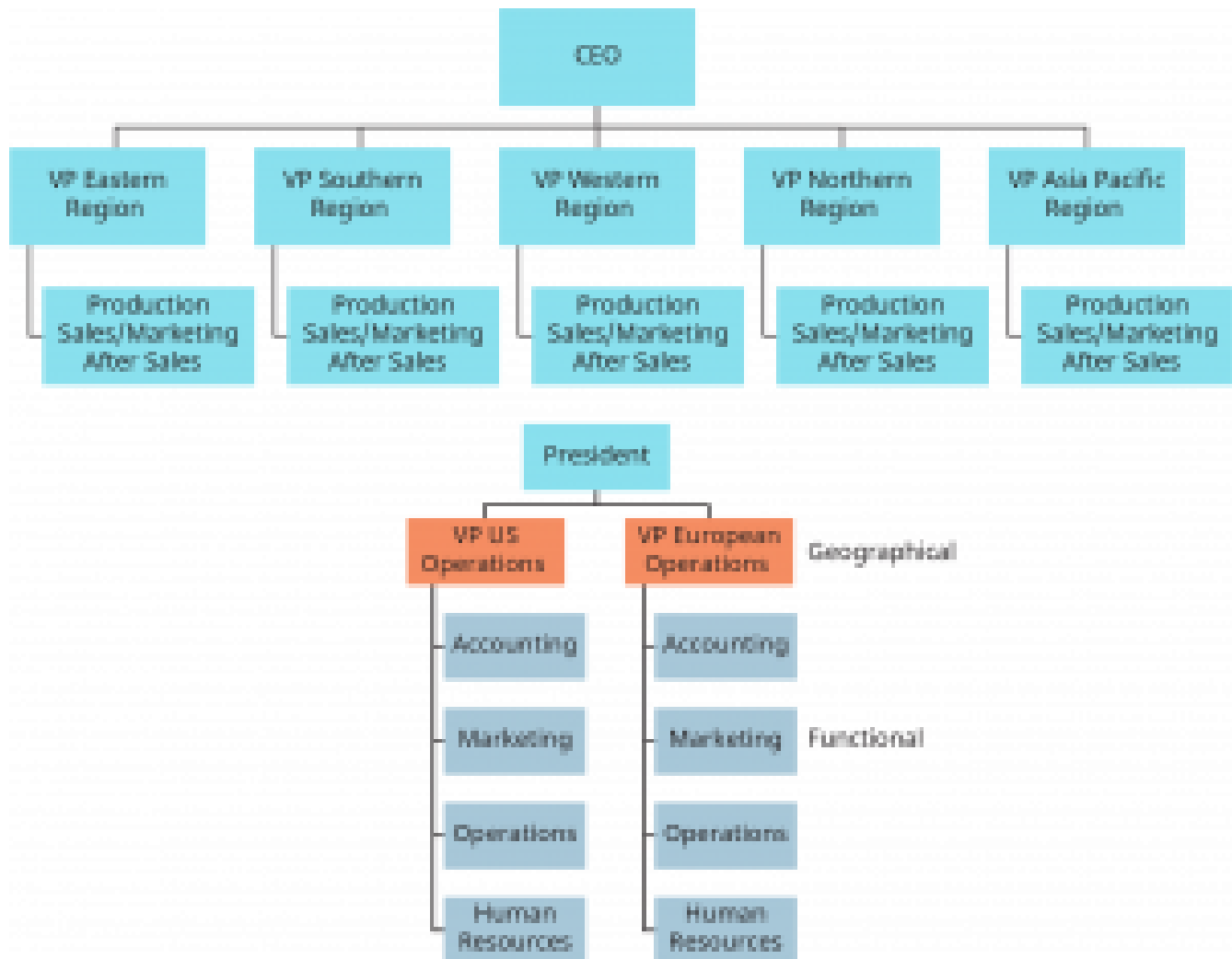


**Exhibit 2.6 Divisional Organization Structure** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The advantages of a divisional structure include the following: each specialty area can be more focused on the business segment and budget that it manages; everyone can more easily know their responsibilities and accountability expectations; customer contact and service can be quicker; and coordination within a divisional grouping is easier, since all the functions are accessible. The divisional structure is also helpful for large companies since decentralized

decision-making means that headquarters does not have to micromanage all the divisions. The disadvantages of this structure from a headquarters perspective are that divisions can easily become isolated and insular from one another and that different systems, such as accounting, finance, sales, and so on, may suffer from poor and infrequent communication and coordination of enterprise mission, direction, and values. Moreover, incompatibility of systems (technology, accounting, advertising, budgets) can occur, which creates a strain on company strategic goals and objectives.

A geographic structure, **Exhibit 2.7**, is another option aimed at moving from a mechanistic to more organic design to serve customers faster and with relevant products and services; as such, this structure is organized by locations of customers that a company serves. This structure evolved as companies became more national, international, and global. Geographic structures resemble and are extensions of the divisional structure.

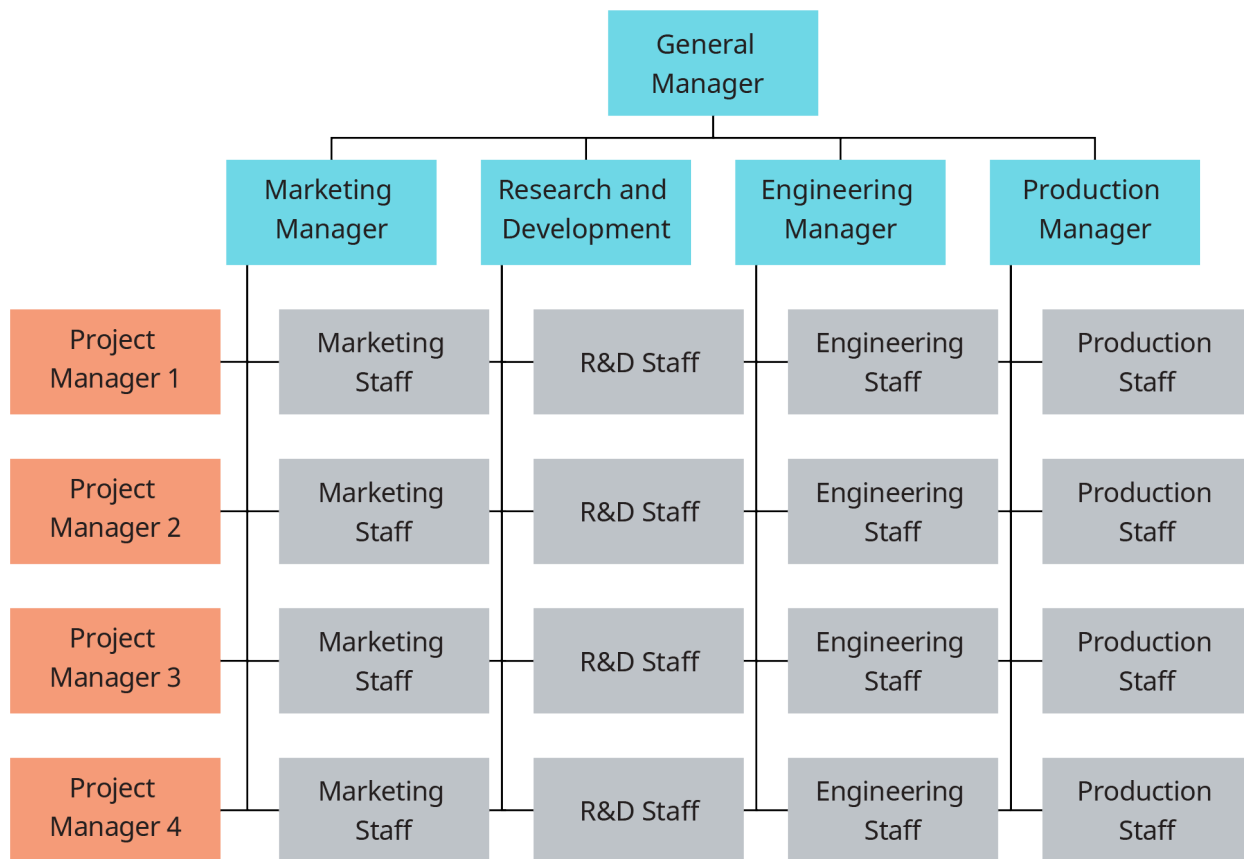


**Exhibit 2.7 Geographic Structure** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Organizing geographically enables each geographic organizational unit (like a division) the ability to understand, research, and design products and/or services with the knowledge of customer needs, tastes, and cultural differences. The advantages and disadvantages of the geographic structure are similar to those of the divisional structure. Headquarters must ensure effective coordination and control over each somewhat autonomous geographically self-contained structure.

The main downside of a geographical organizational structure is that it can be easy for decision-making to become decentralized, as geographic divisions (which can be hundreds if not thousands of miles away from corporate headquarters) often have a great deal of autonomy.

**Matrix structures**, illustrated in **Exhibit 2.4** and depicted in **Exhibit 2.8**, move closer to organic systems in an attempt to respond to environmental uncertainty, complexity, and instability. The matrix structure actually originated at a time in the 1960s when U.S. aerospace firms contracted with the government. Aerospace firms were required to “develop charts showing the structure of the project management team that would be executing the contract and how this team was related to the overall management structure of the organization.” As such, employees would be required to have dual reporting relationships—with the government and the aerospace company.<sup>25</sup> Since that time, this structure has been imitated and used by other industries and companies since it provides flexibility and helps integrate decision-making in functionally organized companies.



**Exhibit 2.8 Matrix Structure** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Matrix designs use teams to combine vertical with horizontal structures. The traditional functional or vertical structure and chain of command maintains control over employees who work on teams that cut across functional areas, creating horizontal coordination that focuses projects that have deadlines and goals to meet within and often times in addition to those of departments. In effect, matrix structures initiated horizontal team-based structures that provided faster information sharing, coordination, and integration between the formal organization and profit-oriented projects and programs.

As **Exhibit 2.8** illustrates, this structure has lines of formal authority along two dimensions: employees report to a functional, departmental boss and simultaneously to a product or project team boss. One of the weaknesses of matrix structures is the confusion and conflicts employees experience in reporting to two bosses. To work effectively, employees (including their bosses and project leaders) who work in dual-authority matrix structures require good interpersonal communication, conflict management, and political skills to manage up and down the organization.



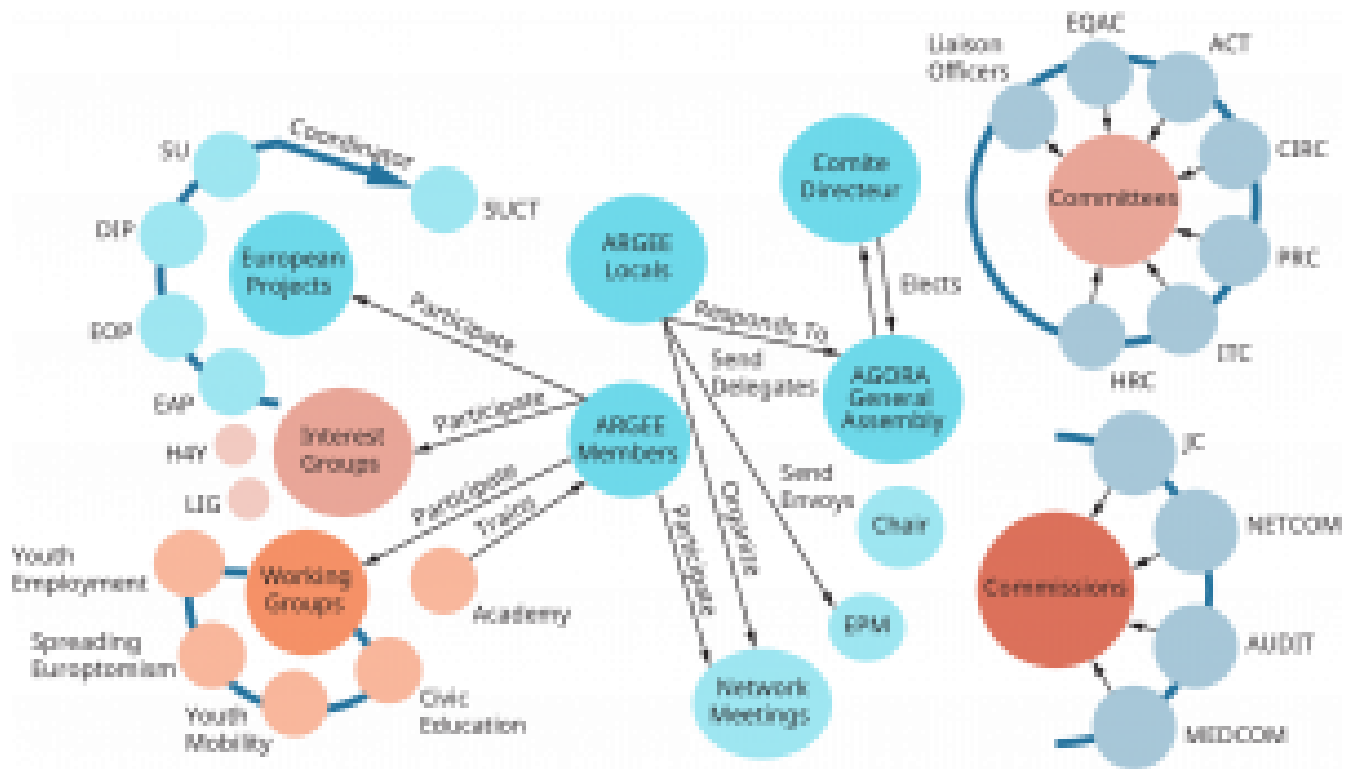
Different types of matrix structures, some resembling virtual team designs, are used in more complex environments.<sup>26</sup> For example, there are cross-functional matrix teams in which team members from other organizational departments report to an “activity leader” who is not their formal supervisor or boss. There are also functional matrix teams where employees from the same department coordinate across another internal matrix team consisting of, for example, HR or other functional area specialists, who come together to develop a limited but focused common short-term goal. There are also global matrix teams consisting of employees from different regions, countries, time zones, and cultures who are assembled to achieve a short-term project goal of a particular customer. Matrix team members have been and are a growing part of horizontal organizations that cut across geographies, time zones, skills, and traditional authority structures to solve customer and even enterprise organizational needs and demands.

As part of the next discussed organizational type of structure, networked teams, organizational members in matrix structures must “learn how to collaborate with colleagues across distance, cultures and other barriers. Matrix team members often suffer from the problem of divided loyalties where they have both team and functional goals that compete for their time and attention, they have multiple bosses and often work on multiple teams at the same time. For some matrix team members this may be the first time they have been given accountability for results that are broader than delivery of their functional goals. Some individuals relish the breath and development that the matrix team offers and others feel exposed and out of control.” To succeed in these types of horizontal organizational structures, organizational members “should focus less on the structure and more on behaviors.”

**Networked team structures** are another form of the horizontal organization. Moving beyond the matrix structure, networked teams are more informal and flexible. “[N]etworks have two salient characteristics: clustering and path length. Clustering refers to the degree to which a network is made up of tightly knit groups while path lengths is a measure of distance—the average number of links separating any two nodes in the network.”<sup>28</sup> A more technical explanation can be found in this footnote source.<sup>29</sup> For our purposes here, a networked organizational structure is one that naturally forms after being initially assigned. Based on the vision, mission, and needs of a problem or opportunity, team members will find others who can help—if the larger organization and leaders do not prevent or obstruct that process.

There is not one classical depiction of this structure, since different companies initially design teams to solve problems, find opportunities, and discover resources to do so.

Stated another way, “The networked organization is one that is connected together by informal networks and the demands of the task, rather than a formal organizational structure. The network organization prioritizes its ‘soft structure’ of relationships, networks, teams, groups and communities rather than reporting lines.”<sup>30</sup> **Exhibit 2.9** is a suggested illustration of this structure.

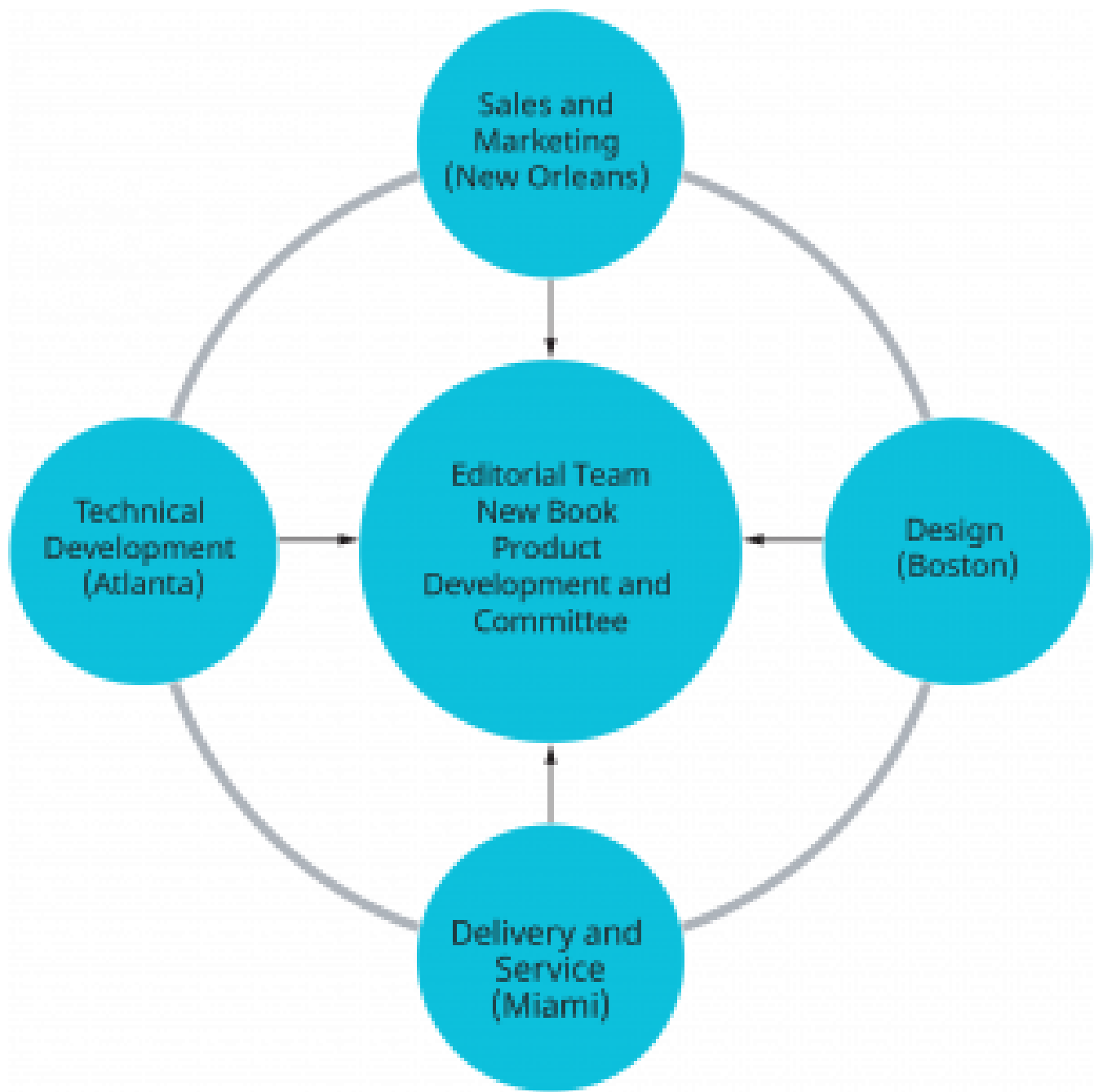


**Exhibit 2.9 Networked Team Structure** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

A Deloitte source based on the 2017 Global Human Capital Trend study stated that as organizations continue to transition from vertical structures to more organic ones, networked global designs are being adapted to larger companies that require more reach and scope and quicker response time with customers: “Research shows that we spend two orders of magnitude more time with people near our desk than with those more than 50 meters away. Whatever a hierarchical organization chart says, real, day-to-day work gets done in networks. This is why the organization of the future is a ‘network of teams.’”

Advantages of networked organizations are similar to those stated earlier with regard to organic, horizontal, and matrix structures. Weaknesses of the networked structure include the following: (1) Establishing clear lines of communication to produce project assignments and due dates to employees is needed. (2) Dependence on technology—Internet connections and phone lines in particular—is necessary. Delays in communication result from computer crashes, network traffic errors and problems; electronic information sharing across country borders can also be difficult. (3) Not having a central physical location where all employees work, or can assemble occasionally to have face-to-face meetings and check results, can result in errors, strained relationships, and lack of on-time project deliverables.

**Virtual structures and organizations** emerged in the 1990s as a response to requiring more flexibility, solution-based tasks on demand, fewer geographical constraints, and accessibility to dispersed expertise. Virtual structures are depicted in **Exhibit 2.10**. Related to so-called modular and digital organizations, virtual structures are dependent on information communication technologies (ICTs).



**Exhibit 2.10 Virtual Structure** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

These organizations move beyond network team structures in that the headquarters or home base may be the only or part of a stable organizational base. Otherwise, this is a “boundaryless organization.” Examples of organizations that use virtual teams are Uber, Airbnb, Amazon, Reebok, Nike, Puma, and Dell. Increasingly, organizations are using different variations of virtual structures with call centers and other outsourced tasks, positions, and even projects.

Advantages of virtual teams and organizations include cost savings, decreased response time to customers, greater access to a diverse labor force not encumbered by 8-hour workdays, and less harmful effects on the environment. “The telecommuting policies of Dell, Aetna, and Xerox cumulatively saved 95,294 metric tons of greenhouse gas emissions last year, which is the equivalent of taking 20,000 passenger vehicles off of the road.”<sup>34</sup> Disadvantages are social isolation of employees who work virtually, potential for lack of trust among employees and between the company and employees

when communication is limited, and reduced collaboration among separated employees and the organization's officers due to lack of social interaction.

In the following section, we turn to internal organizational dimensions that complement structure and are affected by and affect external environments.

#### **CONCEPT CHECK**

1. Why does the matrix structure have a dual chain of command?
2. How does a matrix structure increase power struggles or reduce accountability?
3. What are the advantages of committees?

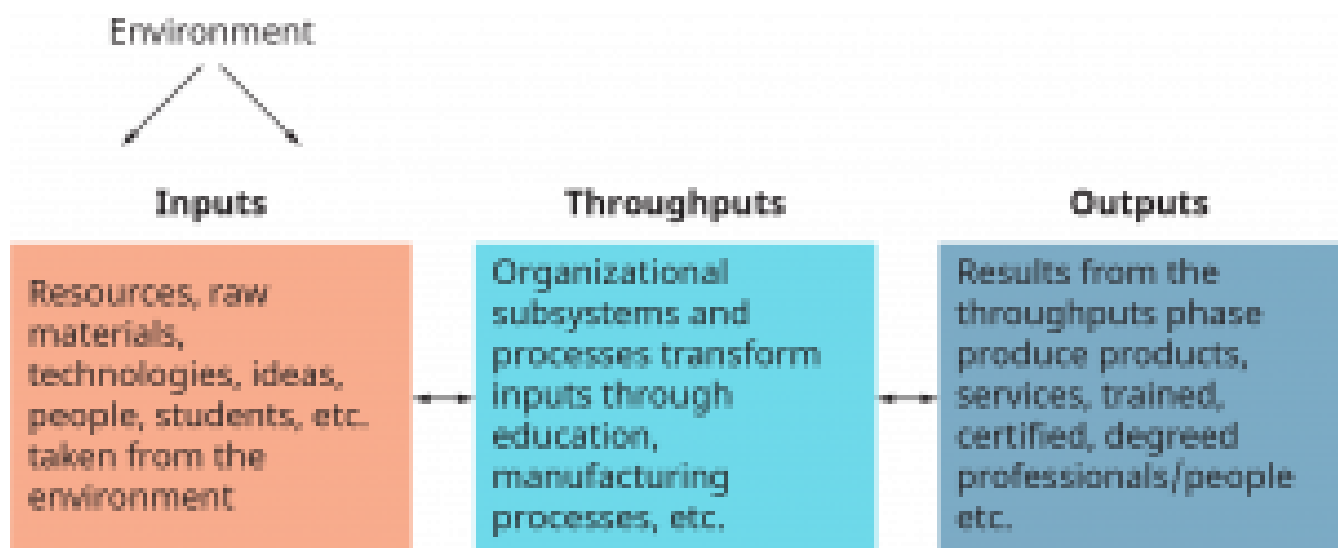
Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 2.4 The Internal Organization and External Environments

4. Explain how organizations organize to meet external market threats and opportunities.

At a basic level of understanding how internal organizations respond to environments, consider the theory of Open Systems, which the organizational theorists Katz and Kahn<sup>35</sup> and Bertalanffy introduced.

**Exhibit 2.11** illustrates this theory's view of organizations as open systems that take in resources and raw materials at the “input” phase from the environment in a number of forms, depending on the nature of the organization, industry, and its business. Whatever the input resource, (information, raw materials, students entering a university), those resources will be transformed by the internal processes of the organization. The internal organizational systems then process and transform the input material, which is called “through-put” phase, and move the changed material (resources) to the “outputs” and back into the environment as products, services, graduates, etc.



**Exhibit 2.11 Open System Model of an Organization** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

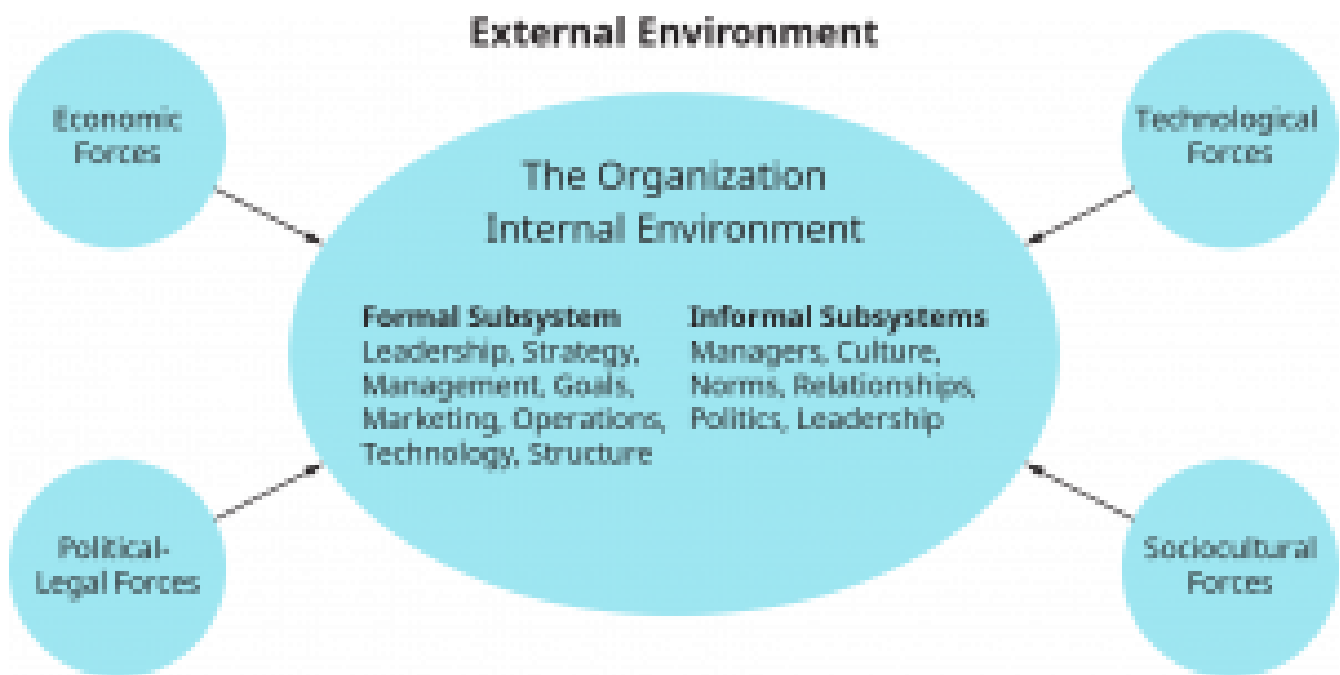
The open systems model serves as a feedback loop continually taking in resources from the environment, processing and transforming them into outputs that are returned to the environment. This model explains organizational survival that emphasizes long-term goals.

Organizations according to this theory are considered as either Open or Closed systems, (or relatively opened or closed) depending on the organization's sensitivity to the environment. Closed systems are less sensitive to environmental resources and possibilities, and open systems are more responsive and adaptive to environmental changes. For example, during the 1980's the then Big 3 U.S. auto manufacturers (Ford, General Motors and Chrysler) were pressured by Japanese auto manufacturers' successful 4-cylinder car sales that hit the U.S. like a shock wave. The Detroit producers experienced slumping sales, plant closures, and employee lay-offs in response to the Japanese wave of competition. It seemed that the U.S. auto makers had become closed or at least insensitive to changing trends in cars during that time and were unwilling to change manufacturing processes. Similarly, Amazon's business model, discussed earlier, has and continues to pressure retailers to innovate and change processes and practices to compete in this digital era.

Organizations respond to external environments not only through their structures, but also by the domains they choose and the internal dimensions and capabilities they select. An organization defines itself and its niche in an environment by the choice of its domain, i.e., what sector or field of the environment it will use its technology, products, and services to compete in and serve. Some of the major sectors of a task environment include marketing, technology, government, financial resources, and human resources.

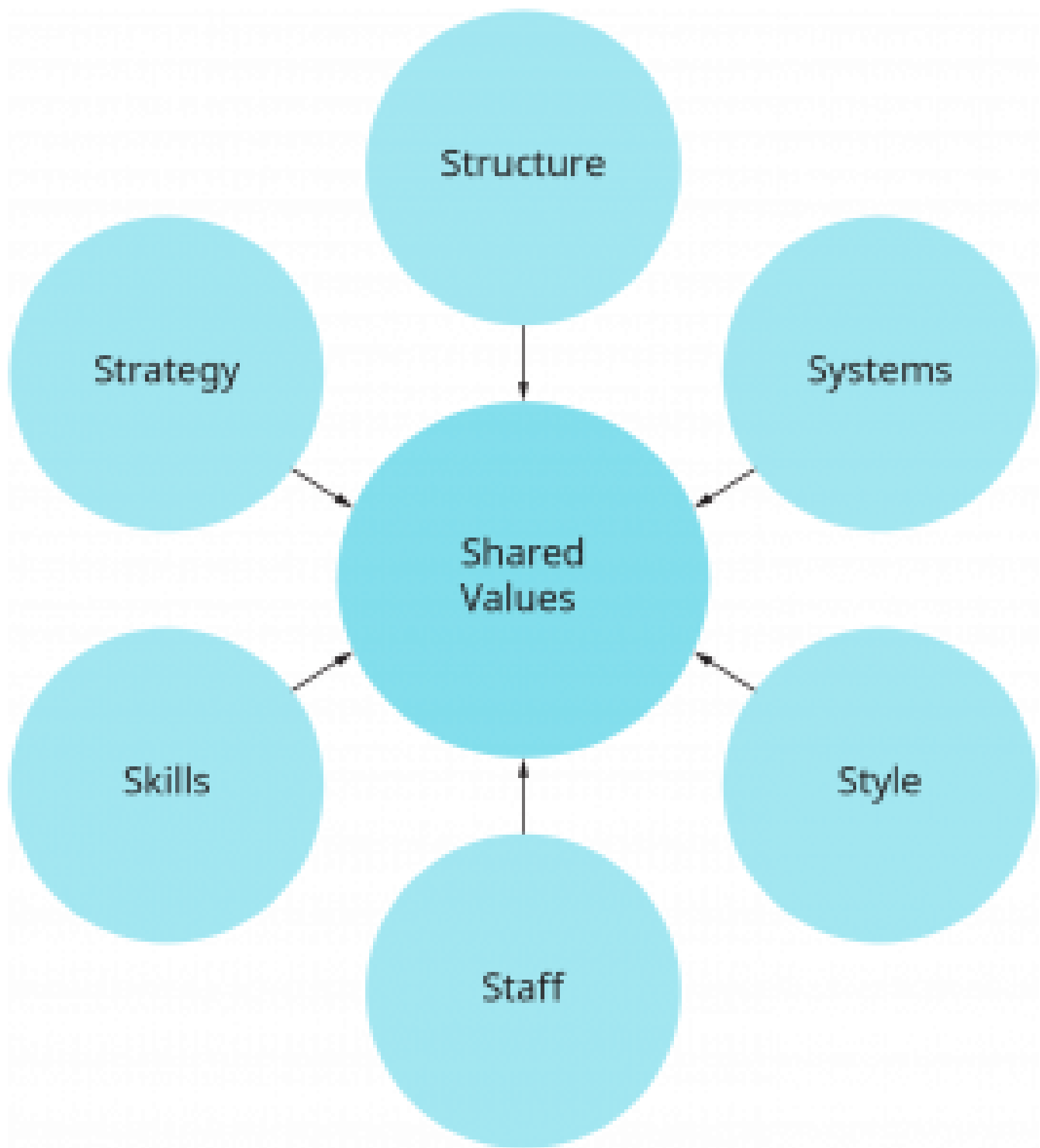
Presently, several environmental domains that once were considered stable have become more complex and unstable—e.g., toys, public utilities, the U.S. Postal Service, and higher education. And even domains are changing. For example, as referred to earlier, the traditionally stable and somewhat unchanging domain of higher education has become more complex with the entry of for-profit educational institutions, MOOCs (massive open online courses), internal company “universities,” and other certification and degree programs outside traditional private institutions. Sharing-economy companies such as Uber and Airbnb have redefined the transportation domain in which taxis operate and the hospitality domain in which hotels and bed and breakfasts serve. New business models that use mobile phones, ICTs (information communication technologies), and apps remove middle management layers in traditional organizations and structures.

With a chosen domain in which to operate, owners and leaders must organize internal dimensions to compete in and serve their markets. For example, hierarchies of authority and chain of command are used by owners and top-level leaders to develop and implement strategic and enterprise decisions; managers are required to provide technologies, training, accounting, legal, and other infrastructure resources; and cultures still count to establish and maintain norms, relationships, legal and ethical practices, and the reputation of organizations.



**Exhibit 2.12 Internal Organization** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

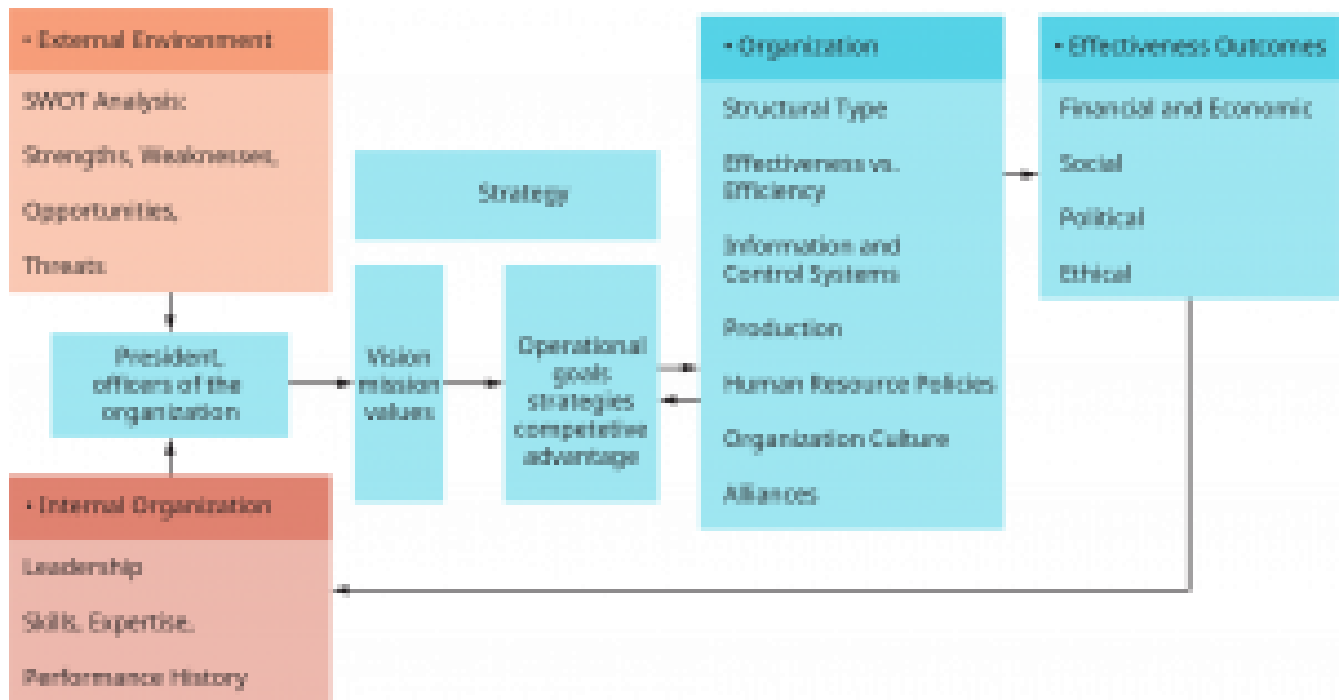
**Exhibit 2.12** shows internal organizational dimensions. These dimensions and systems include leadership, strategy, culture, management, goals, marketing, operations, and structure. Relationships, norms, and politics are also included in the informal organization. There are other internal functions not listed here, such as research and development, accounting and finance, production, and human resources. Another popular depiction of internal organizational dimensions is the McKinsey 7-S model, shown in **Exhibit 2.13**. Similarly, strategy, structure, systems, skills, staff, and style all revolve around and are interconnected with shared values (or culture) in an organization.



**Exhibit 2.13 The McKinsey 7-S Model** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

A unifying framework shown in **Exhibit 2.14**, developed by Arie Lewin and Carroll Stephens,<sup>37</sup> illustrates the integration of internal organizational dimensions and how these work in practice to align with the external environment. Note that it is the CEO and other top-level leaders who scan the external environment to identify uncertainties and resources before using a SWOT analysis (identifying strengths, weaknesses, opportunities, and threats) to confirm and update the domain of an organization and then to define the vision, mission, goals, and strategies. Once the

enterprise goals and strategies are developed, the organizational culture, structure, and other systems and policies can be established (human resources, technologies, accounting and finance, and so on).



**Exhibit 2.14 The Internal Organization and External Environment** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

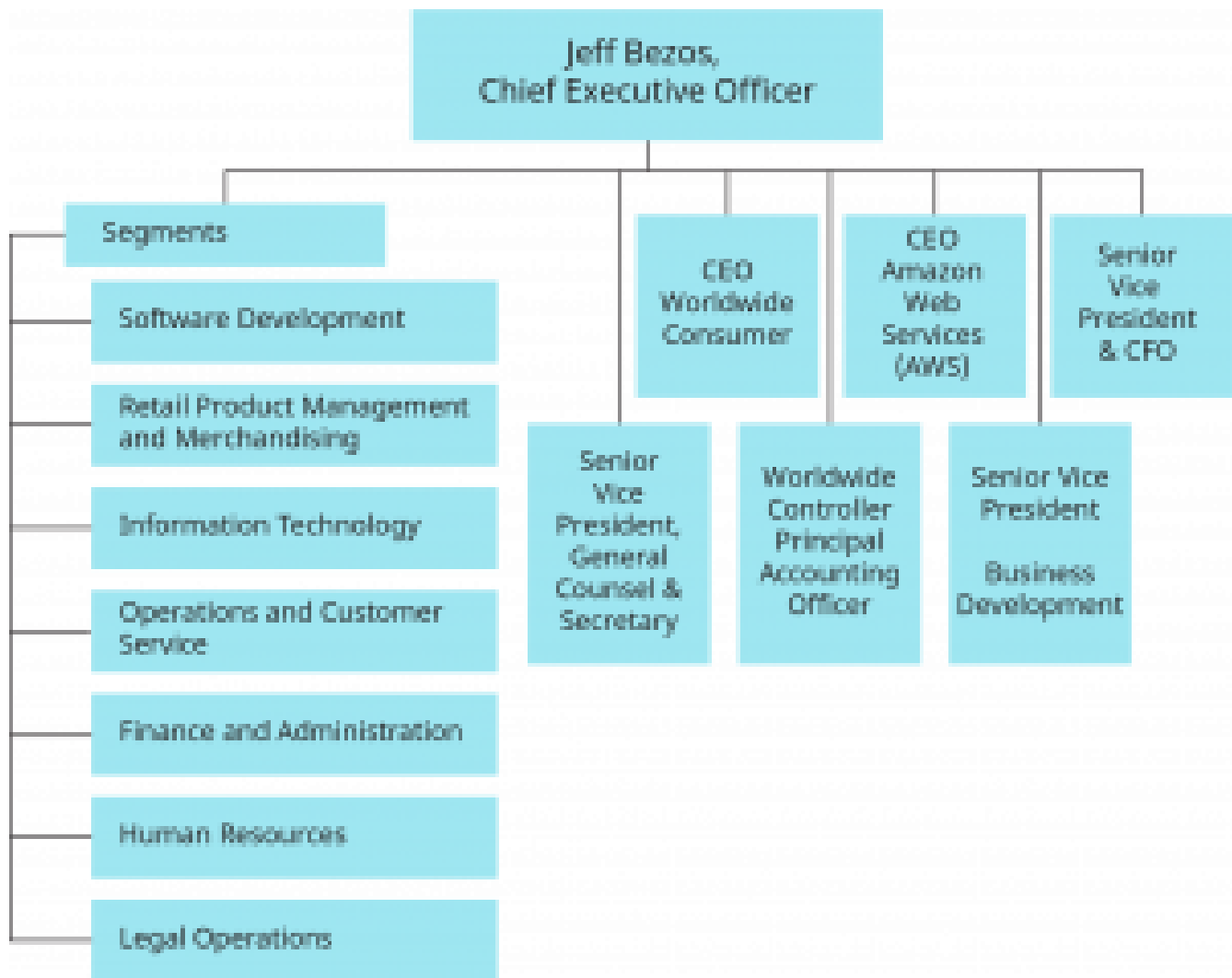
As **Exhibit 2.14** shows, after a CEO and the top-level team identify opportunities and threats in the environment, they then determine the domain and purpose of the organization from which strategies, organizational capabilities, resources, and management systems must be mobilized to support the enterprise's purpose.<sup>38</sup> The company McDonald's has, for example, successfully aligned its enterprise with the global environments it serves, which is "1% of the world's population—more than 70 million customers—every day and in virtually every country across the world." The major operating goal of the firm driving its internal alignment is a "fanatical attention to the design and management of scalable processes, routines, and a working culture by which simple, stand-alone, and standardized products are sold globally at a predictable, and therefore manageable, volume, quality, and cost."<sup>39</sup> A more detailed SWOT analysis of McDonald's operations can be found in endnote.

In practice, no internal organizational alignment with its external environment is perfect or permanent. Quite the opposite. Companies and organizations change leadership and strategies and make structural and systems changes to meet changing competition, market forces, and customers and end users' needs and demands. Even Amazon continues to develop, expand, and change. With a mission statement as bold and broad as Amazon's, change is a constant: "Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online" (Amazon.com, Apr 15, 2018).

Amazon has a functional organizational structure that focuses on business functions for determining the interactions among the different parts of the company. Amazon's corporate structure is best characterized as global function-based groups (most significant feature), a global hierarchy, and geographic divisions, as **Exhibit 2.14** shows. This structure seems to fit with the size of Amazon's business—43% of 2016 retail sales were in the United States.<sup>40</sup> Seven segments, including information technology, human resources and legal operations, and heads of segments, report to Amazon's



CEO. “Senior management team include two CEOs, three Senior Vice Presidents and one Worldwide Controller, who are responsible for various vital aspects of the business reporting directly to Amazon CEO Jeff Bezos.” The strategic goal underlying this structure is to facilitate Amazon.com to successfully implement e-commerce operations management throughout the entire organization.



**Exhibit 2.15 Amazon's Corporate Structure** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Despite the company's exponential growth and success to date, as noted earlier in the section on organizational structures, a disadvantage of structures such as Amazon's, and in this case Amazon's, is that it has limited flexibility and responsiveness even with its current growth. “The dominance of the global function-based groups and global hierarchy characteristics reduces the capacity of Amazon to rapidly respond to new issues and problems encountered in the e-commerce business.” Still, Amazon's most outstanding success factor remains its CEO, Jeff Bezos—his ingenuity, vision and foresight, and ability to sustain and even extend the company's competitive advantages. Amazon customers value these factors—customer purchase criteria (CPC) that include price, fast delivery, and reliable service. “Consumers choose Amazon because it does better than its competition on these CPC.”

### CONCEPT CHECK

1. Identify the six major organizational structures.
2. Explain the McKinsey 7-S model.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 2.5 Corporate Cultures

### 5. Identify the fit between organizational cultures and the external environment

Organizational culture is considered one of the most important internal dimensions of an organization's effectiveness criteria. Peter Drucker, an influential management guru, once stated, "Culture eats strategy for breakfast." He meant that corporate culture is more influential than strategy in terms of motivating employees' beliefs, behaviors, relationships, and ways they work since culture is based on values. Strategy and other internal dimensions of organization are also very important, but organizational culture serves two crucial purposes: first, culture helps an organization adapt to and integrate with its external environment by adopting the right values to respond to external threats and opportunities; and secondly, culture creates internal unity by bringing members together so they work more cohesively to achieve common goals. Culture is both the personality and glue that binds an organization. It is also important to note that organizational cultures are generally framed and influenced by the top-level leader or founder. This individual's vision, values, and mission set the "tone at the top," which influences both the ethics and legal foundations, modeling how other officers and employees work and behave. A framework used to study how an organization and its culture fit with the environment is offered in the Competing Values Framework.

The Competing Values Framework (CVF) is one of the most cited and tested models for diagnosing an organization's cultural effectiveness and examining its fit with its environment. The CVF, shown in **Exhibit 2.16**, has been tested for over 30 years; the effectiveness criteria offered in the framework were discovered to have made a difference in identifying organizational cultures that fit with particular characteristics of external environments.

## Competing Values Framework Cameron & Quinn (1999)



**Exhibit 2.16 The Competing Values Framework** Source: Adapted from K. Cameron and R. Quinn, 1999. Diagnosing and Changing Organizational Culture, Addison-Wesley, p. 32.

The two axes in the framework, external focus versus internal focus, indicate whether or not the organization's culture is externally or internally oriented. The other two axes, flexibility versus stability and control, determine whether a culture functions better in a stable, controlled environment or a flexible, fast-paced environment. Combining the axes offers four cultural types: (1) the dynamic, entrepreneurial Adhocracy Culture—an external focus with a flexibility orientation; (2) the people-oriented, friendly Clan Culture—an internal focus with a flexibility orientation; (3) the process-oriented, structured Hierarchy Culture—an internal focus with a stability/control orientation; and (4) the results-oriented, competitive Market Culture—an external focus with a stability/control orientation.

The orientation of each of these cultural types is summarized as follows. The Adhocracy Culture profile of an organization emphasizes creating, innovating, visioning the future, managing change, risk-taking, rule-breaking, experimentation, entrepreneurship, and uncertainty. This profile culture is often found in such fast-paced industries

as filming, consulting, space flight, and software development. Facebook and Google's cultures also match these characteristics. It should be noted, however, that larger organizations may have different cultures for different groupings of professionals, even though the larger culture is still dominant. For example, a different subculture may evolve for hourly workers as compared to PhD research scientists in an organization.

The Clan Culture type focuses on relationships, team building, commitment, empowering human development, engagement, mentoring, and coaching. Organizations that focus on human development, human resources, team building, and mentoring would fit this profile. This type of culture fits Tom's of Maine, which has strived to form respectful relationships with employees, customers, suppliers, and the physical environment.

The Hierarchy Culture emphasizes efficiency, process and cost control, organizational improvement, technical expertise, precision, problem solving, elimination of errors, logical, cautious and conservative, management and operational analysis, and careful decision-making. This profile would suit a company that is bureaucratic and structured, such as the U.S. Postal Service, the military, and other similar types of government agencies.

The Market Culture focuses on delivering value, competing, delivering shareholder value, goal achievement, driving and delivering results, speedy decisions, hard driving through barriers, directive, commanding, and getting things done. This profile suits a marketing- and-sales-oriented company that works on planning and forecasting but also getting products and services to market and sold. Oracle under the dominating, hard-charging executive chairman Larry Ellison characterized this cultural fit.

Amazon illustrates a company that can have a mix of cultures and be effective. For example, Amazon blends a high-performance Adhocracy Culture with regard to its external expansion and Bezos's leadership style; at the same time, Amazon resembles a Hierarchy Culture internally with regard to its tight control over employees at lower levels. The company propelled its domain from an "online bookstore" "to selling everything online to being the pioneering in adopting cloud computing with AWS . . . to adopting the latest robotics in its warehouses to improve productivity . . . to thinking and testing disruptive technologies like drones and so on." It has been criticized, at the same time, for its "toxic cut-throat work environment," asserting that Jeff Bezos is overly demanding and sets very high standards for Amazon employees, as well as for himself. This type of culture extends down to the warehouse employees. Amazon employees have complained that "Work came first, life came second, and trying to find the balance came last." This criticism peaked with an alleged suicide attempt in 2017 of a disgruntled employee who requested a transfer to a different department within in the company but was placed on an employee improvement plan—"a step that could result in his termination from Amazon if his performance didn't improve." Amazon has since changed many of its working rules and regulations for warehouse employees.

### CONCEPT CHECK

1. How can employee diversity give a company a competitive advantage?
2. Explain the concept of hiring for fit as it relates to corporate culture.
3. What are some organizational issues that must be addressed when two large firms merge or grow rapidly like Amazon?

## 2.6 Organizing for Change in the 21st Century

6. Identify environmental trends, demands, and opportunities facing organizations.

The 2018 annual Global Risks Perception Survey (GRPS) predicts the following trends in the external environment: (1) persistent inequality and unfairness, (2) domestic and international political tensions, (3) environmental dangers, and (4) cyber vulnerabilities. With this context, authors in this report suggest that complex organizations approach their futures with the “nine resilience lens”—i.e., the capacity of a company or other organization to adapt and prosper in the face of high-impact, low-probability risks.<sup>51</sup> The nine lenses are grouped into three categories. First, structural resilience considers the systemic dynamics within the organization itself. The author calls for “system modularity,” i.e., structures and designs that are “loosely coupled,” which is another way of saying that rigid, mechanistic hierarchies will not function as well in these high-impact environments. Secondly, integrative resilience underlines complex interconnections with the external context. Here the author suggests that organizations must be part of and aware of their contexts: geographically and the health of “individuals, families, neighborhoods, cities, provinces, and countries” that are affected. Relatedly, the author notes that organizations must rely on their social cohesion—such as the social capital an organization has to fall back on in times of crisis—which is a strong source of resilience. Third, transformative resilience requires that mitigating some risks requires transformation. Important to organizations here is the need “to proactively change or it will end up being changed by external circumstances.” This process requires organizational foresight, not forecasting. Organizations need to apply different search, environmental scanning, and new discovery techniques “to engage with the uncertainty of multiple futures.” They do this through innovation and experimentation. In practice, Google, Amazon, Facebook, SpaceX, Tesla, Airbnb, Uber, and the resilience of other industry and organizational pioneering will be required.

Another trend on the horizon is that “Organizations are no longer judged only for their financial performance, or even the quality of their products or services. Rather, they are being evaluated on the basis of their impact on society at large—transforming them from business enterprises into social enterprises.”<sup>52</sup> A recent survey showed that 65 percent of CEOs rated “inclusive growth” as a “top-three strategic concern, more than three times greater than the proportion citing ‘shareholder value.’”<sup>53</sup> Deloitte researchers noted that “[a] social enterprise is an organization whose mission combines revenue growth and profit-making with the need to respect and support its environment and stakeholder network. This includes listening to, investing in, and actively managing the trends that are shaping today’s world. It is an organization that shoulders its responsibility to be a good citizen (both inside and outside the organization), serving as a role model for its peers and promoting a high degree of collaboration at every level of the organization.”

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# Key Terms

## **Adhocracy culture**

Creates an environment of innovating, visioning the future, accepting of managing change, and risk taking, rule-breaking, experimentation, entrepreneurship, and uncertainty.

### **Clan culture**

Focuses on relationships, team building, commitment, empowering human development, engagement, mentoring, and coaching.

### **Competing Values Framework**

Developed by Kim Cameron and Robert Quinn this model is used for diagnosing an organization's cultural effectiveness and examining its fit with its environment.

### **Complex-Stable environments**

Environments that have a large number of external elements, and elements are dissimilar and where elements remain the same or change slowly.

### **Complex-Unstable environments**

Environments that have a large number of external elements, and elements are dissimilar and where elements change frequently and unpredictably

### **Corporate culture**

Defines how motivating employees' beliefs, behaviors, relationships, and ways they work creates a culture that is based on the values the organization believes in.

### **Divisional structure**

An organizational structure characterized by functional departments grouped under a division head.

### **Domain**

The purpose of the organization from which its strategies, organizational capabilities, resources, and management systems are mobilized to support the enterprise's purpose.

### **Functional structure**

The earliest and most used organizational designs.

### **Geographic structure**

An Organizational option aimed at moving from a mechanistic to more organic design to serve customers faster and with relevant products and services; as such, this structure is organized by locations of customers that a company serves.

## **Government and political environment forces**

The global economy and changing political actions increase uncertainty for businesses, while creating opportunities for some industries and instability in others.

### **Hierarchy culture**

Emphasizes efficiency, process and cost control, organizational improvement, technical expertise, precision, problem solving, elimination of errors, logical, cautious and conservative, management and operational analysis, careful decision making.

### **Horizontal organizational structures**

A "flatter" organizational structure often found in matrix organizations where individuals relish the breath and development that their team offers.

### **Internal dimensions of organizations**

How an organization's culture affects and influences its strategy.

### **Market culture**

Focuses on delivering value, competing, delivering shareholder value, goal achievement, driving and delivering results, speedy decisions, hard driving through barriers, directive, commanding, competing and getting things done.

**Matrix structure**

An organizational structure close in approach to organic systems that attempt to respond to environmental uncertainty, complexity, and instability.

**McKinsey 7-S model**

A popular depiction of internal organizational dimensions.

**Mechanistic organizational structures**

Best suited for environments that range from stable and simple to low-moderate uncertainty and have a formal “pyramid” structure.

**Natural disaster and human induced environmental problems**

Events such as high-impact hurricanes, extreme temperatures and the rise in CO<sub>2</sub> emissions as well as ‘man-made’ environmental disasters such as water and food crises; biodiversity loss and ecosystem collapse; large-scale involuntary migration are a force that affects organizations.

**Networked-team structure**

A form of the horizontal organization.

**Organic organizational structures**

The opposite of a functional organizational form that works best in unstable, complex changing environments.

**Organizational structures**

A broad term that covers both mechanistic and organic organizational structures.

**Simple-Stable environments**

Environments that have a small number of external elements, and elements are similar, and the elements remain the same or change slowly.

**Simple-Unstable environments**

Environments that have a small number of external elements, and elements are similar and where elements change frequently and unpredictably.

**Socio-cultural environment forces**

Include different generations’ values, beliefs, attitudes and habits, customs and traditions, habits and lifestyles.

**Technological forces**

Environmental influence on organizations where speed, price, service, and quality of products and services are dimensions of organizations’ competitive advantage in this era.

**Virtual structure**

A recent organizational structure that has emerged in the 1990’s and early 2000’s as a response to requiring more flexibility, solution based tasks on demand, less geographical constraints, and accessibility to dispersed expertise.

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# Summary of Learning Outcomes

## 2.1 The Organization's External Environment

### 1. Define the external environment of organizations

Organizations must react and adapt to many forces in their internal and external environments. The context of the firms such as size and geographic location impact how environmental forces affect each organization differently. An understanding of the forces and they currently affecting organizations and pressuring structural change is crucial.

## 2.2 External Environments and Industries

### 2. Identify contemporary external forces pressuring organizations

An understanding of the various industries and organizations 'fit' with different types of environment is crucial. There are small and large organizations that face environments that are either stable or unstable and managing the organization by recognizing their environment is a crucial skill.

## 2.3 Organizational Designs and Structures

### 3. Identify different types of organizational structures, and their strengths and weaknesses

An understanding of Mechanistic vs Organic Structures and Systems and how they differ and how these major concepts help classify different organizational structures is crucial to recognizing organizational structures. Finally, the issue of organizational complexity and its impact on organizational structure needs to be understood.

You should be able to discuss the evolution of different types of Organizational Structures. You should understand and identify the six types of organizational structures, and the advantages and disadvantages of each: Functional, Divisional, Matrix, Geographic, Networked Team, and Virtual.

## 2.4 The Internal Organization and External Environments

### 4. Explain how organizations organize to meet external market threats and opportunities

You should understand and identify the six types of organizational structures, and the advantages and disadvantages of each structure:

- Functional
- Divisional
- Matrix
- Geographic
- Networked Team
- Virtual

You should also understand why the internal dimensions of an organization matter with regard to how it fits with its external environment.

## 4.5 Corporate Cultures

### 5. Identify the fit between organizational cultures and the external environment

You should be able to identify and differentiate between the four types of organizational cultures and the fit of each with the external environment and describe the CVF framework. Finally, you can identify the internal dimensions of organizations, the interconnection among the dimensions, and how these affect the 'fit' with external environments.

## 4.6 Organizing for Change in the 21st Century

### 6. Identify environmental trends, demands, and opportunities facing organizations.

Among the trends in the external environment: (1) persistent inequality and unfairness, (2) domestic and international political tensions, (3) environmental dangers, and (4) cyber vulnerabilities. Another trend is that organizations will no longer solely be judged only for their financial performance, or even the quality of their products or services. Rather,

they will be evaluated on the basis of their impact on society at large—transforming them from business enterprises into social enterprises.

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# Chapter Review Questions

1. Explain how several current environmental forces are affecting and will affect organizations and organizational structures' effectiveness and efficiency in the near future?
2. What are ways to classify and describe how industries and organizations fit and do not fit with their external environments?
3. What are a few industries and/or organizations that are fitting well with their current environments? What are a few that are not? Why?
4. What are some major differences between organic and mechanistic organizational structures and systems?
5. Which organization would you work best in, an organically or mechanistically structured one, and why?
6. What are some advantages and disadvantages of functional structures?
7. Do you think it's true that every organization has a hidden functional structure in it? Explain your answer.
8. Why have functional structures been criticized for not accommodating new changes in the environment?
9. What are some advantages and disadvantages of divisional structures?
10. How is a product structure one type of a divisional structure? Explain.
11. What are some disadvantages in working in a matrix structure and why?
12. What advantages do matrix structures have compared to functional structures?
13. What advantages do geographic structures have compared to a functional structure?
14. What are issues that working in a networked team structure present?
15. In what ways is a virtual organization and structure different from the other ones discussed in the chapter?
16. What major trends discussed at the end of this chapter are different from previous external environments and the ways organizations were organized?
17. What purposes does an organization's culture serve when considering the external environment?
18. How does **Exhibit 4.16** facilitate an understanding of how the internal organization functions with external environments?

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# Management Skills Application Exercises

1. You have just been assigned to lead a functionally structured organization. Explain what types of skills you would need to best perform this function.
2. What types of problems would you expect to have managing a divisionally structured organization? What skills would you need to excel in this undertaking?
3. If you were assigned to work in a matrix team structure, explain the issues and benefits you might expect to experience and why. What skills would help you in this function?
4. You have just been assigned to work with a strategy team in an organization to predict issues and opportunities that might be expected for the next 2 years. Using this chapter, explain what information you would provide to this team?
5. Use **Exhibit 4.21**, “The Competing Values Framework,” to identify the type of organizational culture at IKEA, Home Depot, and Best Buy.

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# Managerial Decision Exercises

1. You are a manager working in a functionally structured organization. A disgruntled employee is complaining about problems she is having in that structure. Outline a way you would find out more about her complaints with regard to her being in this type of structure and some ways to assist her.
2. You are a manager working in a networked team structured organization. A disgruntled employee is complaining about problems he is having in that structure. Outline a way you would find out more about his complaints with regard to his being in this type of structure and some ways to assist him.
3. You have been selected to lead a team to decide on a different type of structure in your organization to better serve customers who are complaining about poor service that is slow, impersonal, and not meeting their needs to be heard. Presently, the functional structure isn't working well. Outline some information from your knowledge using this chapter that would help the team in its assignment.
4. You witness a senior executive at your firm engaging in overly aggressive methods of pressuring employees to increase their sales quotas beyond reasonable means. You are in a networked team structure that is partly a matrix. You are uncertain about whom to discuss this issue with. What would you do?
5. As a new graduate, you have been hired to help a medium-sized company come into the 21st century. Products need revamping, people aren't sharing information, and customers are gradually leaving. The firm has a traditional top-down managed, vertical hierarchy. It is believed that the firm has very good potential to sell its products, but new markets may be needed. Outline an agenda you would work on to research and make suggestions with regard to this chapter's focus and content.

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# Critical Thinking Case

## Wells Fargo, Crisis and Scandal

The recent widespread scandal at Wells Fargo jolted and shocked the corporate world. How could such internal corrupt and outrageously illegal and unethical activities by professionals have occurred? Wells Fargo is “an American multinational financial services company headquartered in San Francisco, California” with offices nationwide and “the world’s second-largest bank by market capitalization and the third largest bank in the U.S. by total assets.” In September 2016 it was discovered that the company was continuing to create fake customer accounts to show positive financial activity and gains. 5,000 salespeople had created 2 million fake customer accounts to meet high-pressure internal sales goals, including a monthly report called the “Motivator.”

The out-of-control sales leadership pressured sales employees to meet unrealistic, outrageous sales targets. Dramatically unrealistic sales goals propelled by continuous pressure from management coerced employees to open accounts for customers who didn’t want or need them. “Some Wells Fargo bankers impersonated their customers and used false email addresses like noname@wellsfargo.com, according to a 2015 lawsuit filed by the city of Los Angeles.”

The “abusive sales practices claimed in a lawsuit that Wells Fargo employees probably created 3.5 million bogus accounts” starting in May 2002. Wells Fargo is awaiting final approval to settle that case for \$142 million. However, regulators and investigations found that the misconduct was far more “pervasive and persistent” than had been realized. “The bank’s culture of misconduct extended well beyond the original revelations.” For example, regulators found that the company was (1) “overcharging small businesses for credit card transactions by using a ‘deceptive’ 63-page contract to confuse them.” (2) The company also charged at least 570,000 customers for auto insurance they did not need. (3) The firm admitted that it found 20,000 customers who could have defaulted on their car loans from these bogus actions; (4) The company also had created over 3.5 million fake accounts attributed to customers who had no knowledge of such accounts.

Wells Fargo has had to testify before Congress over these charges, which have amounted to \$185 million dollars, and more recently the company has been ordered by regulators to return \$3.4 million to brokerage customers who were defrauded. The CEO and management team have been fired and had millions of dollars withheld from their pay.

In the aftermath of the scandal, even though Wells Fargo executives were not imprisoned for the extensive consumer abuses committed by the company, the CFPB (Consumer Financial Protection Bureau) and Office of the Comptroller of the Currency (OCC) imposed a \$1 billion fine on Wells Fargo for consumer-related abuses regarding auto loan and mortgage products. The OCC also forced the company to allow regulators the authority to enforce several actions to prevent future abuses, such as and including “imposing business restrictions and making changes to executive officers or members of the bank’s board of directors.” The new president of the company, Tim Sloan, stated, “What we’re trying to do, as we make change in the company and make improvements, is not just fix a problem, but build a better bank, transform the bank for the future.”

### Critical Thinking Questions

1. What happened at Wells Fargo with regard to past activities that led to this major scandal?
2. What internal dimensions of the company were part of the problems that occurred?
3. How might the organizational structure of the company have been part of the problems that occurred?
4. . Identify and use relevant concepts from this chapter as well as your own thoughts and analysis to diagnose the scandal at Wells Fargo. How could such a scandal have occurred in the first place? Who and what was at fault?
5. Suggest some solution paths the company might consider, using knowledge from this chapter and your own thoughts/research, to avoid such a scandal from reoccurring.

Sources: [https://en.wikipedia.org/wiki/Wells\\_Fargo](https://en.wikipedia.org/wiki/Wells_Fargo); Pasick, Adam, “Warren Buffett Explains the Wells Fargo Scandal,” Quartz, May 6, 2017. <https://qz.com/977778/warren-buffett-explains-the-wells-fargo-scandal/><https://qz.com/>

977778/warren-buffett-explains-the-wells-fargo-scandal/; Bloomberg, “The Wells Fargo Fake Accounts Scandal Just Got a Lot Worse,” *Fortune*, August 21, 2017. <http://fortune.com/2017/08/31/wells-fargo-increases-fake-account-estimate/>; Horowitz, Julia, “‘huge, huge, huge error’ in Wells Fargo Handling of Ethics Line Calls,” CNN, May, 6, 2017. <https://money.cnn.com/2017/05/06/investing/buffett-wells-fargo-berkshire-annual-meeting/index.html>; <http://money.cnn.com/2018/02/05/news/companies/wells-fargo-timeline/index.html>; Wattles, Jackie, Grier, Ben, and Egan, Matt, “Wells Fargo’s 17 Month Nightmare,” *CNN Business*, February 5, 2018. <https://money.cnn.com/2018/02/05/news/companies/wells-fargo-timeline/index.html>. Hudson, Caroline, “Wells Fargo Stocks Still Struggling in Wake of Scandal,” *Charlotte Business Journal*, April 2, 2018. <https://www.bizjournals.com/charlotte/news/2018/04/02/wells-fargo-stocks-still-struggling-in-wake-of.html>

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# 3 - ETHICS AND SOCIAL RESPONSIBILITY

## Learning Outcomes

After reading this chapter, you should be able to answer these questions:

1. What are ethics and business ethics?
2. What are the types of values that motivate ethics at the individual level?
3. What are major ethical principles that can guide individuals and organizations?
4. Why is ethical leadership important in organizations?
5. What are differences between values-based ethics and compliance in organizations?
6. What purpose can CSR (corporate social responsibility) offer to organizations and society?
7. What ethical issues do organizations and individuals encounter in the global environment?
8. What future near-term forecasts will affect ethical and corporate conduct of organizations?

## EXPLORING MANAGERIAL CAREERS

### *Playing with a Purpose at Hasbro*

Hasbro is a global play and entertainment company that takes corporate social responsibility (CSR) very seriously. Founded nearly a century ago in Rhode Island, Hasbro integrates its CSR efforts throughout the organization with the goal of helping to make the world a better place for children of all ages.

In 2017, the company achieved the number one spot in the “100 Best Corporate Citizens” rankings, published annually by *Corporate Responsibility* magazine. Hasbro is no stranger to this achievement; over the past five years Hasbro has consistently been in the top five spots on this prestigious list—and that is no accident.

With more than 5,000 employees, Hasbro relies heavily on its strategic brand blueprint to guide its efforts in CSR, innovation, philanthropy, and product development. With a business portfolio that includes such well-known brands as Nerf, Play-Doh, Transformers, Monopoly, and The Game of Life, the company focuses its CSR efforts on four key areas: product safety, environmental sustainability, human rights and ethical sourcing, and community.

According to the company, product safety is its highest priority. Hasbro uses a five-step quality assurance process that starts with design and then moves to engineering, manufacturing, and packaging. Another key part of product safety at Hasbro is incorporating continuous feedback from both consumers and retailers



and insisting that these high standards and quality processes apply to all third-party factories worldwide that manufacture its products.

Hasbro is also committed to finding new ways to reduce its environmental footprint. Over the past several years, the company has reduced energy consumption, cut greenhouse gas emissions, and reduced water consumption and waste production in its production facilities. In addition, Hasbro has totally eliminated the use of wire ties in all of its product packaging, saving more than 34,000 miles of wire ties—more than enough to wrap around the earth's circumference.

Human rights and ethical sourcing remain a key ingredient of Hasbro's CSR success. Treating people fairly is a core company value, as well as working diligently to make great strides in diversity and inclusion at all levels of the organization. Company personnel work closely with third-party factories to ensure that the human rights of all workers in the Hasbro global supply chain are recognized and upheld.

Philanthropy, corporate giving, and employee volunteering are key components of the Hasbro community. Through its various charitable programs, Hasbro made close to \$15 million in financial contributions and product donations in 2016, which reached close to an estimated 4 million children around the globe. Several years ago, the company started an annual Global Day of Joy as a way of engaging its employees worldwide in community service. In a recent year, more than 93 percent of Hasbro's employees participated in service projects in more than 40 countries.

Hasbro is in the business of storytelling, and its CSR efforts tell the story of an ethical, responsible organization whose mission is to “create the world's best play experiences.” Its ability to be accountable for its actions and to help make the world a better place one experience at a time continues to make it a highly successful company.

Sources: Brian Goldner, “Who Are You Really?—Brian Goldner, President & CEO for Hasbro, Inc.,” <http://insights.ethisphere.com>, accessed June 29, 2017; “CSR Fact Sheet,” <https://csr.hasbro.com>, accessed June 23, 2017; “The World's Biggest Public Companies: Hasbro,” *Forbes*, <https://www.forbes.com>, accessed June 23, 2017; “2016 Global Philanthropy & Social Impact,” <https://csr.hasbro.com>, accessed June 23, 2017; Elizabeth Gurdus, “Hasbro CEO Reveals the Magic Behind the Toymaker's Earnings Beat,” *CNBC*, <http://www.cnbc.com>, April 24, 2017; Jade Burke, “Hasbro Reaches Top spot in CSR Listing,” *Toy News*, <http://www.toynews-online.biz>, April 21, 2017; Kathrin Belliveau, “CSR at Hasbro: What It Means to Play with Purpose,” *LinkedIn*, <https://www.linkedin.com>, April 20, 2017.

This chapter will examine the role of ethics and how it affects organizations. Ethics is examined at the individual level, the organizational level, and also examines the role of ethics and leadership. Corporate social responsibility and how it is different than compliance will also be examined. Finally, ethics around the globe and in different cultures and the emerging issues regarding corporate social responsibility and ethics will be discussed.

## 3.1 Ethics and Business Ethics Defined

### 1. What are ethics and business ethics?

Ethics essentially involves how we act, live, lead our lives, and treat others. Our choices and decision-making processes and our moral principles and values that govern our behaviors regarding what is right and wrong are also part of ethics.<sup>1</sup>

Normative ethics refers to the field of ethics concerned with our asking how *should* and *ought* we live and act? Business ethics is applied ethics that focuses on real-world situations and the context and environment in which transactions occur—How should we apply our values to the way we conduct business?

Ethics and business ethics continue to gain influence in corporations, universities, and colleges nationally and internationally. No longer considered a luxury but a necessity, business ethics has awakened a need in the public consciousness due to crises in many areas. For example, the 2008 subprime lending crisis—economic effects of which still persist—revealed widespread corruption of large investment banks and lending institutions internationally. Unsupported mortgages were fraudulently offered with no legitimate financial backing. Some large financial institutions, such as Lehman Brothers Holdings, Inc., went bankrupt; millions of mortgage holders lost their homes. An estimated cost of that crisis to the global economy is over \$22 trillion U.S. dollars.<sup>2</sup>

In the early 2000s, CEOs and top-level leaders from notable corporations such as Enron, Tyco, WorldCom, and others were caught committing outrageously greedy and fraudulent crimes of white-collar theft from their organizations and shareholders. The now classic film *The Smartest Guys in the Room* depict how Enron's leaders during that time, Kenneth Lay (now deceased), Jeff Skilling (still serving prison time), and Andrew Fastow (released from prison in 2011), deceived employees, Wall Street, and shareholders. Enron's crisis took an estimated \$67 billion of shareholder wealth out of the U.S. economy.<sup>3</sup> These criminal activities ushered in national laws such as the Sarbanes-Oxley Act, which we discuss below.

While these recent historical crises illustrate the continuing relevance and importance of business ethics, ethical issues are not only concerned with financial and economically motivated crimes and misbehaviors. Fast forward to the rise of artificial intelligence (AI), which also is calling attention to the relevance and need for ethics in scientific institutions, businesses, and governments. The public needs to be informed of potential and actual harmful consequences—as well as all the recognizable benefits—of these technologies that are in large part driven by algorithms (“a sequence of instructions telling a computer what to do”).<sup>4</sup> Intentional and unintentional misuses of such designs embedded in artificially intelligent technologies can negatively and harmfully affect individual lives as well as entire societies. For example, studies show that a number of minority members of society are often discriminated against by institutions using faulty algorithms to qualify customers for mortgages and to predict who is at risk of being incarcerated. Often times, racial and low-income minorities are discriminated against by such technology designs.<sup>5</sup>

At a societal level, another now classic film, *The Minority Report*, illustrates how misuses of technology can threaten individual rights, privacy, free will, and choice. While this may sound like science fiction, scientific and business luminaries such as Elon Musk, Stephen Hawking, Bill Gates, and others have openly declared that we as a society must be cautious and ethically aware and active to fend off the ill effects of the control and dominant influences of certain AI algorithms in our lives. Scientific and ethical practices in corporate social responsibility (CSR) are one way that ethicists, business leaders, and consumers can support moral self-regulation of technologies. Some scientific and technological firms have adopted ethics boards to help safeguard against harmful social uses of AI technologies.<sup>6</sup> The European Union (EU) has produced policy studies that are forerunners of laws to safeguard against potentially harmful uses of robotics.<sup>7</sup>

Another timely ethical issue is climate change and the environment. Lack of sustainable environmental practices that curb air pollution and destructive uses of land, water, and natural resources have, according to a large community of reputable scientists, threatened Earth's—and our neighborhoods'—atmosphere.<sup>8</sup> Scientific studies and United Nations reports affirm that changes to the earth's atmosphere, melting glaciers, and rising seas are occurring at accelerated rates. For example, “California's coastline could rise up to 10 feet by 2100, about 30 to 40 times faster than sea-level rise

experienced over the last century.”<sup>9</sup> While university, business, and local community groups are rallying for legal actions to curtail and reverse environmental polluters, current political executive orders push against such regulations designed to protect against further erosion of the physical environment.<sup>10</sup> The point here is that as these issues described above are not only technological, economic, and political in nature, but also moral and ethical, as the public’s health, welfare, and safety are at risk.

Relevant ethical questions can be asked to prevent a crisis: Who is responsible for preventing and addressing what happens to individuals, the public, our institutions, and government and who is responsible for preventing such crises and harmful effects from occurring and reoccurring? At whose and what costs? Whose responsibility is it to protect and preserve the common good of societies? What ethical and moral principles should and can motivate individuals, groups, and society members to act to change course?

Universities and colleges are taking notice. Business ethics and corporate social responsibility courses and offerings are becoming increasingly important. The accrediting national body of business schools, AACSB (Association to Advance Collegiate Schools of Business), reported that “[i]n their curricula, research, and outreach, business schools must be advocates for the human dimension of business, with attention to ethics, diversity, and personal well-being.”<sup>11</sup> In addition, NGOs (nongovernmental organizations), emergent groups internationally representing the public’s interests and common good, and political action movements are beginning again to give voice to injustices and potentially dangerous ethical as well as fiscal (income inequality), health (the environment), and discriminatory (racism and stereotyping large segments of the society) problems that require stakeholder as well as stockholder actions.

In this chapter, we begin by presenting an overview of the dimensions of business ethics at the individual, professional, and leadership levels, followed by the organizational, societal, and global levels.

## CONCEPT CHECK

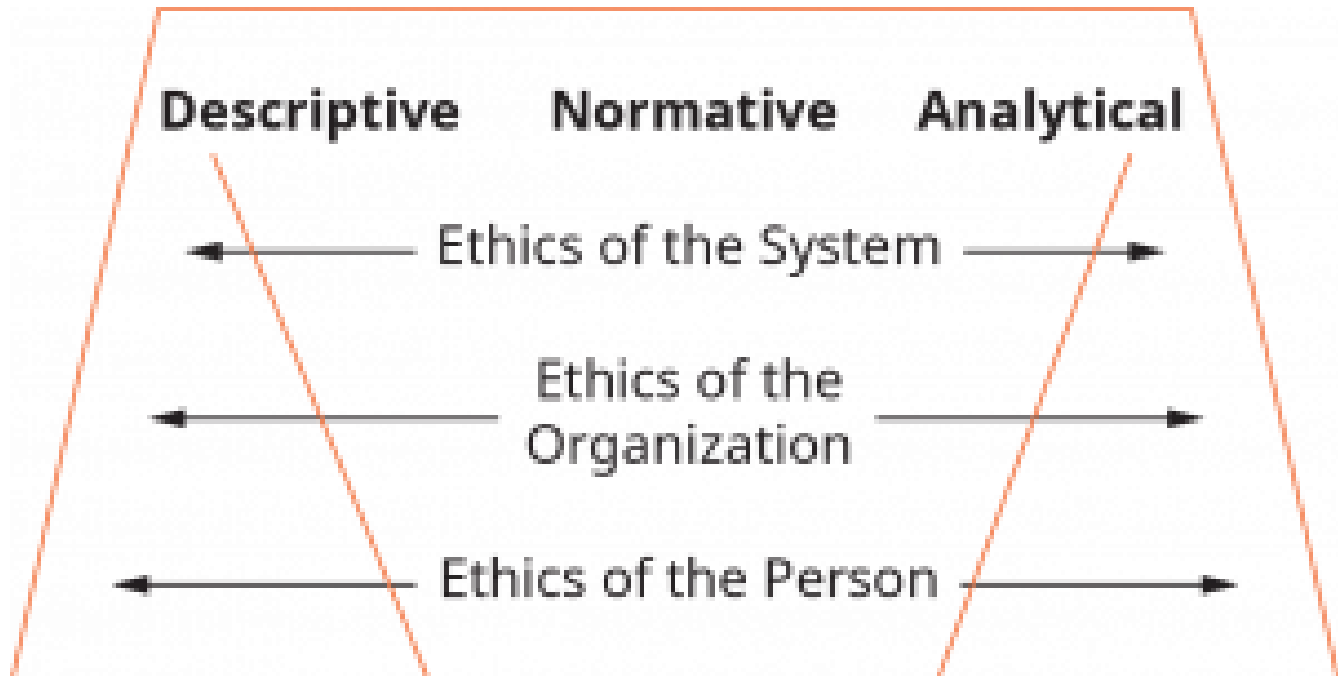
1. What individual and organizational ethical issues can we expect to occur?
2. What are some signs of unethical activities you might notice individually and organizationally?

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## 3.2 Dimensions of Ethics : The Individual Level

### 2. What types of values affect business ethics at the individual level?

Ethics is personal and unique to each individual. Ethical decision-making also involves other individuals, groups, organizations, and even nations—stakeholders and stockholders—as we later explain. Kenneth Goodpaster and Laura Nash characterized at least three dimensions or levels of ethics that help explain how individual and group values, norms, and behaviors of different stakeholders interact and respond with the aim of bringing orderly, fair, and just relationships with one another in transactions. This approach is illustrated in **Exhibit 3.1**



**Exhibit 3.1** A Framework for Classifying Levels of Ethical Analysis Source: Adapted from Matthews, John B., Goodpaster, Kenneth E., and Laura L. Nash. (1985). *Policies and persons: A casebook in business ethics*, 509. New York: McGraw- Hill.

Ethical principles generally are codified into laws and regulations when there is societal consensus about such wrongdoing, such as laws against drunk driving, robbery, and murder. These laws, and sometimes unwritten societal norms and values, shape the local environment within which individuals act and conduct business. At the individual level, a person's values and beliefs are influenced by family, community, peers and friends, local and national culture, society, religious—or other types of—communities, and geographic environment. It is important to look at individual values and ethical principles since these influence an individual's decisions and actions, whether it be decisions to act or the failure to act against wrongdoing by others. In organizations, an individual's ethical stance may be affected by peers, subordinates, and supervisors, as well as by the organizational culture. Organizational culture often has a profound influence on individual choices and can support and encourage ethical actions or promote unethical and socially irresponsible behavior.

## Ethics and Values: Terminal and Instrumental Values

Of the values that make up an organization's culture, and an individual's motivations, ethical values are now considered among the most important. For instance, when Google took its company public in 2004, its prospectus included an unusual corporate goal: "Don't be evil." That can be a challenge when you're a multibillion-dollar corporation operating around the world, with investors expecting you to produce a profit. Google's operations in the United States and overseas have generated controversy and debate as to how well it's living up to its stated goal. There is a continuing need to integrate ethical values in corporations. The Ethics & Compliance Initiative found 22 percent of global workers reported pressure to compromise their standards.<sup>12</sup> Top corporate managers are under scrutiny from the public as never before, and even small companies are finding a need to put more emphasis on ethics to restore trust among their customers and the community.

Values can be powerful and motivating guides for individual, group, and organizational behavior. At the individual level, however, a reoccurring issue individuals seem to have with acting ethically is that many people do not consciously know or choose their values. We often act first and think or rationalize later. Secondly and relatedly, the methods and ways we act to reach our goals and objectives are also not always deliberately chosen. Consequently, many times we let the "ends justify the means" and/or "the means justify the ends" in our decisions and actions. Ethical dilemmas (i.e., situations and predicaments in which there is not an optimal or desired choice to be made between two options, neither of which solves an issue or delivers an opportunity that is ethical) often originate and occur from an unawareness of how to sort out and think through potential consequences of our actions or inaction. Becoming aware and conscious of our values is a first step toward being able to act ethically and responsibly in order to prevent or lessen harm to ourselves or others.

Toward this end, it is helpful to understand values that have been categorized as terminal and instrumental. Terminal values are desired goals, objectives, or end states that individuals wish to pursue. Instrumental values are preferred means of behavior used to obtain those goals. Examples of terminal values—at a higher level—are freedom, security, pleasure, social recognition, friendship, accomplishment, comfort, adventure, equality, wisdom, and happiness.<sup>13</sup> Examples of instrumental values are being helpful, honest, courageous, independent, polite, responsible, capable, ambitious, loving, self-contained, and forgiving.<sup>14</sup>

Identifying and separating terminal from instrumental values in any given situation can assist individuals, groups, and work units in distinguishing between the "ends (goals) from the means (methods to reach the goals)" and vice versa in making decisions, thereby helping us choose more ethical options—or at least less unethical ones—in situations. For example, a sales manager has a goal of motivating his sales force to achieve individual sales performance levels at a 17% increase over current levels by the end of the calendar quarter. The means of doing so, according to the manager, are, "Go for it. Use your imagination and fortitude. Just make sure each of you reaches or exceeds that goal." In this case, the terminal value is high achievement to the point of being overly ambitious in order to reach an aggressive financial goal. The instrumental value can also be described as aggressive achievement. Both the terminal and instrumental values in this scenario could very likely create undue pressure and even anxiety for some members of the sales force. The ethical logic underlying this example is to let the "end justify the means." The scenario also raises the question of whether or not individuals in the sales force would choose the values underlying the instruction of the manager if each member identified and reflected on those values.

If the end (terminal) value creates undue pressures and is unrealistic and unobtainable, then the means (instrumental) value would likely create tension and unethical behavior as well. This example in some ways mirrors what actually recently happened at Wells Fargo & Company—an American international banking and financial services holding company headquartered in San Francisco. High pressure and unrealistic sales goals were adopted and implemented from the top down in that organization. A result was that members of that sales force lied, pressured, and misled loyal customers to buy bogus financial products to meet unrealistic sales goals. Such actions when discovered led to and revealed illegal and unethical actions from not only the sales professionals but officers at the top of that organization. Ultimately, the CEO was pressured to resign, 5,300 employees were fired, and several lawsuits ensued.<sup>15</sup>

There are many lessons to take from the Wells Fargo fiasco. From an individual ethical perspective, one insight is to be

aware of the underlying values of organizational and other job- and task-related directives issued. Another is to discover your own values and ethical principles that can guide you in work, study, and personal situations so that someone else's problems may not have to become yours. A helpful assessment for discovering your values is the PVA (Personal Values Assessment) found at <https://www.valuescentre.com/our-products/products-individuals/personal-values-assessment-pva>.

Caroucci found that “five ways organizations needlessly provoke good people to make unethical choices” are the following. (1) People feel psychologically unsafe to speak up. (2) Excessive pressure to reach unrealistic performance targets compromises people's choices. (3) When individuals face conflicting goals, they feel a sense of unfairness and compromise their reasoning. (4) Only talking about ethics when there is a scandal. (5) When there is no positive example available, individuals react instead of choose ethical decisions. Familiarizing yourself with ethical principles in the following section is another way of helping you think through complicated situations to make conscious, values-based decisions to do “the right thing.”<sup>16</sup>

## CONCEPT CHECK

1. What are terminal and instrumental values?
2. What are ways organizations can employ values to induce people to make ethical choices?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 3.3 Ethical Principles and Responsible Decision-Making

### 3. What are major ethical principles that can be used by individuals and organizations?

Before turning to organizational and systems levels of ethics, we discuss classical ethical principles that are very relevant now and on which decisions can be and are made by individuals, organizations, and other stakeholders who choose principled, responsible ways of acting toward others.<sup>17</sup>

Ethical principles are different from values in that the former are considered as rules that are more permanent, universal, and unchanging, whereas values are subjective, even personal, and can change with time. Principles help inform and influence values. Some of the principles presented here date back to Plato, Socrates, and even earlier to ancient religious groups. These principles can be, and are, used in combination; different principles are also used in different situations.<sup>18</sup> The principles that we will cover are utilitarianism, universalism, rights/legal, justice, virtue, common good, and ethical relativism approaches. As you read these, ask yourself which principles characterize and underlie your own values, beliefs, behaviors, and actions. It is helpful to ask and if not clear, perhaps identify the principles, you most often use now and those you aspire to use more, and why. Using one or more of these principles and ethical approaches intentionally can also help you examine choices and options before making a decision or solving an ethical dilemma. Becoming familiar with these principles, then, can help inform your moral decision process and help you observe the principles that a team, workgroup, or organization that you now participate in or will be joining may be using. Using creativity is also important when examining difficult moral decisions when sometimes it may seem that there are two “right” ways to act in a situation or perhaps no way seems morally right, which may also signal that not taking an action at that time may be needed, unless taking no action produces worse results.

### Utilitarianism: A Consequentialist, “Ends Justifies Means” Approach

The utilitarianism principle basically holds that an action is morally right if it produces the greatest good for the greatest number of people. An action is morally right if the net benefits over costs are greatest for all affected compared with the net benefits of all other possible choices. This, as with all these principles and approaches, is broad in nature and seemingly rather abstract. At the same time, each one has a logic. When we present the specifics and facts of a situation, this and the other principles begin to make sense, although judgement is still required.

Some limitations of this principle suggest that it does not consider individuals, and there is no agreement on the definition of “good for all concerned.” In addition, it is difficult to measure “costs and benefits.” This is one of the most widely used principles by corporations, institutions, nations, and individuals, given the limitations that accompany it. Use of this principle generally applies when resources are scarce, there is a conflict in priorities, and no clear choice meets everyone’s needs—that is, a zero-sum decision is imminent

### Universalism: A Duty-Based Approach

Universalism is a principle that considers the welfare and risks of all parties when considering policy decisions and outcomes. Also needs of individuals involved in a decision are identified as well as the choices they have and the information they need to protect their welfare. This principle involves taking human beings, their needs, and their values



seriously. It is not only a method to make a decision; it is a way of incorporating a humane consideration of and for individuals and groups when deciding a course of action. As some have asked, “What is a human life worth?”

Cooper, Santora, and Sarros wrote, “Universalism is the outward expression of leadership character and is made manifest by respectfulness for others, fairness, cooperativeness, compassion, spiritual respect, and humility.” Corporate leaders in the “World’s Most Ethical Companies” strive to set a “tone at the top” to exemplify and embody universal principles in their business practices.<sup>19</sup> Howard Schultz, founder of Starbucks; cofounder Jim Sinegal at Costco; Sheryl Sandberg, chief operating officer of Facebook; and Ursula M. Burns, previous chairperson and CEO of Xerox have demonstrated setting effective ethical tones at the top of organizations.

Limitations here also show that using this principle may not always prove realistic or practical in all situations. In addition, using this principle can require sacrifice of human life—that is, giving one’s life to help or save others—which may seem contrary to the principle. The film *The Post*, based on fact, portrays how the daughter of the founder of the famed newspaper, the *Washington Post*, inherited the role of CEO and was forced to make a decision between publishing a whistle-blowers’ classified government documents of then top-level generals and officials or keep silent and protect the newspaper. The classified documents contained information proving that generals and other top-level government administrators were lying to the public about the actual status of the United States in the Vietnam War. Those documents revealed that there were doubts the war could be won while thousands of young Americans continued to die fighting. The dilemma for the *Washington Post*’s then CEO centered on her having to choose between exposing the truth based on freedom of speech—which was the mission and foundation of the newspaper—or staying silent and suppressing the classified information. She chose, with the support of and pressure from her editorial staff, to release the classified documents to the public. The Supreme Court upheld her and her staff’s decision. A result was enflamed widespread public protests from American youth and others. President Johnson was pressured to resign, Secretary of State McNamara later apologized, and the war eventually ended with U.S. troops withdrawing. So, universalist ethical principles may present difficulties when used in complex situations, but such principles can also save lives, protect the integrity of a nation, and stop meaningless destruction.

## Rights: A Moral and Legal Entitlement–Based Approach

This principle is grounded in both legal and moral rights. Legal rights are entitlements that are limited to a particular legal system and jurisdiction. In the United States, the Constitution and Declaration of Independence are the basis for citizens’ legal rights, for example, the right to life, liberty, and the pursuit of happiness and the right to freedom of speech. Moral (and human) rights, on the other hand, are universal and based on norms in every society, for example, the right not to be enslaved and the right to work.

To get a sense of individual rights in the workplace, log on to one of the “Best Companies to Work For” annual lists (<http://fortune.com/best-companies/>). Profiles of leaders and organizations’ policies, practices, perks, diversity, compensation, and other statistics regarding employee welfare and benefits can be reviewed. The “World’s Most Ethical Companies” also provides examples of workforce and workplace legal and moral rights. This principle, as with universalism, can always be used when individuals, groups, and nations are involved in decisions that may violate or harm such rights as life, liberty, the pursuit of happiness, and free speech.

Some limitations when using this principle are (1) it can be used to disguise and manipulate selfish and unjust political interests, (2) it is difficult to determine who deserves what when both parties are “right,” and (3) individuals can exaggerate certain entitlements at the expense of others. Still, the U.S. Constitution’s Bill of Rights, ratified in 1791, was designed as and remains the foundation of, which is based on freedom and justice to protect the basic rights of all.



## Justice: Procedures, Compensation, and Retribution

This principle has at least four major components that are based on the tenets that (1) all individuals should be treated equally; (2) justice is served when all persons have equal opportunities and advantages (through their positions and offices) to society's opportunities and burdens; (3) fair decision practices, procedures, and agreements among parties should be practiced; and (4) punishment is served to someone who has inflicted harm on another, and compensation is given to those for a past harm or injustice committed against them.

A simple way of summarizing this principle when examining a moral dilemma is to ask of a proposed action or decision: (1) Is it fair? (2) Is it right? (3) Who gets hurt? (4) Who has to pay for the consequences? (5) Do I/we want to assume responsibility for the consequences? It is interesting to reflect on how many corporate disasters and crises might have been prevented had the leaders and those involved taken such questions seriously before proceeding with decisions. For example, the following precautionary actions might have prevented the disaster: updating the equipment and machinery that failed in the BP and the Exxon Valdez oil crises and investment banks and lending institutions following rules not to sell subprime mortgages that could not and would not be paid, actions that led to the near collapse of the global economy.

Limitations when using this principle involve the question of who decides who is right and wrong and who has been harmed in complex situations. This is especially the case when facts are not available and there is no objective external jurisdiction of the state or federal government. In addition, we are sometimes faced with the question, "Who has the moral authority to punish to pay compensation to whom?" Still, as with the other principles discussed here, justice stands as a necessary and invaluable building block of democracies and freedom.

## Virtue Ethics: Character-Based Virtues

Virtue ethics is based on character traits such as being truthful, practical wisdom, happiness, flourishing, and well-being. It focuses on the type of person we ought to be, not on specific actions that should be taken. Grounded in good character, motives, and core values, the principle is best exemplified by those whose examples show the virtues to be emulated.

Basically, the possessor of good character is moral, acts morally, feels good, is happy, and flourishes. Altruism is also part of character-based virtue ethics. Practical wisdom, however, is often required to be virtuous.

This principle is related to universalism. Many leaders' character and actions serve as examples of how character-based virtues work. For example, the famous Warren Buffett stands as an icon of good character who demonstrates trustworthy values and practical wisdom. Applying this principle is related to a "quick test" before acting or making a decision by asking, "What would my 'best self' do in this situation?" Others ask the question inserting someone they know or honor highly.

There are some limitations to this ethic. First, some individuals may disagree about who is virtuous in different situations and therefore would refuse to use that person's character as a principle. Also, the issue arises, "Who defines virtuous, especially when a complex act or incident is involved that requires factual information and objective criteria to resolve?"

## The Common Good

The common good is defined as "the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment." Decision makers must take into consideration

the intent as well as the effects of their actions and decisions on the broader society and the common good of the many.<sup>20</sup>

Identifying and basing decisions on the common good requires us to make goals and take actions that take others, beyond ourselves and our self-interest, into account. Applying the common good principle can also be asked by a simple question: “How will this decision or action affect the broader physical, cultural, and social environment in which I, my family, my friends, and others have to live, breathe, and thrive in now, next week, and beyond?”

A major limitation when using this principle is, “Who determines what the common good is in situations where two or more parties differ over whose interests are violated?” In individualistic and capitalist societies, it is difficult in many cases for individuals to give up their interests and tangible goods for what may not benefit them or may even deprive them.

## Ethical Relativism: A Self-Interest Approach

Ethical relativism is really not a “principle” to be followed or modeled. It is an orientation that many use quite frequently. Ethical relativism holds that people set their own moral standards for judging their actions. Only the individual’s self-interest and values are relevant for judging his or her behavior. Moreover, moral standards, according to this principle, vary from one culture to another. “When in Rome, do as the Romans do.”

Obvious limitations of relativism include following one’s blind spots or self-interests that can interfere with facts and reality. Followers of this principle can become absolutists and “true believers”—many times believing and following their own ideology and beliefs. Countries and cultures that follow this orientation can result in dictatorships and absolutist regimes that practice different forms of slavery and abuse to large numbers of people. For example, South Africa’s all-white National Party and government after 1948 implemented and enforced a policy of apartheid that consisted of racial segregation. That policy lasted until the 1990s, when several parties negotiated its demise—with the help of Nelson Mandela ([www.history.com/topics/apartheid](http://www.history.com/topics/apartheid)). Until that time, international firms doing business in South Africa were expected to abide by the apartheid policy and its underlying values. Many companies in the United States, Europe, and elsewhere were pressured in the 1980s and before by public interest groups whether or not to continue doing business or leave South Africa.

At the individual level, then, principles and values offer a source of stability and self-control while also affecting job satisfaction and performance. At the organizational level, principled and values-based leadership influences cultures that inspire and motivate ethical behavior and performance. The following section discusses how ethical leadership at the top and throughout organizations affects ethical actions and behaviors.<sup>21</sup>

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 3.4 Leadership: Ethics at the Organizational Level

### 4. Why is ethical leadership important in organizations?

Organizational leadership is an important first step toward identifying and enacting purpose and ethical values that are central to internal alignment, external market effectiveness, and responsibility toward stakeholders.<sup>22</sup> The scholar Chester Barnard defined a values-based leadership approach in 1939 as one that inspires “cooperative personal decisions by creating faith in common understanding, faith in the probability of success, faith in the ultimate satisfaction of personal motives, and faith in the integrity of common purpose.”<sup>23</sup> **Exhibit 3.2** illustrates how vision, mission, and values are foundational in guiding the identification and implementation of the strategic and operational questions and alignment of an organization—which is a major part of leadership.



**Exhibit 3.2 Strategic Organizational Alignment** Source: Joseph W. Weiss. © 2014.

Leadership is defined as the ability to influence followers to achieve common goals through shared purposes.<sup>24</sup> Organizational leaders are responsible to a wide range of stakeholders and stockholders as well as employees toward meeting the goals for the organization. How responsibly and ethically they choose to do so depends on a number of factors. From an ethical and related effectiveness perspective, the leader's values count since these generally become the values of an organization. A leader's influence is referred to as “the tone at the top.” While a leader's values should align to those of the organization, its vision and mission, this is not always the case, as we know from

the crises discussed earlier when referring to the classical failures at Enron, Tyco, WorldCom, Wells Fargo, and other notable companies.

Since leadership is a most important element in forming and directing an organization’s strategy, culture, and governance system, it is often a shared responsibility among other officers and followers that cascades throughout the organization. As an example, the widely acknowledged Ethisphere, a private firm that evaluates firms’ ethical behavior and responsibilities, uses five criteria that produce a single Ethics Quotient (EQ) score. The first is a company’s ethics and compliance program, which accounts for 35% of the EQ. The second criterion is whether or not and the extent to which ethics is embedded into a company’s culture. The third element is corporate citizenship and responsibility, elements that measure companies’ environmental impact. The fourth component is corporate governance—whether a firm’s CEO and board chair are held by one or separate people. An increased focus recently emphasized diversity in board and leadership positions. The fifth criterion is leadership, innovation, and reputation.<sup>25</sup>

There were, according to Ephisphere, 124 honorees in 2017, spanning 5 continents, 19 countries, and 52 industry sectors. Among the 2017 list are 13 eleven-time honorees and 8 first-time honorees. Honorees include “companies who recognize their role in society to influence and drive positive change in the business community and societies around the world. These companies also consider the impact of their actions on their employees, investors, customers and other key stakeholders and leverage values and a culture of integrity as the underpinnings to the decisions they make each day.”<sup>26</sup> **Table 3.1** includes 10 of the 124 most ethical companies in 2017 as measured by Ethispher’s criteria.

World’s Most Ethical Companies Honorees	
Company	Industry
3M Company	Industrial Manufacturing
Accenture	Consulting Services
Aflac Incorporated	Accident & Life Insurance
Allstate Insurance Company	Property & Casualty Insurance
Alyeska Pipeline Service Co.	Oil & Gas, Renewables
Applied Materials, Inc.	Electronics & Semiconductors
Arthur J. Gallagher & Co.	Insurance Brokers
Avnet, Inc.	Electronics & Semiconductors
Baptist Health South Florida	Healthcare Providers
Source: Adapted from Ephisphere, 2017, <a href="https://www.worldsmostethicalcompanies.com/honorees/">https://www.worldsmostethicalcompanies.com/honorees/</a>	

**Table 3.1**

For ethical leaders, authenticity and integrity, in addition to their values, are also important components of character and behavior that must also be translated into attitude and action toward followers, external stakeholders, and broader communities. Leaders have a responsibility to show respect toward others, treat all stakeholders fairly, work toward a common good, build community, and be honest. These virtue-related values, also referred to as character-related, as discussed earlier, help create an ethical corporation and environment:

**Show Respect for Others**

Respecting others requires leaders to recognize the intrinsic worth of others and forces them to treat people as ends

in themselves—never as means to an end. In other words, people should be seen as valuable because of who they are (a universal principle), not only because of what they can do for others or how they can help others advance. Showing respect for others includes tolerating individual differences and affording followers the freedom to think independently, act as individuals, and pursue their own goals. When a leader shows respect for followers by providing them autonomy, subordinates can feel more useful, valued, and confident. Such a situation often leads to greater loyalty and productivity among subordinates.

### **Treat All Stakeholders Fairly**

Ethical leaders strive to treat everyone their decisions may affect in a fair and just manner. Equality is also a top priority for ethical leaders and needs to factor prominently into their decision-making. Ethical leaders must refrain from offering special treatment to others; failure to do so creates winners and losers—in-groups and out-groups—and can breed resentment between those who receive special treatment and those who do not. The only exception occurs when an individual's specific situation warrants special treatment in order for a just outcome to be realized.

Preventing winners and losers from emerging is not always easy. Some situations require the distribution of benefits and burdens, and such situations can test a leader's ability to ensure that justice is achieved. Beauchamp and Bowie defined the common principles that guide leaders facing such dilemmas; their findings can help leaders allocate responsibilities fairly and justly.<sup>27</sup> These principles stipulate that every person must receive an equal share of opportunity according to his needs, rights, effort, societal contributions, and performance.

### **Work Toward a Common Good**

Mahatma Gandhi offers an example of what striving toward a common good entails. Known for his commitment to nonviolent protests and mass civil disobedience, the Indian activist and ideological leader spent 20 years in South Africa opposing legislation that discriminated against Indians. He spent the remainder of his life in India fighting for independence from foreign rule and working to reduce poverty and taxation, liberate women, and end multiple forms of discrimination.<sup>28</sup> He championed such causes not because he would personally benefit, but because a larger, more substantial population would. Gandhi devoted his life to furthering social causes he believed in and developed a personal sense of purpose and meaning that later translated into a societal and then global ethic.

Ethical leaders strive to further social or institutional goals that are greater than the goals of the individual. This responsibility requires the ethical leader to serve a greater good by attending to the needs of others. This type of behavior is an example of altruism: a steadfast devotion to improving the welfare of others. Altruistic behavior may manifest in a corporate setting through actions such as mentoring, empowerment behaviors (encouraging and enabling others), team building, and citizenship behaviors (such as showing concern for others' welfare), to name a few.

### **Build Community**

Whole Foods Market, recently purchased by Amazon, is well known for its community outreach programs on both local and global scales. Every Whole Foods store donates to community food banks and shelters and throughout the year holds "5% days," when 5% of the day's net sales are donated to local nonprofit or educational organizations. Globally, the company established the Whole Planet Foundation to combat world hunger and supports programs addressing issues such as animal welfare, nutrition, and environmentally friendly production methods.

The effort of Whole Foods to strengthen its stores' local and global neighborhoods is a perfect example of leaders building community. When an ethical leader focuses on the needs of others rather than the self, other people will often follow suit. This can lead to a strong contingent of followers working with the leader to achieve a common goal that is compatible with the desires of all stakeholders. Furthering a common goal means that no one can place his needs ahead of the group's goals and an ethical leader cannot impose his will on others. A successful CEO who works with many charities or other individuals to feed the homeless exemplifies a leader building community.

### **Be Honest**

Honesty is considered desirable by practically everyone, but it is sometimes unclear what honesty actually demands of us. Being honest is not simply telling the truth and avoiding deceitful behaviors; it requires leaders to be as open as

possible and to describe reality fully, accurately, and in sufficient detail. Telling the complete truth is not always the most desirable action, however. Leaders must be sensitive to the feelings and beliefs of others and must recognize that the appropriate level of openness and candor varies depending on the situation.

According to a recent survey, 58% of people internationally trust companies, but 42% are less sure. Being more transparent with customers, stakeholders, and stockholders should become a priority for leaders and boards of companies.<sup>29</sup> Dishonesty can be a disastrous practice for a leader. Dishonest leaders distort reality, which can lead to unfavorable outcomes for all stakeholders. Researchers Cialdini, Petia, Petrova, and Goldstein found that dishonest organizations suffer from tarnished reputations, decreased worker productivity, and various damages related to increased surveillance. They concluded that the costs of organizational dishonesty greatly outweigh any short-term gains from such behavior.<sup>30</sup>

## Stewardship and Servant Leadership Styles

Effective leaders, and followers, who lead by example and demonstrate virtuous practices while demonstrating successful practices are more numerous than the media or press reveal. Such examples are also entrepreneurs who practice both stewardship and servant leadership. Their names are not always recognizable nationally, but their companies, communities, and stakeholders know them well. For example, Inc.com's recent 2017 list of top 10 leaders features four women CEOs who go beyond the "call of duty" to serve others while succeeding in business. For example, Brittany Merrill Underwood started and is CEO of Akola Jewelry and was named in Yahoo's "Best Person in the World" series in 2014. Her company "reinvests 100 percent of their profits to support work opportunities, training, social programs, and the construction of training centers and water wells in impoverished communities throughout the globe."<sup>31</sup>

A classic example of these leadership styles is also represented by Aaron Feuerstein, a previous CEO of a manufacturing plant in Massachusetts, whose example continues to represent both a steward and servant leadership style.<sup>32</sup>

### MANAGERIAL LEADERSHIP

#### *Servant Leadership Personified: Aaron Feuerstein at Malden Mills*

Aaron Feuerstein, a third-generation owner of Malden Mills in Lawrence, Massachusetts, suffered his factory burning to the ground on December 11, 1995. Feuerstein had the option of using the insurance money to rebuild the plant, but he instead paid the salaries and complete benefits of all the 3,000 workers for 6 months while the factory was rebuilt. He later said that he had no other option than to help the employees. His action was based on his study of the Talmud, and he presented at Xavier University:

"I have the responsibility to the worker, both blue-collar and white-collar. I have an equal responsibility to the community. It would have been unconscionable to put 3,000 people on the streets and deliver a deathblow to the cities of Lawrence and Methuen. Maybe on paper our company is worthless to Wall Street, but I can tell you it's worth more."

Feuerstein exemplified the two ethical leadership styles of stewardship and servant leadership, which focus specifically on how leaders work with followers. (Ethical leadership as a whole concerns the leader's characteristics and encompasses actions in both the internal and external organizational environment.)

Source: Xavier University News and Events, “Former Malden Mills CEO Aaron Feuerstein speaking at Heroes of Professional Ethics event March 30”, March 24, 2009, [https://www2.xavier.edu/campusuite25/modules/news.cfm?seo\\_file=Former-Malden-Mills-CEO-Aaron-Feuerstein-speaking-at-Heroes-of-Professional-Ethics-event-March-30&grp\\_id=1#.W6FLZPFyUk](https://www2.xavier.edu/campusuite25/modules/news.cfm?seo_file=Former-Malden-Mills-CEO-Aaron-Feuerstein-speaking-at-Heroes-of-Professional-Ethics-event-March-30&grp_id=1#.W6FLZPFyUk)

#### Questions

1. How does Aaron Feuerstein exemplify servant leadership principles?
2. If Feuerstein had decided to use the insurance money for other purposes, would he have not been acting ethically?

Stewardship is concerned with empowering followers to make decisions and gain control over their work. Servant leadership involves selflessly working with followers to achieve shared goals that improve collective, rather than individual, welfare. There is a wealth of information on both of these styles. We will briefly address both here, as both involve treating followers with respect—a key component of ethical leadership—and endowing followers with the ability to grow both personally and professionally.

The stewardship approach instructs leaders to lead without dominating followers. Leaders who practice stewardship sincerely care about their followers and help them develop and accomplish individual as well as organizational goals. Effective stewardship breeds a team-oriented environment in which everyone works together. Organizations led by steward leaders are marked by decentralized decision-making—that is, leadership is not centered in one person, group, department, or administrative unity; power is distributed among all stakeholders.<sup>33</sup>

The servant-leadership approach was formulated by Robert K. Greenleaf, who believed that leadership is a natural corollary of service. Servant leadership goes beyond stewardship by requiring leaders to eschew personal accolades and devote themselves entirely to a greater cause. Greenleaf stated, “The essential quality that separates servant leaders from others is that they live by their conscience—the inward moral sense of what is right and wrong. That one quality is the difference between leadership that *works* and leadership—like servant leadership—that endures.” The following aspects are central to servant leadership:

1. Placing service before self-interest. The servant leader’s primary concern is helping others, not receiving recognition or financial reward.
2. Listening to others. Servant leaders recognize the importance of listening to the ideas and concerns of stakeholders; they never attempt to impose their will on others. This aspect allows servant leaders to strengthen relationships, understand group needs and dynamics, and effectively allocate resources to improve the group’s welfare.
3. Inspiring through trust. As we discussed earlier, ethical leaders must be trustworthy. It does not take much effort for servant leaders to be truthful because they usually have strong moral convictions.
4. Working toward feasible goals. Servant leaders realize that many problems cannot be solved by one person. They also tackle the most pressing issues facing their groups.
5. Helping others whenever possible. Servant leaders lend a helping hand when the opportunity arises. An example is the district manager of a fast-food chain who helps part-time employees flip burgers during a lunchtime rush hour. Another is the director of a business unit who observes that a team is short a member and needs help in meeting a deadline; the director joins the team for the afternoon to help meet the deadline.<sup>34</sup>

Another way of understanding the distinguishing characteristics of servant leadership is offered by DeGraaf, Tilley, and Neal:

The main assumption is that true leadership should call us to serve a higher purpose, something beyond

ourselves. One of the most important aspects of leadership is helping organizations and staff identify their higher purpose. The best test of the servant-leadership philosophy is whether or not customers and staff grow as persons! Do customers become healthier, wiser, freer, more autonomous, more likely themselves to become “servants”? And, what is the effect on the least privileged in society? Will they benefit? Or, at least, not be further deprived? To achieve this higher purpose of public organizations, you, as a leader, must be passionate about your desire to improve your community and yourself!<sup>35</sup>

## Dark Side of Organizational Leadership

However, and as noted earlier, not all leaders lead or model high standards or values. Seven symptoms of the failure of ethical leadership provide a practical lens to examine a leader’s shortsightedness:<sup>36</sup>

1. Ethical blindness: They do not perceive ethical issues due to inattention or inability.
2. Ethical muteness: They do not have or use ethical language or principles. They “talk the talk” but do not “walk the talk” on values.
3. Ethical incoherence: They are not able to see inconsistencies among values they say they follow; e.g., they say they value responsibility but reward performance based only on numbers.
4. Ethical paralysis: They are unable to act on their values from lack of knowledge or fear of the consequences of their actions.
5. Ethical hypocrisy: They are not committed to their espoused values. They delegate things they are unwilling or unable to do themselves.
6. Ethical schizophrenia: They do not have a set of coherent values; they act one way at work and another way at home.
7. Ethical complacency: They believe they can do no wrong because of who they are. They believe they are immune.

Examples of highly unethical recent leaders and their dark side leadership practices are described in *Fortune*’s “World’s 19 Most Disappointing Leaders.” Two illustrations are summarized here. Martin Winterkorn, the former chairman of Volkswagen, who led VW during “a disastrous scandal (which is far from over), as company engineers installed software that manipulated emissions on about 11 million diesel vehicles. Winterkorn has asserted ignorance of any wrongdoing.” He is also known as being a micromanager who formed a ruthless culture that emphasized winning over all else. Then there was Rick Snyder, governor of Michigan, who “left the impoverished city of Flint, Mich. with a lead-tainted water supply that is being blamed for illness and brain damage, especially among its youngest residents.” Snyder also blamed “failure of government” and the Environmental Protection Agency for its “dumb and dangerous” rules permitting dangerous amounts of lead in the water systems.

A major takeaway from both the outstanding and undesirable ethical leadership examples presented here is that organizational culture counts and that without an ethical culture both poor and exemplary moral leadership decisions flourish.<sup>37</sup>

### CONCEPT CHECK

1. What role does leadership play in how ethically organizations and its members act and perform?



2. Explain what stewardship is and the role of servant leadership.

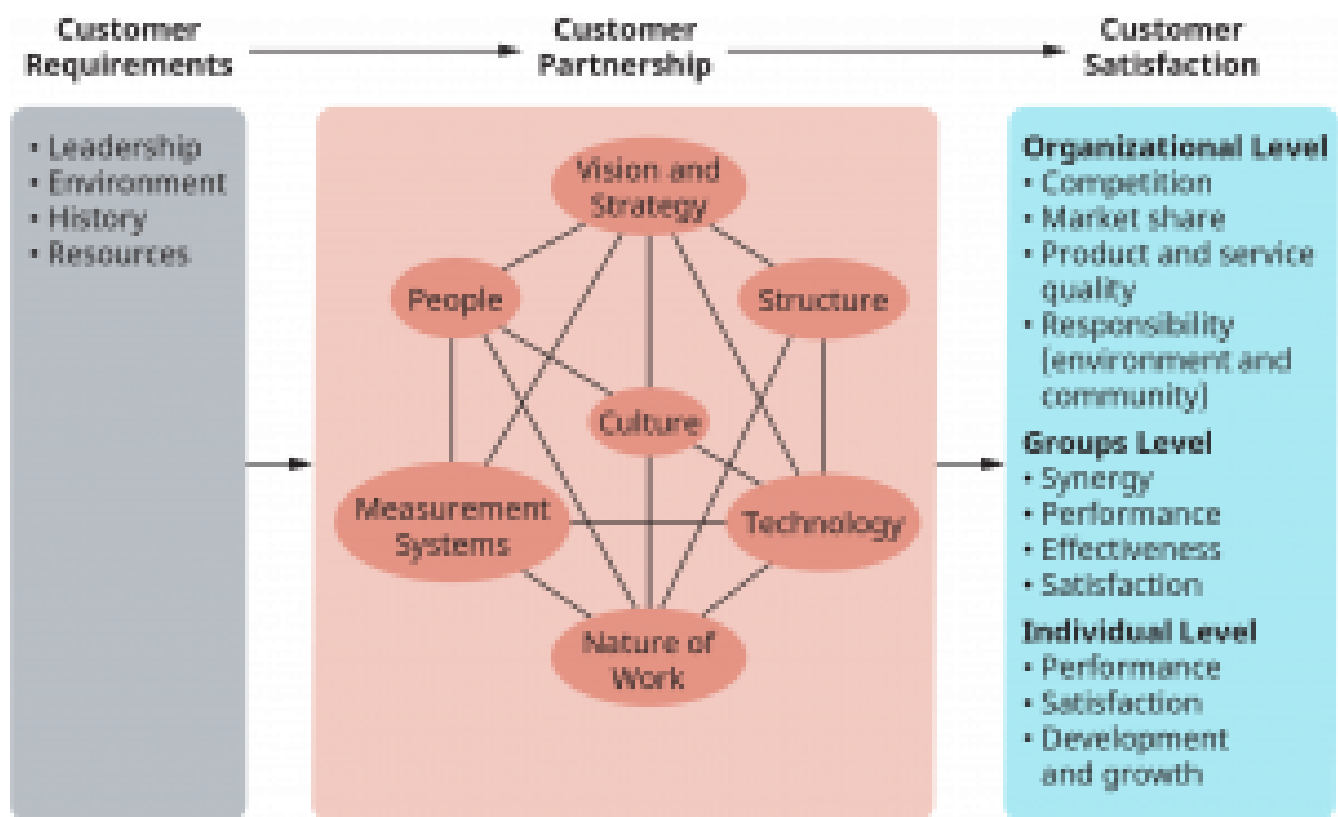
Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 3.5 Ethics, Corporate Culture, and Compliance

### 5. What are the differences between values-based ethics and compliance in organizations?

An organization's culture is defined by the shared values and meanings its members hold in common and that are articulated and practiced by an organization's leaders. Purpose, embodied in corporate culture, is embedded in and helps define organizations. Ed Schein, one of the most influential experts on culture, also defined organizational corporate culture as "a pattern of shared tacit assumptions learned or developed by a group as it solves its problems of external adaptation and internal integration that have worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems."<sup>38</sup>

As **Exhibit 3.3** illustrates, culture plays an important integrating role in organizations both externally and internally. Strategy, structure, people, and systems all are affected by an organization's culture, which has been referred to as the "glue" that holds an organization together.<sup>39</sup>



**Exhibit 3.3 Role of Culture in Organizational Alignment** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Leadership, in particular, as stated earlier, exerts a powerful influence, along with other factors, on culture. Schein noted that "culture and leadership are two sides of the same coin and one cannot understand one without the other."<sup>40</sup> Culture is transmitted through and by (1) the values and styles that leaders espouse and practice, (2) the heroes and heroines that the company rewards and holds up as models, (3) the rites and symbols that organizations value, and (4) the way that organizational executives and members communicate among themselves and with their stakeholders. Heskett argues that culture "can account for 20–30% of the differential in corporate performance when compared with 'culturally unremarkable' competitors."<sup>41</sup>

While subcultures develop in organizations, the larger organization's culture influences these, especially with strong leaders and leadership teams who set the tone at the top and communicate expectations and performance standards throughout. Other factors that indicate and help create a strong ethical culture include the following, which are based on the reputable assessment firm Ethisphere's experience<sup>42</sup>

An organization models and communicates compliance standards through its values; employees are informed of and familiar with the assets and efforts of the compliance and ethics function.

- The culture sets “enduring and underlying assumptions and norms that determine how things are actually done in the organization.”<sup>43</sup>
- “Organizations can effectively identify specific locations, business units, job levels and job functions that may lack a full understanding of available resources, feel unwanted pressure, or perhaps hold negative perceptions.”
- Companies and investors believe a company behaves and acts ethically.
- Employees are aware of the conduct, values, and communications of senior leaders.
- Employees are engaged and committed, and organizations regularly survey employees to get a sense of their engagement.
- Employees feel “less pressure to compromise company standards to achieve company goals. And if they do observe misconduct, they are more likely to feel comfortable reporting it.”
- “Employees perceive the ethical priorities of their coworkers, the values of their organization and willingness to share opinions.”<sup>44</sup>

## Compliance and Ethics

As the section above indicates, both a values-based and compliance approach are necessary elements of maintaining an ethical corporate culture. Ethics has been characterized as “doing the right thing” and serving as a motivational force that influences professionals’ values—resembling a “carrot” approach to professionals’ behaviors. Compliance is related to influencing behaviors to act in accordance to the law or face consequences—referred to as a “stick” approach. Studies show that ethical and compliance approaches are interrelated and work best to motivate and sustain lawful and ethical behavior in organizations.<sup>45</sup>

One law in particular set a new baseline of accountability for CEOs and CFOs (chief financial officers): the federal Sarbanes-Oxley Act of 2002, 2010. This law was the first following the Enron scandal and other corporate scandals that placed constraints and issued punitive measures on CEOs and CFOs who could be punished if they knowingly and willingly committed fraud and other crimes. Several new sections of that law also signaled a change in corporate leaders’ responsibilities and liabilities; for example, the law “[e]stablishes an independent public company accounting board to oversee audits of public companies; requires one member of the audit committee to be an expert in finance; requires full disclosure to stockholders of complex financial transactions; requires CEOs and CFOs to certify in writing the validity of their companies’ financial statements. If they knowingly certify false statements, they can go to prison for 20 years and be fined \$5 million; -Prohibits accounting firms from offering other services, like consulting, while also performing audits” (Federal Sentencing Guidelines, 2004). There are other parts of this law that further establish compliance regulations.<sup>46</sup>

Because of the widespread corporate scandals discussed at the beginning of the chapter, the U.S. Congress implemented legal and compliance standards to curb and discourage illegal activities in corporations. While self-regulation will always play a major role in corporations’ “doing the right thing,” compliance has proven to be a necessary but not always sufficient element of corporate governance. Ethics continues to complement compliance, especially since the law cannot, does not, and will not cover every aspect of potentially harmful behaviors. Ethical dimensions and practices such as transparency, privacy, honesty, objectivity, integrity, carefulness, openness, respect for intellectual

property, civility, confidentiality, accountability, responsible mentoring, and respect for colleagues are all necessary to motivate organizational behavior.

Ethical values become “actionable” in corporations by corporations first becoming aware of and then assuming responsibility for the corporation’s duties toward its stakeholders and stockholders. Social responsibility as a concept originated in 1953 when Howard R. Bowen, known as the “father of corporate social responsibility” (CSR), referred in a book to the “Social Responsibilities of the Businessman.”<sup>47</sup>

## CONCEPT CHECK

1. In what ways do law and compliance complement ethics in organizations?
2. How does stakeholder management differ from stockholder management?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 3.6 Corporate Social Responsibility (CSR)

### 6. What value do CSR (corporate social responsibility) programs offer to organizations and society?

CSR contributes to another form of self-regulation that goes further and involves firms taking action to help people and the environment. CSR is described as “a belief that corporations have a social responsibility beyond pure profit.” In other words, “Firms are social entities, and so they should play a role in the social issues of the day. They should take seriously their ‘obligations to society’ and actively try to fulfill them.”<sup>48</sup> As such, corporations should employ a decision-making process to achieve more than financial success on the assumption that CSR is integral to an optimum long-term strategy.

In the 21st century, sustainability and corporate social responsibility (CSR) have become strategic imperatives for organizations as fundamental market forces for financial viability and success, where consumers are important stakeholders. Businesses worldwide develop CSR initiatives to become better corporate citizens but also to communicate their activity to both internal and external stakeholders, which may involve a number of groups.

A study by Horizon Media’s Finger on the Pulse found that “81 percent of Millennials expect companies to make a public commitment to good corporate citizenship.”<sup>49</sup> The 2015 Cone Communications Millennial CSR Study found that “[m]ore than nine-in-10 Millennials would switch brands to one associated with a cause (91% vs. 85% U.S. average), and two-thirds use social media to engage around CSR (66% vs. 53% U.S. average).”<sup>50</sup>

The 3 P’s (profit, the people, and the planet), or “the triple bottom line” (TBL), is another concept (closely related to and reflective of the mission of CSR and firm activities).<sup>51</sup> TBL—also known as 3BL—incorporates and assists businesses measure accountability in their funding of and support for social, environmental (ecological), and financial benefits to allow for a greater good. Many corporations have started to add triple bottom line metrics to their business plans in order to evaluate their overall performance and reflect on how companies are contributing to society. A small sample of contemporary CSR initiatives make a difference. For example:

- The GE Foundation gave \$88 million to community and educational programs in 2016.
- The 3MGives corporation funded \$67 million in 2016 to focus on community and the environment, along with educational initiatives boosting student interest in science and technology.
- Apple was named by the environmental organization Greenpeace as the “greenest tech company in the world” for over three years because that firm’s packaging is manufactured with 99 percent recycled paper products.
- Walt Disney Company’s social mission to strengthen communities states that “by providing hope, happiness, and comfort to kids and families who need it most”. The Walt Disney Company donated more than \$400 million to nonprofit organizations in 2016.
- Virgin Atlantic’s “Change is in the Air” sustainability initiative states its mission as: “Environment, sustainable design and buying, and community investment.” This firm has since 2007 “reduced total aircraft carbon emissions by 22% and [has] partnered with LanzaTech to develop low carbon fuels for the future. Virgin Holidays donates £200,000 annually to the Brandon Center for Entrepreneurship Caribbean to support young entrepreneurs in Jamaica.”<sup>52</sup>

Even with the current 2017 U.S. government’s executive branch and Congress backing out of international climate change agreements to expand and promote fossil fuel production, taking actions to disable the EPA (Environmental Protection Agency), and not funding the Consumer Financial Protection Bureau, many corporations continue practicing CSR and 3BL principles to support sustainable environmental goals and objectives.<sup>53</sup>

While CSR is not a cure-all that can or will significantly make a difference in ushering in more sustainable environmental practices, help alleviate poverty, and use profits to help lower-income communities, it contributes to both internal and external stakeholder awareness to “do the right thing.” For example, Teng and Yazdanifard argue and present evidence that some consumers do take CSR into account while making purchase decision. Also, CSR initiatives and actions have been shown to positively influence both internal and external stakeholders.<sup>54</sup> A study conducted in

New Zealand explored the perceptions of internal stakeholders of New Zealand companies to discover the way in which the CSR, sustainability cultures, and identity are communicated internally. It was found that employee behaviors matter, as organizations that are well regarded in the community attract greater external loyalty, have more stable revenues, and face fewer crisis risks. A positive relationship with staff in organizations through CSR policies will not only attract better employees, it will also influence the morale, motivation, and loyalty of existing staff. The effective delivery of CSR initiatives also depends on how responsive employees are. If companies wish to achieve legitimacy by operating within a society's ethical expectations, they must also communicate internally to ensure that CSR activities are integrated into the organizational culture—they cannot “talk the talk” without “walking the walk.”<sup>55</sup>

So, does CSR benefit the companies that practice such measures? A meta-analysis of 52 studies with a sample size of 33,878 observations suggested that “corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility, is likely to pay off. . . . CSP [corporate social performance] appears to be more highly correlated with accounting-based measures of CFP [corporate financial performance] than with market-based indicators, and CSP reputation indices are more highly correlated with CFP than are other indicators of CSP” . Many business scholars do believe that some of these relationships are positive.<sup>56</sup> Robbins concludes that “[o]n balance, surveys and the research literature suggest that what most executives believe intuitively, that CSR can improve profits, is possible. And almost no large public company today would want to be seen unengaged in CSR. That is clear admission of how important CSR might be to their bottom line, no matter how difficult it may be to define CSR and link it to profits.”<sup>57</sup>

Without exception, the managers articulated the importance of communicating CSR initiatives and policy to their employees, as well as recognizing the need to improve their CSR internal communication strategies. According to the managers, CSR initiatives are promoted to create better corporations and a more ethical business environment. These included recycling, carpooling, staff development, and social activities. External initiatives included volunteering, fund-raising, and charitable donations.

## Stakeholder Management

CSR and stakeholder management are complementary approaches. Stakeholder theory argues that corporations should treat all their constituencies fairly and that doing so can strengthen companies' reputations, customer relations, and performance in the marketplace.<sup>58</sup> “If organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization's purposes.”<sup>59</sup>

The ethical dimension of stakeholder theory is based on the view that profit maximization is constrained by justice, that regard for individual rights should be extended to all constituencies who have a stake in a business, and that organizations are not only “economic” in nature but can also act in socially responsible ways. To this end, companies should act in socially responsible ways, not only because it's the “right thing to do,” but also to ensure their legitimacy.<sup>60</sup>

A stakeholder management approach first involves identifying the stakeholders of a company. A **stakeholder** is any group or individual who can affect or is affected by an organization's strategies, major transactions, and activities. Stakeholders include employees, suppliers, customers, shareholders, the government, media, and others. An illustration of the stakeholder relationships is provided in **Exhibit 3.4**. The term *stakeholder* has become commonplace in organizations. Companies and organizations that base their strategic decisions on the principle of duty to earn stakeholder trust “are likely to yield a number of strategic benefits, too, and can help manage political, social, and reputational risk.”<sup>61</sup>



**Exhibit 3.4 Stakeholder Map** Source: Freeman, R. Edward. (1984). *Strategic management: A Stakeholder approach*, 25. Boston: Pitman. Reproduced with permission of the author.

## Identifying and Influencing Major Stakeholders

There are several methods for analyzing stakeholder transactions and relationships with an organization that go beyond the purpose of this chapter.<sup>62</sup> Using an ethical perspective, a goal of this approach is for organizations to employ values of transparency, fairness, and consideration of stakeholder interests in strategic decisions and transactions. Toward that end, the following questions can be used from **Exhibit 3.4**.

1. Who are the stakeholders (that is, people who have an interest in supporting or resisting a proposed course of action, resolving an issue, and addressing a change)?
2. What are their stakes in either supporting or resisting the change?
3. What do the supporters stand to gain and lose from the change?
4. What do the resisters stand to gain and lose from the change?
5. What type(s) of power do the supporters have with regard to the change?
6. What type(s) of power do the resisters have with regard to the change?
7. What strategies can we use to keep the support of the supporters?
8. What strategies can we use to neutralize or win over the resisters?

Based on this approach, an organization's leaders and officers inform, involve, obtain feedback from, and influence each of their stakeholders with regard to strategy, issues, or opportunities the organization pursues. The Coca-Cola Company uses an ongoing stakeholder approach that is described on this site: <http://www.coca-colacompany.com/stories/stakeholder-engagement>.

Had BP followed this approach in 2010, the now largest oil spill and rig explosion crisis in the history of such operations that occurred in the Gulf of Mexico, killing 11 workers and damaging over 600 square miles of land and sea, might have been prevented. It appeared that the leadership and culture at BP had been lax and out of touch with its stakeholders—and stockholders. As a consequence, the machinery and equipment were dated and not optimally functioning. One consequence is that employees, workers, communities, and the public may not have suffered that crisis and the continuing after effects.

CSR and stakeholder management have demonstrated benefits to firms' reputations and profitability.<sup>63</sup> The relationship of an organization's ethics and social responsibility to its performance concerns both managers and organization scholars. Studies have shown a positive relationship between ethical and socially responsible behavior and financial results. For example, one study of the financial performance of large U.S. corporations that are considered "best corporate citizens" found that they have both superior reputations and superior financial performance.<sup>64</sup> Similarly, Governance Metrics International, an independent corporate governance ratings agency, found that the stocks of companies run on more selfless principles perform better than those run in a self-serving manner. Top-ranked companies such as Pfizer, Johnson Controls, and Sunoco also outperformed lower-ranking firms on measures such as return on assets, return on investment, and return on capital.<sup>65</sup>

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

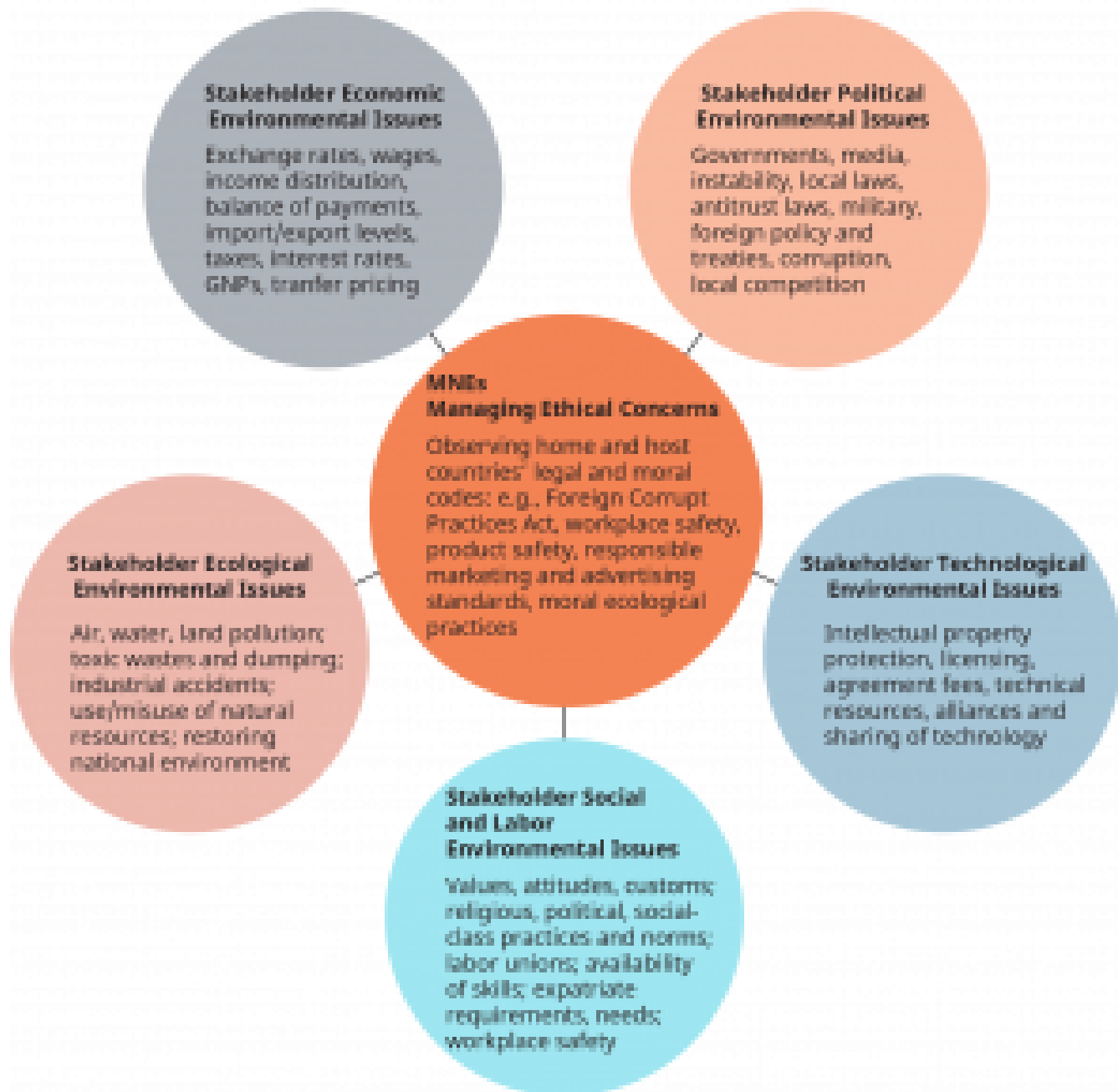


## 3.7 Ethics around the Globe

### 7. What are ethical issues we encounter in the global environment?

Organizations operating on a global basis often face particularly tough ethical challenges because of various cultural, political, economic, technological, and market factors. The greater the complexity of the environment, the greater the potential for ethical problems and misunderstandings for global organizations.<sup>66</sup> “Think ... of the ethical value systems that shape behavior within and between countries, and the unpredictability that can result when there is a re-evaluation of what is acceptable and unacceptable.” Recent and reoccurring global ethical problems and risks that organizations face include cybersecurity and political threats, international conflict and warfare, income inequality, planetary climate and environmental pollution and instability, corruption, and human and diversity rights violations. **Exhibit 3.5** illustrates the wide range of stakeholders and issues related to several of the risks in this figure that MNEs (multinational enterprises) must either prevent from occurring or manage when doing business across and within different country borders.

### MNE Global Stakeholder Management Issues and Ethical Concerns



**Exhibit 3.5 MNE Global Stakeholder Management Issues and Ethical Concerns**Source: Copyright © Joseph W. Weiss, Bentley University, Waltham, MA. 2014.

Following laws related to doing business abroad is an added challenge for global firms. For example, the FCPA (Foreign Corrupt Practices Act) prohibits American firms from accepting or offering bribes to foreign government officials. U.S. individuals who cannot defend their actions with regard to the FCPA's antibribery provisions can face harsh penalties. "U.S. companies can be fined up to \$2 million while U.S. individuals (including officers and directors of companies that have willfully violated the FCPA) can be fined up to \$100,000 and imprisoned for up to five years, or both. In addition, civil penalties may be imposed."<sup>67</sup> Recently, the U.S. Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) have been more aggressive in enforcing and prosecuting the bribery section of the FCPA. Halliburton

Company in 2017 paid the SEC \$29.2 million for bribing a friend of an official in Angola to negotiate a seven oil-field services contracts. The result was a disgorgement fine (i.e., a repayment of illegal gains with penalties imposed on wrongdoers by the courts) for violating the FCPA's records and internal accounting controls provisions.<sup>68</sup>

U.S.-based firms are also expected to not engage in unethical or illegal activities such as discriminating against local populations, violating local laws and norms, and disrespecting property and the environment. MNEs can also assist and add value to local countries. For example, the following practices are encouraged:

- Hiring local labor
- Creating new jobs
- Co-venturing with local entrepreneurs and companies
- Attracting local capital to projects
- Providing for and enhancing technology transfer
- Developing particular industry sectors
- Providing business learning and skills
- Increasing industrial output and productivity
- Helping decrease the country's debt and improve its balance of payments and standard of living.<sup>69</sup>

## Globalization

The increasing phenomenon of globalization (an integrated global economy consisting of free trade, capital flows, and cheaper foreign labor markets)<sup>70</sup> also pressures global firms facing international risks to rely on governments, NGOs (nongovernmental organizations), the UN (United Nations), and other business and stakeholder alliances and relationships to help meet nonmarket threats. For example, the ten principles of the UN Global Compact serve as guidelines for international firms doing business in LDCs (least developed countries), and abroad, businesses should (1) support and respect the protection of internationally proclaimed human rights, (2) ensure that they are not complicit in human rights abuses, (3) uphold the freedom of association and the effective recognition of the right to collective bargaining, (4) eliminate all forms of forced and compulsory labor, (5) abolish child labor, (6) eliminate the discrimination of employment and occupation, (7) support a precautionary approach to environmental challenges, (8) promote greater environmental responsibility through initiatives, (9) encourage the development and diffusion of environmentally friendly technologies, and (10) work against corruption, including extortion and bribery.<sup>71</sup>

While these principles may seem so universal as to be unattainable, they do stand as ethical milestones that protect human life, dignity, and personal welfare and values. However, when companies operate in LDCs and other cultures, it often is necessary to negotiate a balance between fairness, equality, and different local values and standards. U.S. and Western values may differ with local cultural norms, such as child labor and employee rights, in many countries. Donaldson and Dunfee offer methods for such negotiations.<sup>72</sup> A classic example was Levi Strauss doing business in Bangladesh several years ago. Children in that country under the age of 14 were working in two of Levi's local suppliers. This employment practice violated Levi's norms but not the local cultural norms. Firing the children would have prevented the children from being able to get an education and would have placed hardships on their families, who depended on the children's wages. A negotiated agreement (between Levi's universal values and local country norms) involved the suppliers agreeing to pay the children regular wages while they went to school and then hiring them when they turned 15 years old. Levi's agrees to provide for the children's tuition, books, and uniforms.

## MNEs Corporate Cultures

MNEs must also create inclusive, ethical corporate cultures while managing both external and internal complexities such as hiring and training a diverse workforce, adapting to local culture norms while balancing home country ethics and values, and ensuring a multicultural approach to doing business across countries. Hanna identified five strategic questions that relate to organizational cultural sensitivities when doing business abroad as well as in a home country:<sup>73</sup>

1. “What do customers and stakeholders in our market expect from our organization? (Will their standard of living be raised? Will their cultural expectations be violated?)
2. What is our strategy to be successful in this competitive marketplace? (What can we realistically hope to achieve? What results are we willing to commit to?)
3. What are our governing values that define how we will work with stakeholders and with each other?
4. What organizational capabilities do we need in order to achieve these results?
5. What do our work processes, roles, and systems need to do so that we are consistent with all of the above?”

The author maintains that these questions will help bring an awareness to cultural differences and help organizational leaders and staff reach agreement on customizing decisions to fit a particular market while balancing company principles with local values.

Global firms are also sensitized to the recent #MeToo movement in the United States that raises women’s awareness and courage to speak out about sexual harassment and assault in companies and workplaces. This movement further highlights the need to diversify and integrate workforces on the basis of gender and other traits that match customers’ and population characteristics. This need is not only based on ethical factors such as fairness, equality, rights, and justice, but also on competitive advantage and marketing awareness. To that end, organizational leaders are implementing more gender-balanced talent pools, especially at the early-to-mid-career levels and the mid-to-upper levels globally. Gender balance is beginning to be seen as “a broader, more strategic cultural shift that includes developing leadership teams representing geographically diffuse markets. These leaders are recognizing that this balance drives the innovation and market understanding they need for other key business transformations. Without balance, they simply won’t understand the world that’s emerging.”<sup>74</sup>

For example, Dutch-based Royal DSM—the \$8 billion global company in health, nutrition, and materials science—has shifted from a male-run organization to a gender-balanced leadership team in three steps: (1) setting a vision connecting the goal to business success, (2) engaging men of the firm’s dominant nationality, and (3) building competencies while working across nationality and gender differences. In 2000, DSM’s top 350 executives were 75% Dutch and over 99% male. In 2017, the firm was 40% Dutch and 83% male. The CEO, Feike Sijbesma, plans to decrease the male ratio down by 2% per year and down below 75% by 2025. He is prioritizing sustainability and credibility more than speed.<sup>75</sup>

Govindarajan’s research indicated that, even though organizational cultures may vary widely, there are specific components that characterize a global culture. These include an emphasis on multicultural rather than national values, basing status on merit rather than nationality, being open to new ideas from other cultures, showing excitement rather than trepidation when entering new cultural environments and being sensitive to cultural differences without being limited by them.<sup>76</sup> Managers must also think more broadly in terms of ethical issues. Companies are using a wide variety of mechanisms to support and reinforce their ethics initiatives on a global scale. A useful mechanism for building global ethics in an organization is the social audit, which measures and reports the ethical, social, and environmental impact of a company’s operations.<sup>77</sup>

Also, as noted earlier in the chapter, Ethisphere—a renowned organization that evaluates the effectiveness of an organization’s communication, training, ethics, culture, and compliance efforts to gain insights into employee concerns—continues to survey and publish annual results of “The World’s Most Ethical Companies.”<sup>78</sup> These surveys offer benchmarks of global and national companies’ best ethical practices. A major finding from one of that organization’s conferences stated that “out of the 644 respondents to the NAVEX Global 2016 Ethics & Compliance

Training Benchmark Report, 70 percent said that ‘creating a culture of ethics and respect’ was one of their top training objectives. When it comes to CEOs, 92 percent agree that a strong corporate culture is important.”

## CONCEPT CHECK

1. What ways can and do some MNEs demonstrate social responsibility in foreign countries?
2. What are some specific ethical business practices other countries (besides the United States) and regional governing bodies (such as the European Union) practice and demonstrate with regard to the environment and competition?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 3.8 Emerging Trends in Ethics, CSR, and Compliance

8. Identify forecasts about contemporary ethical and corporate social responsibility issues.

Predicted trends in ethics, compliance, and corporate social responsibility for Fortune 500 companies, governments, groups, and professionals by Navex Global include:

1. “A shift in the ‘power of voice in the story of harassment.’” The #MeToo movement has changed everything. “Bill Cosby, Harvey Weinstein, Charlie Rose, Kevin Spacey, Al Franken, Matt Lauer, and Garrison Keillor” and other high-profile public figures have pressured organizations through public forum social media forums to take action. “Victims of harassment have the power of choice. They can make an internal report and hope that their organization responds properly, or they can choose to take their story public.” A clear message for corporations and ethics and compliance officers is, “Create a corporate culture in which employees feel comfortable raising their voices about anything from sexual harassment to feelings of being insulted. This will allow your compliance program to resolve issues before they turn into scandals, and preserve the integrity of your organization’s culture internally and its reputation externally. And don’t ever tolerate retaliation.”
2. The “Glassdoor” effect (when people trust online reviews of their companies more than what companies communicate) and the effect of trust when employee messages go viral on social media. Companies need to create “listen-up” cultures by creating internal reporting systems in which leadership and managers listen to and support employees when they raise their voices for the betterment of the company. “This ensures employees know that their report will be heard, taken seriously, and things will change if necessary.”
3. Assisting national disasters that suddenly occur causes havoc not only for vulnerable populations but also for unprepared organizations. Ethics and compliance professionals learned from 2017’s natural disasters (hurricanes in particular) to update preparation plans and test emergency hotlines, communications systems, and employee readiness.
4. The acceleration of the need for compliance and ethics programs as economies begin again to grow; “growth without ethics and governance does nobody any favors. Growth with ethics and governance won’t simply be a feel-good mantra in 2018, it will be a business imperative.”
5. Creating a “culture of compliance” in corporations (a culture of integrity and ethics) over one of “vicious compliance” (an overreliance on laws and regulations). “Finally, and most importantly, leadership accountability is what every employee is watching. In the end, what happens to the top performers who violate the rules will send the loudest message of all to the organization.”
6. An increasing need for compliance’s role in prevention and mitigation as cybersecurity evolves. “Compliance must play an integral part in any organization’s cross-functional cyber security program to make sure such efforts are enterprise-wide.”
7. Giving new voice to whistle-blowers is predicted as “regulatory scrutiny is increasing, and the voice of the whistleblower in the [Silicon] Valley is growing louder as well.” Corporations need to listen and resolve whistle-blowers’ issues internally before they decide to go outside.
8. Managing culture and free speech in the workplace during “polarizing times” continues about “race, gender, sex, sexual orientation, gender identity, national origin, and religion—and people’s right to fair treatment, protection, and the rights and benefits enjoyed by others.”
9. Data privacy is becoming a larger concern for chief compliance officers in companies as “privacy laws and the environments they regulate, have evolved.” Creating a safe and respectful workplace is needed.
10. The role of the compliance professional evolves and innovates as “old networking models are giving way to online networks that provide new and unprecedented opportunities to share ideas and collaborate.”

Ethics and compliance go hand in hand as stated earlier. With a strong ethical culture, compliance is more effective

in preventing risks, and without a compliance program, those who deliberately choose to break laws and codes of conduct would create disorder. “Strong cultures have two elements: A high level of agreement about what is valued and a high level of intensity with regard to those values. “In the long run, a positive culture of integrity is the foundation for an effective ethics and compliance program, which, when properly embedded into an organization, can create a competitive advantage and serve as a valuable organizational asset,” quoted from Keith Darcy, an independent senior advisor to Deloitte & Touche LLP’s Regulatory and Operational Risk practice.<sup>79</sup>

## Moral Entrepreneur: A New Component of Ethical Leadership?

An innovative development in ethics and business is the concept of “moral entrepreneur.”<sup>80</sup> Brown and Trevino found that people who have been exposed to a moral entrepreneur are more likely to become a moral entrepreneur themselves because they have experienced its potential and experienced how it is done. Inspiration certainly takes place, and the person’s well-being is improved.<sup>81</sup>

Related to moral entrepreneurship is ethical leadership. Brown and Trevino’s ethical leadership is defined as “the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making.” Examples of such conduct include openness, honesty, and treating employees fairly and thoughtfully. Social learning theory was used to gain an understanding as to why ethical leadership is important to employees and how it is perceived to work.

Ethical leaders are models of ethical conduct who become the targets of identification and emulation for followers. For leaders to be perceived as ethical leaders and to influence ethics-related outcomes, they must be perceived as attractive, credible, and legitimate. They do this by engaging in behavior that is seen as normatively appropriate (e.g., openness and honesty) and motivated by altruism (e.g., treating employees fairly and considerately). Ethical leaders must also gain followers’ attention to the ethics message by engaging in explicit ethics-related communication and by using reinforcement to support the ethics message.<sup>82</sup>

In addition to social learning theory, which focuses on why and how supporters follow a leader, a social development approach to the concept of ethical leadership is also needed because it focuses on the direction that leadership should take. Studies on corporate social responsibility are concerned with how companies can contribute to societal development, not only in the sense of solving social problems but also in the sense of improving social welfare, promoting social progress, and creating new social value.

Muel Kaptein argues that there is a third component to ethical leadership—moral entrepreneurship, in addition to the already defined components of the moral person and the moral manager.<sup>83</sup> His belief is that moral entrepreneurship opens avenues for studying various antecedents and outcomes of ethical leadership that hasn’t been acknowledged adequately to date.

Studies of the antecedents of ethical leadership, at both the situational and personal levels, have found that leaders who have had ethical role models are more likely to become ethical leaders.<sup>84</sup> These studies have also found that the personality traits of agreeableness and conscientiousness are positively related to ethical leadership. And studies on corporate social responsibility are concerned with how companies can contribute to societal development, not only in the sense of solving social problems, but also in the sense of improving social welfare, promoting social progress, and creating new social value.

According to Kaptein, someone who creates a new ethical norm is called a moral entrepreneur. Becker believes that those people who make moral reform happen are the moral entrepreneurs. He differentiates between two kinds of moral entrepreneurs: those who create new norms and those who enforce new norms. The moral entrepreneur experiences something horrific that prompts him to want to do something to solve the issue, as Kaptein describes, a want to correct by translating a preferred norm into legal prohibitions: however, he risks becoming an outsider themselves if they are not unable to congregate support for the new norm.

Kaptein states that the component of moral entrepreneurship complements the two other components of ethical leadership (moral person and moral manager), because it highlights the creation of new norms instead of only following and implementing current ethical norms. Becker suggests that helping others is important and having the altruistic trait is important for a moral entrepreneur. Yurtsever, in developing a scale for moral entrepreneurship personality, suggests that moral entrepreneurs demonstrate high moral virtues, such as justice and honesty.<sup>85</sup> Moreover, being a moral manager is important to be able to get the support of others to follow the new ethical norm. In order to be successful as a norm creator, one needs the support of others. Even though the three components of ethical leadership complement each other, it is still possible for someone to only exhibit one or two of the components, making ethical leadership a multidimensional construct. For instance, one can be a moral entrepreneur without being a moral manager (what Becker calls the norm creator), or one can be a moral manager without being a moral entrepreneur, what Becker calls the norm enforcer.

## Concluding Comments

So, does it pay to be ethical and moral, whether it be entrepreneurs and individuals or corporations and organizations? We have discussed this question in this chapter and presented different arguments with different views. Scholars and ethicists who have debated whether or not corporations can be ethical differ on their responses. One such conference in the INSEAD Business School in France closed with the following statement: “Theoretically, a strong case can be made for the moral responsibility of firms. However, this does not preclude individual moral responsibility for acts as a corporate member. Moreover, it was also evident that considerable concern exists about corporate misconduct going unsanctioned and the possibility that both good and bad corporate behavior is profoundly influenced by the extent to which individuals and corporate entities are held morally responsible.”<sup>86</sup>

This statement implies that both corporations and individuals bear the possibility and responsibility for unethical—as well as illegal—acts. While corporations are not individuals, people work and relate in corporate and work settings. That is why organizational leaders and cultures play such important roles in setting the tone and boundaries for what is acceptable (ethically and legally) and what is not. Ethical values and legal, compliance codes of conduct together work to prevent and if necessary seek correction and justice for unlawful actions. As noted earlier, promoting and rewarding ethical actions are more desirable and in the long-term more profitable.

Prooijen and Ellemers’s study using social identity analysis found that individuals are attracted to teams and organizations with positive features such as organizational “competence and achievements” and “moral values and ethical conduct.” Since these two features do not always cohere working environments, the authors’ study had students choose in three different studies which they would prefer in seeking employment, “perceived competence vs morality of a team or organization.” They found that “[r]esults of all three studies converge to demonstrate that the perceived morality of the team or organization has a greater impact on its attractiveness to individuals than its perceived competence.”<sup>87</sup>

### CONCEPT CHECK

1. What are some emerging national and global issues and trends in ethics and business ethics?



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# Key Terms

## **business ethics**

The area of applied ethics that focuses on real-world situations and the context and environment in which transactions occur.

## **corporate culture**

The beliefs and behaviors that determine how a company's employees and management interact inside an organization and also handle outside business transactions. Corporate culture develops organically over time from the cumulative traits of the leaders and the people that the company hires.

## **ethical dilemma**

A situation in which a difficult choice has to be made between two courses of action with ethical consequences.

## **ethical relativism**

Holds that people set their own moral standards for judging their actions, based on self-interest.

## **ethics**

The code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong.

## **instrumental values**

The preferred means of behavior used to obtain desired goals.

## **justice**

Four major tenets: (1) All individuals should be treated equally; (2) Justice is served when all persons have equal opportunities and advantages; (3) Fair decision practices, procedures, and agreements among parties should be practiced; (4) Punishment is served to someone who inflicts harm.

## **moral entrepreneur**

Someone who creates a new ethical norm.

## **normative ethics**

The field of ethics concerned with our asking how *should* and *ought* we live and act.

## **rights**

Legal rights are entitlements that are limited to a particular legal system and jurisdiction, while moral rights are universal and based on norms in every society.

## **servant leadership**

Involves selflessly working with followers to achieve shared goals that improve collective, rather than individual, welfare.

## **stakeholder**

Any group or individual who can affect or is affected by the achievement of an organization's objectives. The use of the term *stakeholder* has become commonplace in organizations.

## **stakeholder management**

The systematic identification, analysis, planning, and implementation of actions designed to engage with stakeholders

## **stewardship**

Concerned with empowering followers to make decisions and gain control over their work.

## **terminal values**

Desired goals, objectives, or end states that individuals wish to pursue.

## **virtue ethics**

Grounded in one's character, focusing on what type of person one ought to be.

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# Summary of Learning Outcomes

## 3.1 Ethics and Business Ethics Defined

1. What are ethics and business ethics?

A goal of the chapter is to present ethical principles, guidelines, and questions that inform our individual decision-making and influence actions we can take with regard to questionable ethical situations and dilemmas. We also present and illustrate how business leaders, corporations, and organizations internationally have responded and are responding to questionable ethical problems with the environment in their communities through responsible corporate governance and alliance with concerned stakeholders. Ethics is both local and global; it begins with the individual, moves to the organizational, and reaches to international and global levels of societies.

## 3.2 Dimensions of Ethics: The Individual Level

2. What are the types of values that motivate ethics at the individual level?

Ethics at an individual level may seem to involve only the individual, but it is a holistic process. There may be high pressure from coworkers, managers, or any other constituent of business culture to be unethical. Individuals may hate such pressures, and they tend to work to avoid the dilemmas.

## 3.3 Ethical Principles and Responsible Decision-Making

3. What are the major ethical principles that can guide individuals and organizations?

There are many approaches for both individuals and organizations to take with regard to ethical principles. They are utilitarianism; universalism, which is a duty-based approach; a rights approach, which takes a moral and legal approach; justice; virtue; common good; and finally the ethical relativism approach.

## 3.4 Leadership: Ethics at the Organizational Level

4. Why is ethical leadership important in organizations?

After the failures of Enron and other organizations, people have started emphasizing the concept of ethical leadership. An organization can incorporate ethical practices only if its leaders enforce ethical values into the organization. While such basic concepts of ethics such as being honest are crucial to ethical leadership, a modern approach is to take the servant leadership approach, where the leader serves the interests of all stakeholders in an ethical manner.

### 3.5 Ethics, Corporate Culture, and Compliance

1. What are the differences between values-based ethics and compliance in organizations?

A compliance-based ethical approach is simple and direct. It provides a basic integrity to the participant since it is spelled out in clear terms. If the individual or organization exhibits destructive behaviors, their rights can be restricted. An integrity-based ethics code fills the receiver with demands based on the highest expectations.

### 3.6 Corporate Social Responsibility (CSR)

6. What value do CSR (corporate social responsibility) programs offer to organizations and society?

Corporate social responsibility is about an organization taking responsibility for the impacts of its decisions and activities on all aspects of society, the community, and the environment. Corporate social responsibility is about contributing to the health and welfare of society and operating transparently and ethically. More importantly, this way of operating should be embedded in the business, rather than an afterthought.

### 3.7 Ethics around the Globe

7. What are ethical issues we encounter in the global environment?

Some of the most common ethical issues organizations encounter globally include outsourcing, working standards and conditions, workplace diversity and equal opportunity, child labor, trust and integrity, supervisory oversight, human rights, religion, the political arena, the environment, bribery, and corruption.

### 3.8 Emerging Trends in Ethics, CSR, and Compliance

8. Identify forecasts about contemporary ethical and corporate social responsibility issues.

Among the emerging issues in the area of ethics are in the area of harassment in the era of #MeToo. Organizations and individuals are also more accepting of their roles in assisting with such things as natural disasters and national emergencies. Finally, there is increasing attention to issues of compliance and governance to ensure that organizations meet their stated ethical standards.

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# Chapter Review Questions

1. What is the difference between ethics and business ethics?
2. What is normative ethics?
3. Why are values an important element of ethics for individuals and organizations?
4. What are the differences between instrumental and terminal values?
5. Can an individual be ethical without using ethical principles described in the chapter? Explain.
6. Identify major classical ethical principles.
7. Differentiate between the principle of rights and utilitarianism and between justice and universalism.
8. Why is leadership important for ethical conduct in corporations?
9. Identify two types of ethical leaders and the important role each plays.
10. What is the difference between ethics and compliance in organizations?
11. What is CSR, and why is it important?
12. What is stakeholder management?
13. What is the difference between stakeholders and stockholders?
14. What is different about ethics in a global or international context and ethics in a national context or setting?
15. What are some global issues that corporations must face today, and why are these important?
16. Identify some contemporary ethical and compliance trends affecting corporations, employees, and individuals now.
17. What is a moral entrepreneur?
18. Does ethics pay? Explain.
19. After reading this chapter, what are major insights you have about ethics and CSR?

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# Management Skills Application Exercises

1. What are some advantages and disadvantages of leaders, managers, and employees having and working with a principle-centered approach (using some ethical principles in the chapter) rather than taking a “come what may,” trust in luck, circumstance and chance approach?
2. Would you rather work for a company that takes a stakeholder or stockholder approach in its dealings with customers, employees, suppliers, and other constituencies in its network? Explain.
3. What are some principles (from the chapter) that leaders and managers can use to guide their actions in ethical ways?
4. What can organizational managers and leaders learn with regard to organizational cultures that would inspire and motivate employees to do the right thing in their work?
5. What type of leaders and leadership styles and practices often lead to problems with employees, customers, and other stakeholders and stockholders?
6. Describe how a leader, manager, and employee might think and act differently if their organization seriously adopted and practiced doing business with a corporate social responsibility mindset.
7. What are some concerns that have ethical implications that a leader, manager, or employee might have when doing business internationally or globally?
8. After reading the section in the chapter on ethical and compliance trends going forward, what top two or three things do you think organizational leaders and managers would want to take action on preparing for now? Why?

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# Managerial Decision Exercises

1. You are a manager, and your boss—who is also a friend—has reprimanded a fellow employee (also a friend) in ways that are demonstrably unfair and unethical but not illegal. That employee has confided in you with the facts, and you agree. The employee asks you not to mention anything to the boss but to go with her to human resources for support while she reports him for those actions. What would you do, if anything, and why? Explain.
2. One of your direct reports thinks that you are not acting responsibly or in the best interests of the company with him or the department in which you work. The direct report has informed you that your communication and work style are lacking and that this is also causing problems with others in the department. You are upset over this news and realize it could cause you problems with your boss and those above. What would you do, when, why, and how?
3. You learn that a woman in your department has complained about sexually improper advances toward her by your boss and another more senior person above that boss. You know the woman but not well. She may be right in this instance. You have heard rumors that she often exaggerates and sometimes can't be trusted. You don't particularly like her and are concerned about your own reputation if she's wrong. What would you do and why?
4. Your department boss wants you to select a few others in your organization to explore adopting corporate social responsibility practices. Some of your friends think that CSR isn't effective and in fact wastes resources and time of those who get involved. To take on this assignment would require time out of doing your own work. However, you have noticed that your organization's leadership isn't all that responsible and responsive to employees and many customers. Maybe adopting more ethical standards and practices could improve business and some of the questionable leaders' behaviors. What would you do and why?

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# Critical Thinking Case

## *Wells Fargo*

The Wells Fargo recent crisis over mismanaging customer relationships, fraudulently implementing illegal and unethical sales practices with trusted clients, has cost the company in fines, lost business, and the resignation of the CEO. The following online sources offer a narrative and factual source of what happened, when, to whom, and why. Use these sources to answer and provide evidence to the following questions to present to the class:

### **Critical Thinking Questions**

1. What were the sources and causes the problems in the first place? Explain.
2. Who were some of the primary decision makers that led to the illegal sales activities?
3. What were these individuals' motives and motivations?
4. How were the illegal and fraudulent activities discovered?
5. Who was to blame?
6. What unethical activities occurred before the illegal actions took place?
7. What would you have done, if anything, had you been one of the sales professionals pressured to engage in unethical, illegal practices there?
8. How would a stakeholder approach, if taken by the company's top leaders and board of directors, have possibly prevented the crisis?

Sources: Comrie, Harley, "Wells Fargo Fake Accounts Scandal", Seven Pillars Institute, March 15, 2017, <http://sevenpillarsinstitute.org/case-studies/wells-fargo-fake-accounts-scandal> ; "Wells Fargo Banking Scandal a Financial crisis We Can Finally Understand", *The Guardian*, accessed January 2, 2019, <https://www.theguardian.com/business/us-money-blog/2016/oct/07/wells-fargo-banking-scandal-financial-crisis>; Glazer, Emily, "Wells Fargo's Textbook Case of Botched Crisis Management", *The Wall Street Journal*, October 13, 2017, <https://www.wsj.com/articles/wells-fargos-textbook-case-of-how-not-to-handle-a-crisis-1476380576>.

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## 4 - PLANNING AND DECISION MAKING

### Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. What are the basic characteristics of managerial decision-making?
2. What are the two systems of decision-making in the brain?
3. What is the difference between programmed and non-programmed decisions?
4. What barriers exist that make effective decision-making difficult?
5. How can a manager improve the quality of her individual decision-making?
6. What are the advantages and disadvantages of group decision-making, and how can a manager improve the quality of group decision-making?

### EXPLORING MANAGERIAL CAREERS

#### *Up, Up, and Away: How Stephanie Korey and Jen Rubio founded their luggage company*

Jen Rubio and Stephanie Korey faced a number of important decisions in starting their luggage company, Away—beginning with the decision to start a business! That decision came about after Rubio's luggage broke on a trip. She found it frustrating that all the luggage options were either inexpensive (\$100 or less) but low quality, or high quality but incredibly expensive (\$400 and above). There was no midrange option. So in 2015 Rubio and her friend Stephanie Korey began researching the luggage industry. They found that much of the reason for the high prices on quality luggage was because of how it was distributed and sold, through specialty retail shops and department stores. If they opted instead for a model in which they sold directly to consumers, they could provide high-quality luggage at more of a midrange (\$200–\$300) price. After considerable research, the two were convinced that they had an idea worth pursuing. Rubio and Korey settled on the company name “Away,” which is intended to invoke the pleasure that comes from travelling.

Both of the founders had prior experience working for a start-up in the e-commerce space (Warby Parker), which helped them with making sound choices. Rubio's background was more in branding and marketing, while Korey's was in operations and supply chain management—so each was able to bring great expertise to various aspects of the business. They raised money initially from friends and family, but within a few months they sought venture capital funding to ensure that they had enough money to get off to a successful start.

A big decision that Rubio and Korey had to make fairly early in the process of establishing their business was to settle on an initial design for the product. This decision required extensive marketing and consumer research to understand customer needs and wants. They asked hundreds of people what they liked about

their existing luggage, and what they found most irritating about their existing luggage. They also contracted with a two-person design team to help create the first prototype. This research and development ultimately led to the design of an attractive hard case that is surprisingly lightweight. It also boasts extremely high-quality wheels (four of them, not two) and high-quality zippers. As a bonus, the carry-on includes a built-in battery for charging phones and other devices.

The two founders also had to choose a partner to manufacture their product. Because their product had a hard, polycarbonate shell, Rubio and Korey discovered that manufacturing in the United States was not a viable option—the vast majority of luggage manufacturers using a polycarbonate shell were based in Asia. They researched a number of possible business partners and asked lots of questions. In addition, they eventually visited all of the factories on their list of options to see what they were actually like. This was an important piece of research, because the companies that looked best on paper didn't always turn out to be the best when they visited in person. Rubio and Korey ended up working with a manufacturing partner in China that also produces luggage for many high-end brands, and they have been extremely pleased with the partnership. They continue to devote time to building and maintaining that relationship, which helps to avoid issues and problems that might otherwise come up.

By the end of 2015, Rubio and Korey had developed their first product. Because the luggage was not going to be available in time for the holiday shopping season, they decided to allow customers to preorder the luggage. To drum up interest, the duo engaged in a unique storytelling effort. They interviewed 40 well-respected members of the creative community about their travel experiences and created a hardcover book of travel memoirs called *The Places We Return To*. Not only was the book interesting and engaging, it also made lots of people in the creative community aware of Away luggage. Starting in November 2015, the travel memoir book was available for free with the purchase of a gift card that could be redeemed in February 2016 for luggage. The book project generated tremendous advance interest in the product, and the 1,200 printed copies sold out. Away generated \$12 million in first-year sales.

Stephanie Corey and Jen Rubio faced many important and novel decisions in initially developing and building their business. They have been successful in part because they made those decisions wisely—by relying on shared knowledge, expertise, and lots of research before reaching a decision. They will continue to face many decisions, big and small. They have expanded their product line from one piece of luggage to four, with more luggage—and other travel accessories—in the works for the future. Their company, which is based in New York, has grown to over 60 employees in the first two years. These employees include the two design-team members who were contracted to help create their first prototype; Rubio and Korey appreciated working with them so much, they offered them full-time positions with Away. Each new hire represents new decisions—decisions about what additional work needs to be done and who they should hire to do it. Each new product also brings additional decisions—but it seems Rubio and Korey have positioned themselves (and their business) well for future successes.

Sources: Kendall Baker, “An Interview With the Co-Founder of Away,” *The Hustle*, December 5, 2016, <https://thehustle.co/episodes>; Bond Street Blog, “Up and Away,” *Bond Street*, <https://bondstreet.com/blog/jen-rubio-interview/>; Josh Constine, “Away nears 100k stylish suitcases sold as it raises \$20M,” *TechCrunch*, May 19, 2017, <https://techcrunch.com/>; Adeline Duff, “The T&L Carry-On: Away Travel Co-Founders Jen Rubio and Stephanie Korey,” *Travel & Leisure*, March 9, 2017, <http://www.travelandleisure.com/>; Burt Helm, “How This Company Launched With Zero Products –and Hit \$12 Million in First-Year Sales,” *Inc.com*, July/August 2017, <https://www.inc.com/>; Veronique Hyland, “The Duo Trying to Make Travel More Glamorous,” *The Cut*, December 22, 2015, <https://www.thecut.com/>.

Managers and business owners—like Jen Rubio and Stephanie Korey—make decisions on a daily basis. Some are big, like the decision to start a new business, but most are smaller decisions that go into the regular running of the company and are crucial to its long-term success. Some decisions are predictable, and some are unexpected. In this chapter we look at important information about decision-making that can help you make better decisions and, ultimately, be a better manager.

## 4.1 Overview of Managerial Decision-Making

### 1. What are the basic characteristics of managerial decision-making?

Decision-making is the action or process of thinking through possible options and selecting one.

It is important to recognize that managers are continually making decisions, and that the quality of their decision-making has an impact—sometimes quite significant—on the effectiveness of the organization and its stakeholders. Stakeholders are all the individuals or groups that are affected by an organization (such as customers, employees, shareholders, etc.).

Members of the top management team regularly make decisions that affect the future of the organization and all its stakeholders, such as deciding whether to pursue a new technology or product line. A good decision can enable the organization to thrive and survive long-term, while a poor decision can lead a business into bankruptcy. Managers at lower levels of the organization generally have a smaller impact on the organization's survival, but can still have a tremendous impact on their department and its workers. Consider, for example, a first-line supervisor who is charged with scheduling workers and ordering raw materials for her department. Poor decision-making by lower-level managers is unlikely to drive the entire firm out of existence, but it can lead to many adverse outcomes such as:

- reduced productivity if there are too few workers or insufficient supplies,
- increased expenses if there are too many workers or too many supplies, particularly if the supplies have a limited shelf life or are costly to store, and
- frustration among employees, reduced morale, and increased turnover (which can be costly for the organization) if the decisions involve managing and training workers.

### Deciding When to Decide

While some decisions are simple, a manager's decisions are often complex ones that involve a range of options and uncertain outcomes. When deciding among various options and uncertain outcomes, managers need to gather information, which leads them to another necessary decision: how much information is needed to make a good decision? Managers frequently make decisions without complete information; indeed, one of the hallmarks of an effective leader is the ability to determine when to hold off on a decision and gather more information, and when to make a decision with the information at hand. Waiting too long to make a decision can be as harmful for the organization as reaching a decision too quickly. Failing to react quickly enough can lead to missed opportunities, yet acting too quickly can lead to organizational resources being poorly allocated to projects with no chance of success. Effective managers must decide when they have gathered enough information and must be prepared to change course if additional information becomes available that makes it clear that the original decision was a poor one. For individuals with fragile egos, changing course can be challenging because admitting to a mistake can be harder than forging ahead with a bad plan. Effective managers recognize that given the complexity of many tasks, some failures are inevitable. They also realize that it's better to minimize a bad decision's impact on the organization and its stakeholders by recognizing it quickly and correcting it.

### What's the Right (Correct) Answer?

It's also worth noting that making decisions as a manager is not at all like taking a multiple-choice test: with a multiple-choice test there is always one right answer. This is rarely the case with management decisions. Sometimes a manager

is choosing between multiple good options, and it's not clear which will be the best. Other times there are multiple bad options, and the task is to minimize harm. Often there are individuals in the organization with competing interests, and the manager must make decisions knowing that someone will be upset no matter what decision is reached.

## What's the Right (Ethical) Answer?

Sometimes managers are asked to make decisions that go beyond just upsetting someone—they may be asked to make decisions in which harm could be caused to others. These decisions have ethical or moral implications. Ethics and morals refer to our beliefs about what is right vs. wrong, good vs. evil, virtuous vs. corrupt. Implicitly, ethics and morals relate to our interactions with and impact on others—if we never had to interact with another creature, we would not have to think about how our behaviors affected other individuals or groups. All managers, however, make decisions that impact others. It is therefore important to be mindful about whether our decisions have a positive or a negative impact. “Maximizing shareholder wealth” is often used as a rationalization for placing the importance of short-term profits over the needs of others who will be affected by a decision—such as employees, customers, or local citizens (who might be affected, for example, by environmental decisions). Maximizing shareholder wealth is often a short-sighted decision, however, because it can harm the organization's financial viability in the future.<sup>1</sup> Bad publicity, customers boycotting the organization, and government fines are all possible long-term outcomes when managers make choices that cause harm in order to maximize shareholder wealth. More importantly, increasing the wealth of shareholders is not an acceptable reason for causing harm to others.

As you can see from these brief examples, management is not for the faint of heart! It can, however, be incredibly rewarding to be in a position to make decisions that have a positive impact on an organization and its stakeholders. We see a great example of this in the *Sustainability and Responsible Management* box.

### SUSTAINABILITY AND RESPONSIBLE MANAGEMENT

#### *Brewing Sustainable Success*

The focus of a manager or a business owner is often primarily on doing well (making a profit). Sometimes, though, organizational leaders choose to pursue two big goals at once: doing well, and simultaneously doing good (benefiting society in some way). Why? Generally because they think it's an important thing to do. The business provides an opportunity to pursue another goal that the founders, owners, or managers are also passionate about. In the case of New Belgium Brewing, the company's cofounders, Jeff Lebesch and Kim Jordan, were passionate about two things: making great beer and environmental stewardship. So it should come as no surprise that their brewery is dedicated to reducing its environmental footprint. The brewery has created a culture that fosters sustainability in a wide range of ways, such as by giving employees a bicycle on their one-year anniversary as a way to encourage them to ride bicycles to work. The organization is also active in advocacy efforts, such as the “Save the Colorado” (river) campaign, and it works hard to promote responsible decision-making when it comes to environmental issues. In fact, in 1999, following an employee vote, the brewery began to purchase all of its electricity from wind power, even though it was

more expensive than electricity from coal-burning power plants (which meant reduced profitability and less money for employee bonuses).

While the brewery still relies primarily on wind power, it also now generates a portion of its electricity onsite—some from rooftop solar panels, and even more from biogas, the methane gas byproduct that is created by microbes in the brewery's water treatment plant. The company cleans the wastewater generated from beer production, and in doing so it generates the biogas, which is captured and used for energy to help run the brewery.

Brewing is water intensive, so New Belgium works hard to reduce water consumption and to recycle the water that it does use. The company also reduces other types of waste by selling used grain, hops, and yeast to local ranchers for cattle feed. The company, which has been employee owned since 2013, also works with the local utility through a Smart Meter program to reduce their energy consumption at peak times.

All of these efforts at doing good must come at a cost, right? Actually, research shows that companies that are committed to sustainability have superior financial performance, on average, relative to those that are not. In coming up with creative ways to reduce, reuse, and recycle, employees often also find ways to save money (like using biogas). In addition, organizations that strive to do good are often considered attractive and desirable places to work (especially by people who have similar values) and are also valued by the surrounding communities. As a result, employees in those organizations tend to be extremely committed to them, with high levels of engagement, motivation, and productivity. Indeed, it seems clear that the employees at the New Belgium Brewery are passionate about where they work and what they do. This passion generates value for the organization and proves that it is, in fact, possible to do well while having also made the decision to do good. And in the case of New Belgium Brewery, that means working to protect the environment while also making delicious beer.

### **Discussion Questions**

1. What challenges does New Belgium Brewery face in pursuing environmental goals?
2. Can you think of any other examples of companies that try to “do good” while also doing well?
3. Would you like to work for an organization that is committed to something more than just profitability, even if it meant your salary or bonus would be smaller?

Sources: Karen Crofton, “How New Belgium Brewery leads Colorado’s craft brewers in energy,” *GreenBiz*, August 1, 2014, <https://www.greenbiz.com/>. Darren Dahl, “How New Belgium Brewing Has Found Sustainable Success,” *Forbes*, February 8, 2016, <https://www.forbes.com/>. Jenny Foust, “New Belgium Brewing Once Again Named Platinum-Level Bicycle Friendly Business by the League of American Bicyclists,” *Craft Beer.com*, February 18, 2016. Robert G. Eccles, Ioannis Ioannou, & George Serafeim, “The Impact of Corporate Sustainability on Organizational Processes and Performance,” *Management Science*, 60, 2014, <https://doi.org/10.1287/mnsc.2014.1984>. New Belgium Brewery Sustainability web page, <http://www.newbelgium.com/sustainability>, accessed September 18, 2017.

## CONCEPT CHECK

1. What are some positive outcomes of decision-making for an organization? What are some possible negative outcomes?
2. How is managerial decision-making different from a multiple-choice test?
3. In addition to the owners of a business, who are some of the other stakeholders that managers should consider when making decisions?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



## 4.2 How the Brain Processes Information to Make Decisions: Reflective and Reactive Systems

### 2. What are the two systems of decision-making in the brain?

The human brain processes information for decision-making using one of two routes: a reflective system and a reactive (or reflexive) system.<sup>2,3</sup> The reflective system is logical, analytical, deliberate, and methodical, while the reactive system is quick, impulsive, and intuitive, relying on emotions or habits to provide cues for what to do next. Research in neuropsychology suggests that the brain can only use one system at a time for processing information [Darlow & Sloman] and that the two systems are directed by different parts of the brain. The prefrontal cortex is more involved in the reflective system, and the basal ganglia and amygdala (more primitive parts of the brain, from an evolutionary perspective) are more involved in the reactive system.<sup>4</sup>

### Reactive Decision-Making

We tend to assume that the logical, analytical route leads to superior decisions, but whether this is accurate depends on the situation. The quick, intuitive route can be lifesaving; when we suddenly feel intense fear, a fight-or-flight response kicks in that leads to immediate action without methodically weighing all possible options and their consequences. Additionally, experienced managers can often make decisions very quickly because experience or expertise has taught them what to do in a given situation. These managers might not be able to explain the logic behind their decision, and will instead say they just went with their “gut,” or did what “felt” right. Because the manager has faced a similar situation in the past and has figured out how to deal with it, the brain shifts immediately to the quick, intuitive decision-making system.<sup>5</sup>

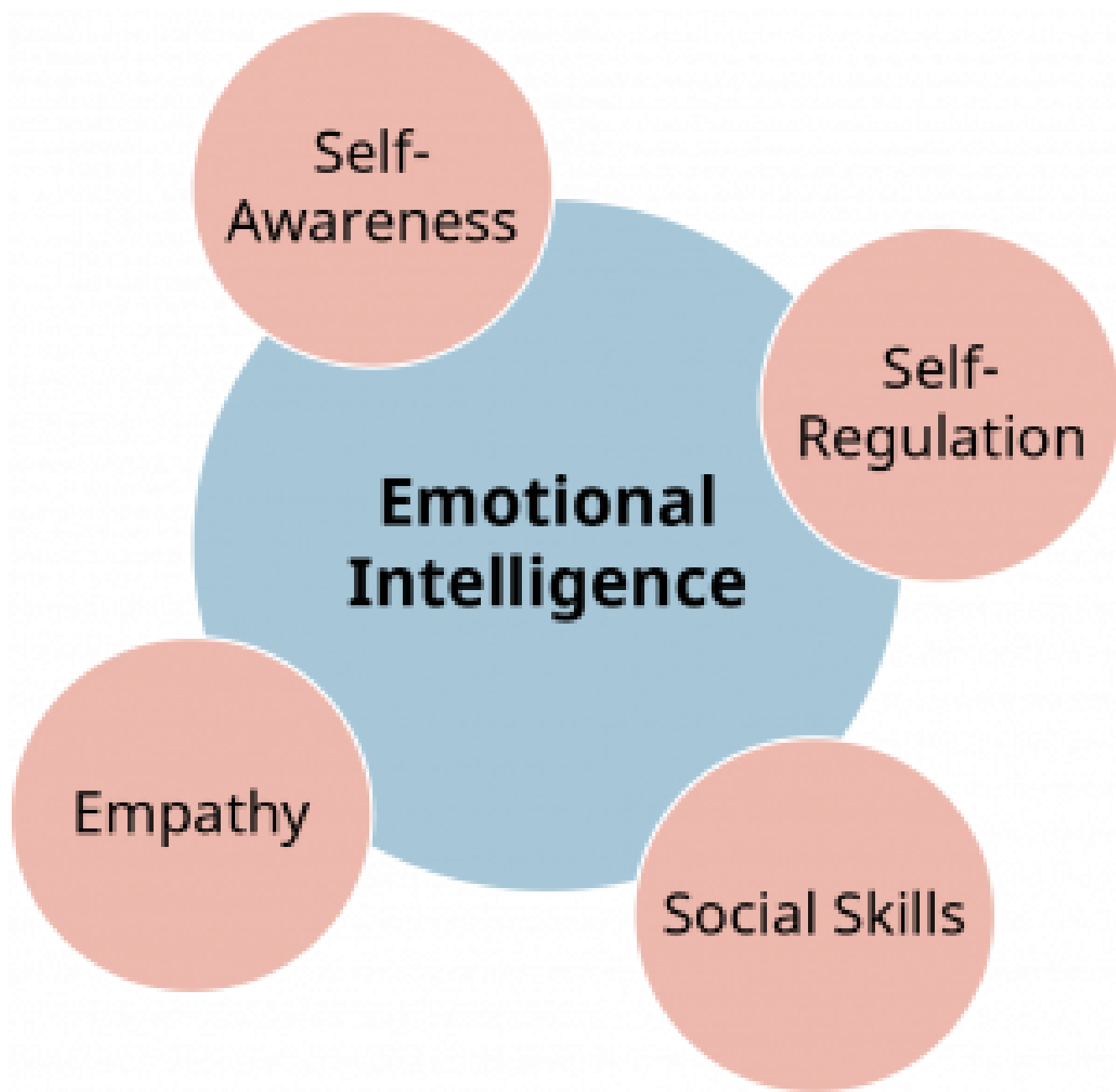
### Reflective Decision-Making

The quick route is not always the best decision-making path to take, however. When faced with novel and complex situations, it is better to process available information logically, analytically, and methodically. As a manager, you need to think about whether a situation requires not a fast, “gut” reaction, but some serious thought prior to making a decision. It is especially important to pay attention to your emotions, because strong emotions can make it difficult to process information rationally. Successful managers recognize the effects of emotions and know to wait and address a volatile situation after their emotions have calmed down. Intense emotions—whether positive or negative—tend to pull us toward the quick, reactive route of decision-making. Have you ever made a large “impulse” purchase that you were excited about, only to regret it later? This speaks to the power our emotions exert on our decision-making. Big decisions should generally not be made impulsively, but reflectively.

### *The Role of Emotions*

Being aware of the role emotions play in decision-making does not mean that we should ignore them. Emotions can serve as powerful signals about what we should do, especially in situations with ethical implications. You can read more

about this particular type of decision-making in the *Ethics in Practice* box later in this chapter. Thinking through how we feel about the possible options, and why we feel that way, can greatly enhance our decision-making.<sup>6</sup> Effective decision-making, then, relies on both logic *and* emotions. For this reason, the concept of emotional intelligence has become popular as a characteristic of effective managers. Emotional intelligence is the ability to recognize, understand, pay attention to, and manage one's own emotions and the emotions of others. It involves self-awareness and self-regulation—essentially, this is a toggling back and forth between emotions and logic so that we analyze and understand our own emotions and then exert the necessary control to manage them as appropriate for the situation. Emotional intelligence also involves empathy—the ability to understand other peoples' emotions (and an interest in doing so). Finally, emotional intelligence involves social skills to manage the emotional aspects of relationships with others. Managers who are aware of their own emotions can think through what their emotions mean in a given situation and use that information to guide their decision-making. Managers who are aware of the emotions of others can also utilize that information to help groups function more effectively and engage in better group decision-making. While emotional intelligence seems to come easily to some people, it is something that we can develop and improve on with practice. A model of emotional intelligence is presented in **Exhibit 4.1**



**Exhibit 4.1 Emotional Intelligence** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## CONCEPT CHECK

1. Explain the two systems used by the brain in decision-making.
2. What is emotional intelligence, and why is it important for decision-making?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

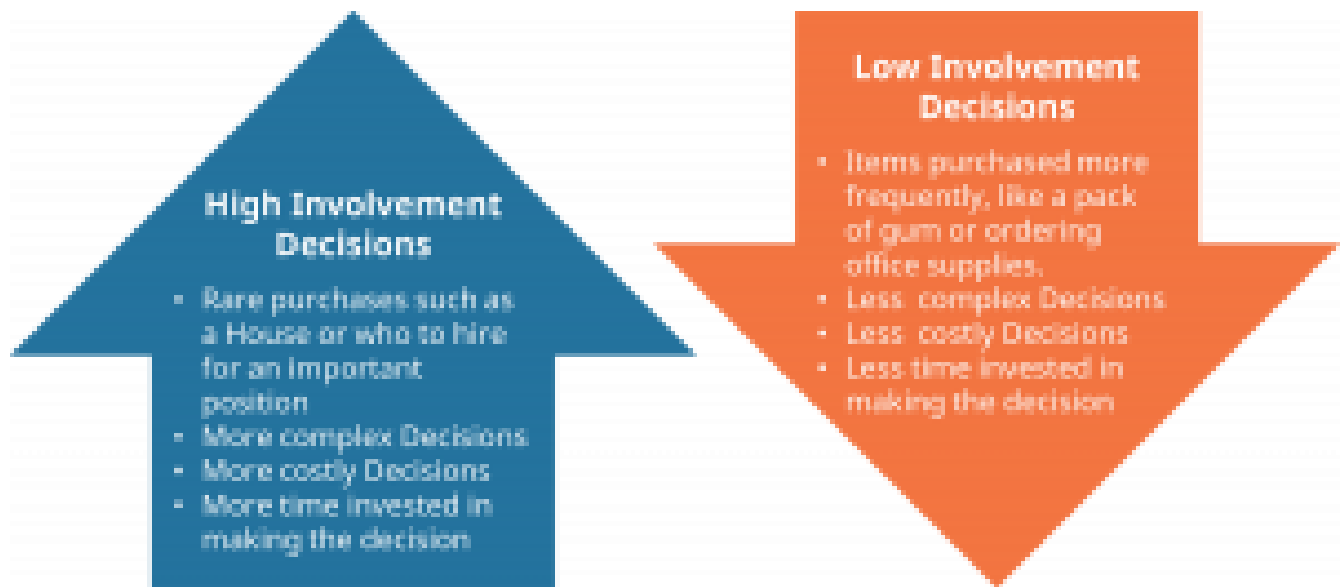
## 4.3 Programmed and Non-programmed Decisions

### 3. What is the difference between programmed and nonprogrammed decisions?

Because managers have limited time and must use that time wisely to be effective, it is important for them to distinguish between decisions that can have structure and routine applied to them (called programmed decisions) and decisions that are novel and require thought and attention (nonprogrammed decisions).

### Programmed Decisions

Programmed decisions are those that are repeated over time and for which an existing set of rules can be developed to guide the process. These decisions might be simple, or they could be fairly complex, but the criteria that go into making the decision are all known or can at least be estimated with a reasonable degree of accuracy. For example, deciding how many raw materials to order should be a programmed decision based on anticipated production, existing stock, and anticipated length of time for the delivery of the final product. As another example, consider a retail store manager developing the weekly work schedule for part-time employees. The manager must consider how busy the store is likely to be, taking into account seasonal fluctuations in business. Then, they must consider the availability of the workers by taking into account requests for vacation and for other obligations that employees might have (such as school). Establishing the schedule might be complex, but it is still a programmed decision: it is made on a regular basis based on well-understood criteria, so structure can be applied to the process. For programmed decisions, managers often develop heuristics, or mental shortcuts, to help reach a decision. For example, the retail store manager may not know how busy the store will be the week of a big sale, but might routinely increase staff by 30% every time there is a big sale (because this has been fairly effective in the past). Heuristics are efficient—they save time for the decision maker by generating an adequate solution quickly. Heuristics don't necessarily yield the optimal solution—deeper cognitive processing may be required for that. However, they generally yield a good solution. Heuristics are often used for programmed decisions, because experience in making the decision over and over helps the decision maker know what to expect and how to react. Programmed decision-making can also be taught fairly easily to another person. The rules and criteria, and how they relate to outcomes, can be clearly laid out so that a good decision can be reached by the new decision maker. Programmed decisions are also sometimes referred to as *routine* or *low-involvement* decisions because they don't require in-depth mental processing to reach a decision. High- and low-involvement decisions are illustrated in **Exhibit 4.2**.



**Exhibit 4.2 High-Involvement and Low-Involvement Decisions.**(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## Non-programmed Decisions

In contrast, non-programmed decisions are novel, unstructured decisions that are generally based on criteria that are not well-defined. With non-programmed decisions, information is more likely to be ambiguous or incomplete, and the decision maker may need to exercise some thoughtful judgment and creative thinking to reach a good solution. These are also sometimes referred to as *non-routine* decisions or as *high-involvement* decisions because they require greater involvement and thought on the part of the decision maker. For example, consider a manager trying to decide whether or not to adopt a new technology. There will always be unknowns in situations of this nature. Will the new technology really be better than the existing technology? Will it become widely accepted over time, or will some other technology become the standard? The best the manager can do in this situation is to gather as much relevant information as possible and make an educated guess as to whether the new technology will be worthwhile. Clearly, non-programmed decisions present the greater challenge.

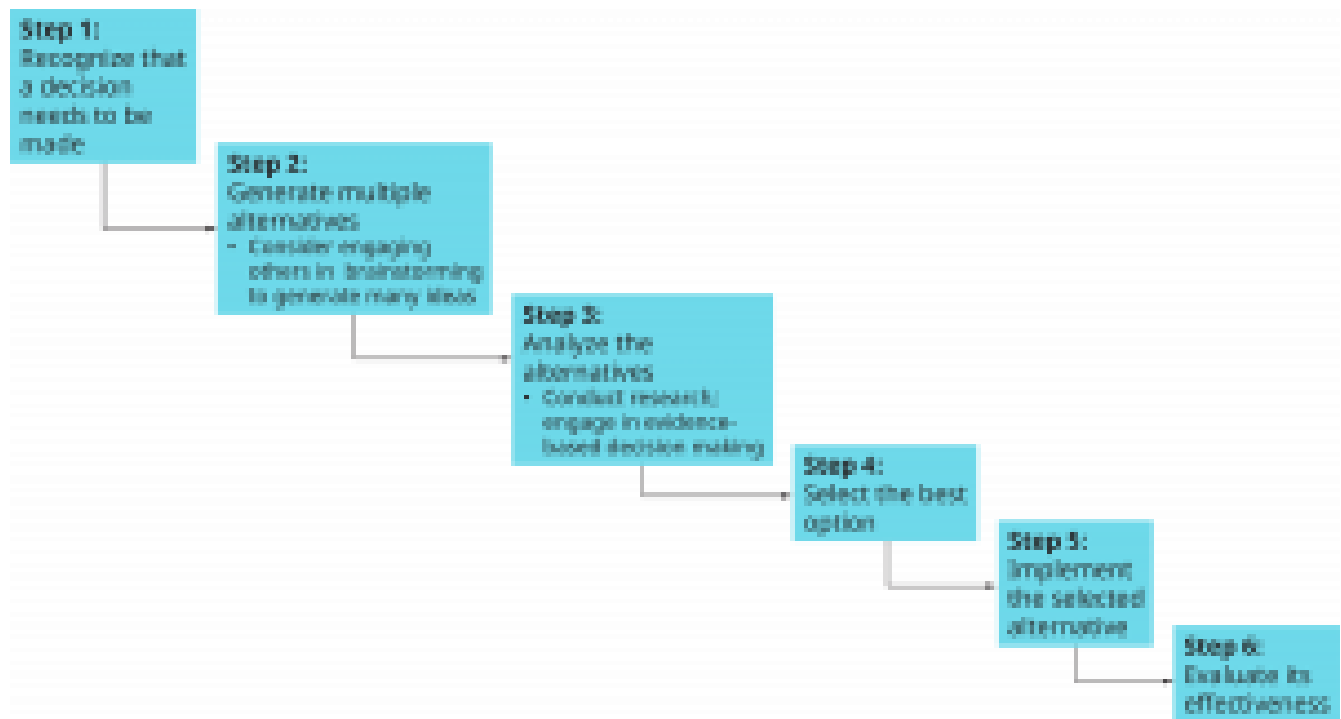
## The Decision-Making Process

While decisions makers can use mental shortcuts with programmed decisions, they should use a systematic process with non-programmed decisions. The decision-making process is illustrated in **Exhibit 4.3** and can be broken down into a series of six steps, as follows:

1. Recognize that a decision needs to be made.
2. Generate multiple alternatives.
3. Analyze the alternatives.
4. Select an alternative.

5. Implement the selected alternative.
6. Evaluate its effectiveness.

While these steps may seem straightforward, individuals often skip steps or spend too little time on some steps. In fact, sometimes people will refuse to acknowledge a problem (Step 1) because they aren't sure how to address it. We'll discuss the steps more later in the chapter, when we review ways to improve the quality of decision-making.



**Exhibit 4.3 The Decision-Making Process.** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

You may notice similarities between the two systems of decision-making in our brains and the two types of decisions (programmed and nonprogrammed). Nonprogrammed decisions will generally need to be processed via the reflective system in our brains in order for us to reach a good decision. But with programmed decisions, heuristics can allow decision makers to switch to the quick, reactive system and then move along quickly to other issues.

## CONCEPT CHECK

1. Give an example of a programmed decision that a manager might face.
2. Give an example of a non-programmed decision.
3. What are heuristics, and when are they helpful?
4. How are programmed and non-programmed decisions connected to the reflective and reactive systems in the brain?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>



## 4.4 Barriers to Effective Decision-Making

### 4. What barriers exist that make effective decision-making difficult?

There are a number of barriers to effective decision-making. Effective managers are aware of these potential barriers and try to overcome them as much as possible.

### Bounded Rationality

While we might like to think that we can make completely rational decisions, this is often unrealistic given the complex issues faced by managers. Non-rational decision-making is common, especially with non-programmed decisions. Since we haven't faced a particular situation previously, we don't always know what questions to ask or what information to gather. Even when we have gathered all the possible information, we may not be able to make rational sense of all of it, or to accurately forecast or predict the outcomes of our choice. Bounded rationality is the idea that for complex issues we cannot be completely rational because we cannot fully grasp all the possible alternatives, nor can we understand all the implications of every possible alternative. Our brains have limitations in terms of the amount of information they can process. Similarly, as was alluded to earlier in the chapter, even when managers have the cognitive ability to process all the relevant information, they often must make decisions without first having time to collect all the relevant data—their information is incomplete.

### Escalation of Commitment

Given the lack of complete information, managers don't always make the right decision initially, and it may not be clear that a decision was a bad one until after some time has passed. For example, consider a manager who had to choose between two competing software packages that her organization will use on a daily basis to enhance efficiency. She initially chooses the product that was developed by the larger, more well-established company, reasoning that they will have greater financial resources to invest in ensuring that the technology is good. However, after some time it becomes clear that the competing software package is going to be far superior. While the smaller company's product could be integrated into the organization's existing systems at little additional expense, the larger company's product will require a much greater initial investment, as well as substantial ongoing costs for maintaining it. At this point, however, let's assume that the manager has already paid for the larger company's (inferior) software. Will she abandon the path that she's on, accept the loss on the money that's been invested so far, and switch to the better software? Or will she continue to invest time and money into trying to make the first product work? Escalation of commitment is the tendency of decision makers to remain committed to poor decision, even when doing so leads to increasingly negative outcomes. Once we commit to a decision, we may find it difficult to reevaluate that decision rationally. It can seem easier to "stay the course" than to admit (or to recognize) that a decision was poor. It's important to acknowledge that not all decisions are going to be good ones, in spite of our best efforts. Effective managers recognize that progress down the wrong path isn't really progress, and they are willing to reevaluate decisions and change direction when appropriate.

## Time Constraints

Managers often face time constraints that can make effective decision-making a challenge. When there is little time available to collect information and to rationally process it, we are much less likely to make a good non-programmed decision. Time pressures can cause us to rely on heuristics rather than engage in deep processing. While heuristics save time, however, they don't necessarily lead to the best possible solution. The best managers are constantly assessing the risks associated with acting too quickly against those associated with not acting quickly enough.

## Uncertainty

In addition, managers frequently make decisions under conditions of uncertainty—they cannot know the outcome of each alternative until they've actually chosen that alternative. Consider, for example, a manager who is trying to decide between one of two possible marketing campaigns. The first is more conservative but is consistent with what the organization has done in the past. The second is more modern and edgier, and might bring much better results . . . or it might be a spectacular failure. The manager making the decision will ultimately have to choose one campaign and see what happens, without ever knowing what the results would have been with the alternate campaign. That uncertainty can make it difficult for some managers to make decisions, because committing to one option means forgoing other options.

## Personal Biases

Our decision-making is also limited by our own biases. We tend to be more comfortable with ideas, concepts, things, and people that are familiar to us or similar to us. We tend to be less comfortable with that which is unfamiliar, new, and different. One of the most common biases that we have, as humans, is the tendency to like other people who we think are similar to us (because we like ourselves).<sup>7</sup> While these similarities can be observable (based on demographic characteristics such as race, gender, and age), they can also be a result of shared experiences (such as attending the same university) or shared interests (such as being in a book club together). This “similar to me” bias and preference for the familiar can lead to a variety of problems for managers: hiring less-qualified applicants because they are similar to the manager in some way, paying more attention to some employees' opinions and ignoring or discounting others, choosing a familiar technology over a new one that is superior, sticking with a supplier that is known over one that has better quality, and so on.

It can be incredibly difficult to overcome our biases because of the way our brains work. The brain excels at organizing information into categories, and it doesn't like to expend the effort to re-arrange once the categories are established. As a result, we tend to pay more attention to information that confirms our existing beliefs and less attention to information that is contrary to our beliefs, a shortcoming that is referred to as confirmation bias.<sup>8</sup>

In fact, we don't like our existing beliefs to be challenged. Such challenges feel like a threat, which tends to push our brains towards the reactive system and prevent us from being able to logically process the new information via the reflective system. It is hard to change people's minds about something if they are already confident in their convictions. So, for example, when a manager hires a new employee who they really like and are convinced is going to be excellent, they will tend to pay attention to examples of excellent performance and ignore examples of poor performance (or attribute those events to things outside the employee's control). The manager will also tend to trust that employee and therefore accept their explanations for poor performance without verifying the truth or accuracy of those statements. The opposite is also true; if we dislike someone, we will pay attention to their negatives and ignore or discount their

positives. We are less likely to trust them or believe what they say at face value. This is why politics tend to become very polarized and antagonistic within a two-party system. It can be very difficult to have accurate perceptions of those we like and those we dislike. The effective manager will try to evaluate situations from multiple perspectives and gather multiple opinions to offset this bias when making decisions.

## Conflict

Finally, effective decision-making can be difficult because of conflict. Most individuals dislike conflict and will avoid it when possible. However, the best decision might be one that is going to involve some conflict. Consider a manager who has a subordinate who is often late to work, causing others to have to step away from their responsibilities in order to cover for the late employee. The manager needs to have a conversation with that employee to correct the behavior, but the employee is not going to like the conversation and may react in a negative way. Both of them are going to be uncomfortable. The situation is likely to involve conflict, which most people find stressful. Yet, the correct decision is still to have the conversation even if (or especially if) the employee otherwise is an asset to the department.

If the bad behavior is not corrected, it will continue, which is going to cause more problems in the workplace in the long run. Other employees may recognize that this behavior is allowed, and they may also start coming to work late or engaging in other negative behaviors. Eventually, some employees may become sufficiently frustrated that they look for another place to work. It's worth noting that in this situation, the best employees will find new jobs the most quickly. It's important for managers to recognize that while conflict can be uncomfortable (especially in the short-term), there are times when it is necessary for the group, department, or organization to function effectively in the long run.

It is also helpful to think about conflict in terms of process conflict or relationship conflict.<sup>9</sup> Process conflict, conflict about the best way to do something, can actually lead to improved performance, as individuals explore various options together in order to identify superior solutions. Relationship conflict is conflict between individuals that is more personal and involves attacks on a person rather than an idea. This kind of conflict is generally harmful and should be quelled when possible. The harm from relationship conflict arises at least in part because feeling personally attacked will cause an individual to revert to the reactive system of the brain.

Effective managers should be particularly aware of the possibility of relationship conflict when giving feedback and should keep feedback focused on behaviors and activities (how things are done) rather than on the individual. Being aware of and dealing with relationship conflict points to why emotional intelligence and empathy are beneficial in organizational leaders. Such leaders are more likely to be attentive to the harmful consequences of relationship conflict. The “Managerial Leadership” segment shows how one CEO encourages empathetic collaboration and how that effort is proving beneficial.

### MANAGERIAL LEADERSHIP

#### *Satya Nadella's Transformation of Microsoft*

When Satya Nadella became the CEO of Microsoft in 2014, he set in motion a major transformation of the organization's culture. He wanted it to shift from a culture that valued “know-it-all” to one that values

“learn-it-all.” Instead of employees feeling the need to prove that they were the smartest person in the room, he wanted them to become curious and effective listeners, learners, and communicators. Only through continual learning and collaboration with one another, and with customers, would Microsoft remain able to develop and provide great technology solutions.

One of Nadella’s first mandates as CEO was to ask all the members of the top management team to read the book *Nonviolent Communication* by Marshall Rosenberg. The primary focus of the book is on empathetic communication—a kinder, gentler approach than Microsoft employees were accustomed to. Nadella believes that developing empathy leads to a heightened understanding of consumer needs and wants and an enhanced ability to develop better products and services through collaboration.

Nadella has also embraced diversity and inclusion initiatives, though he readily acknowledges that there is more to be done. This is, in part, an extension of his focus on empathy. However, it’s also good business, because increasing the diversity of perspectives can help to drive innovation.

This cultural shift is reflected in Microsoft’s new mission statement: “To empower every person and every organization on the planet to achieve more.” Empowering every person includes Microsoft’s own employees. Achieving diversity is particularly a challenge in an industry that is male dominated, and Nadella admits that he has made mistakes based on his own biases. At a Women in Computing conference early in his tenure as CEO, Nadella suggested that women did not need to ask for raises when they deserved them; the system, he said, would work it out. He later admitted that he was wrong and used the mistake as a platform for making greater strides in this arena.

Senior management team meetings at Microsoft have apparently changed dramatically as a result of the culture change driven by Nadella. Previously, members felt the need to constantly prove that they knew all the right answers at team meetings. Nadella has established different norms; he seeks out honest opinions from team members and gives positive feedback on a regular basis. By moving the focus away from always being right and toward a focus of continual learning, the culture at Microsoft has become more collaborative, and employees are more willing to take risks to create something amazing. The culture shift seems to be paying off: Microsoft’s products are being described as “cool” and “exciting,” its cloud-computing platform is outperforming the competition, and its financial performance has improved dramatically. Transforming the culture of an organization is a massive undertaking, but Nadella’s leadership of Microsoft clearly shows that it’s a decision that can pay off.

### **Discussion Questions**

1. Do you think a culture focused on learning makes sense for Microsoft? Why or why not?
2. What are the advantages of a culture that emphasizes empathetic communication? Can you think of any disadvantages?
3. The job of CEO means making big decisions that impact the entire organization—like deciding to change the culture. How do you think you prepare for that job?

Sources: Kendall Baker, “Confirmed: Microsoft is a legit threat to Apple,” *The Hustle*, March 16, 2017. Bob Evans, “10 Powerful examples of Microsoft CEO Satya Nadella’s Transformative Vision,” *Forbes*, July 26, 2017. Harry McCracken, “Satya Nadella Rewrites Microsoft’s Code,” *Fast Company*, September 18, 2017, <https://www.fastcompany.com/40457458/satya-nadella-rewrites-microsofts-code>. Annie Palmer, “Microsoft has been reborn under CEO Satya Nadella,” *The Street*, September 20, 2017.

## CONCEPT CHECK

1. Explain the concept of confirmation bias.
2. List and describe at least three barriers to effective decision-making.
3. When is conflict beneficial, and when is it harmful? Why?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 4.5 Improving the Quality of Decision-Making

### 5. How can a manager improve the quality of her individual decision-making?

Managers can use a variety of techniques to improve their decision-making by making better-quality decisions or making decisions more quickly. **Table 4.1** summarizes some of these tactics.

Summary of Techniques That May Improve Individual Decision-Making		
Type of Decision	Technique	Benefit
Programmed decisions	Heuristics (mental shortcuts)	Saves time
	Satisficing (choosing first acceptable solution)	Saves time
Nonprogrammed decisions	Systematically go through the six steps of the decision-making process.	Improves quality
	Talk to other people.	Improves quality; generates more options; reduces bias
	Be creative.	Improves quality; generates more options
	Conduct research; engage in evidence-based decision-making.	Improves quality
	Engage in critical thinking.	Improves quality
	Think about the long-term implications.	Improves quality
	Consider the ethical implications.	Improves quality

**Table 4.1** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

### The Importance of Experience

An often overlooked factor in effective decision-making is experience. Managers with more experience have generally learned more and developed greater expertise that they can draw on when making decisions. Experience helps managers develop methods and heuristics to quickly deal with programmed decisions and helps them know what additional information to seek out before making a non-programmed decision.

## Techniques for Making Better Programmed Decisions

In addition, experience enables managers to recognize when to minimize the time spent making decisions on issues that are not particularly important but must still be addressed. As discussed previously, heuristics are mental shortcuts that managers take when making programmed (routine, low-involvement) decisions. Another technique that managers use with these types of decisions is satisficing. When satisficing, a decision maker selects the first *acceptable* solution without engaging in additional effort to identify the *best* solution. We all engage in satisficing every day. For example, suppose you are shopping for groceries and you don't want to overspend. If you have plenty of time, you might compare prices and figure out the price by weight (or volume) to ensure that every item you select is the cheapest option. But if you are in a hurry, you might just select generic products, knowing that they are cheap enough. This allows you to finish the task quickly at a reasonably low cost.

## Techniques for Making Better Non-programmed Decisions

For situations in which the quality of the decision is more critical than the time spent on the decision, decision makers can use several tactics. As stated previously, non-programmed decisions should be addressed using a systematic process. We therefore discuss these tactics within the context of the decision-making steps. To review, the steps include the following:

1. Recognize that a decision needs to be made.
2. Generate multiple alternatives.
3. Analyze the alternatives.
4. Select an alternative.
5. Implement the selected alternative.
6. Evaluate its effectiveness.

### *Step 1: Recognizing That a Decision Needs to Be Made*

Ineffective managers will sometimes ignore problems because they aren't sure how to address them. However, this tends to lead to more and bigger problems over time. Effective managers will be attentive to problems and to opportunities and will not shy away from making decisions that could make their team, department, or organization more effective and more successful.

### *Step 2: Generating Multiple Alternatives*

Often a manager only spends enough time on Step 2 to generate two alternatives and then quickly moves to Step 3 in order to make a quick decision. A better solution may have been available, but it wasn't even considered. It's important to remember that for non-programmed decisions, you don't want to rush the process. Generating many possible options will increase the likelihood of reaching a good decision. Some tactics to help with generating more options include talking to other people (to get their ideas) and thinking creatively about the problem.

## Talk to other people

Managers can often improve the quality of their decision-making by involving others in the process, especially when generating alternatives. Other people tend to view problems from different perspectives because they have had different life experiences. This can help generate alternatives that you might not otherwise have considered. Talking through big decisions with a mentor can also be beneficial, especially for new managers who are still learning and developing their expertise; someone with more experience will often be able to suggest more options.

## Be creative

We don't always associate management with creativity, but creativity can be quite beneficial in some situations. In decision-making, creativity can be particularly helpful when generating alternatives. Creativity is the generation of new or original ideas; it requires the use of imagination and the ability to step back from traditional ways of doing things and seeing the world. While some people seem to be naturally creative, it is a skill that you can develop. Being creative requires letting your mind wander and combining existing knowledge from past experiences in novel ways. Creative inspiration may come when we least expect it (in the shower, for example) because we aren't intensely focused on the problem—we've allowed our minds to wander. Managers who strive to be creative will take the time to view a problem from multiple perspectives, try to combine information in new ways, search for overarching patterns, and use their imaginations to generate new solutions to existing problems. We'll review creativity in more detail in future chapters.

## *Step 3: Analyzing Alternatives*

When implementing Step 3, it is important to take many factors into consideration. Some alternatives might be more expensive than others, for example, and that information is often essential when analyzing options. Effective managers will ensure that they have collected sufficient information to assess the quality of the various options. They will also utilize the tactics described below: engaging in evidence-based decision-making, thinking critically, talking to other people, and considering long-term and ethical implications.

## Do you have the best-quality data and evidence?

Evidence-based decision-making is an approach to decision-making that states that managers should systematically collect the best evidence available to help them make effective decisions. The evidence that is collected might include the decision maker's own expertise, but it is also likely to include external evidence, such as a consideration of other stakeholders, contextual factors relevant to the organization, potential costs and benefits, and other relevant information. With evidence-based decision-making, managers are encouraged to rely on data and information rather than their intuition. This can be particularly beneficial for new managers or for experienced managers who are starting something new. (Consider all the research that Rubio and Korey conducted while starting Away).

## Talk to other people

As mentioned previously, it can be worthwhile to get help from others when generating options. Another good time to talk to other people is while analyzing those options; other individuals in the organization may help you assess the quality of your choices. Seeking out the opinions and preferences of others is also a great way to maintain perspective,



so getting others involved can help you to be less biased in your decision-making (provided you talk to people whose biases are different from your own).

Are you thinking critically about the options?

Our skill at assessing alternatives can also be improved by a focus on critical thinking. Critical thinking is a disciplined process of evaluating the quality of information, especially data collected from other sources and arguments made by other people, to determine whether the source should be trusted or whether the argument is valid.

An important factor in critical thinking is the recognition that a person's analysis of the available information may be flawed by a number of *logical fallacies* that they may use when they are arguing their point or defending their perspective. Learning what those fallacies are and being able to recognize them when they occur can help improve decision-making quality. See **Table 4.2** for several examples of common logical fallacies.

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## Common Logical Fallacies

Name	Description	Examples	Ways to Combat This Logical Fallacy
Non sequitur (does not follow)	The conclusion that is presented isn't a logical conclusion or isn't the only logical conclusion based on the argument(s).	<p>Our biggest competitor is spending more on marketing than we are. They have a larger share of the market. Therefore, we should spend more on marketing.</p> <p><i>The unspoken assumption:</i> They have a larger share of the market BECAUSE they spend more on marketing.</p>	<ul style="list-style-type: none"> <li>• Examine all the arguments. Are they reasonable?</li> <li>• Look for any assumptions that are being made in the argument sequence. Are they reasonable?</li> <li>• Try to gather evidence that supports or refutes the arguments and/or assumptions.</li> </ul> <p><i>In this example, you should ask:</i> Are there any other reasons, besides their spending on marketing, why our competitor has a larger share of the market?</p>
False cause	Assuming that because two things are related, one caused the other	<p>"Our employees get sick more when we close for holidays. So we should stop closing for holidays."</p>	<p>This is similar to non sequitur; it makes an assumption in the argument sequence.</p> <ul style="list-style-type: none"> <li>• Ask yourself whether the first thing really causes the second, or if something else may be the cause.</li> </ul> <p><i>In this case, most holidays for which businesses close are in the late fall and winter (Thanksgiving, Christmas), and there are more illnesses at this time of year because of the weather, not because of the business being closed.</i></p>

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## Common Logical Fallacies

Name	Description	Examples	Ways to Combat This Logical Fallacy
Ad hominem (attack the man)	Redirects from the argument itself to attack the person making the argument	<p>“You aren’t really going to take John seriously, are you? I heard his biggest client just dropped him for another vendor because he’s all talk and no substance.”</p> <p><i>The goal:</i> if you stop trusting the person, you’ll discount their argument.</p>	<ul style="list-style-type: none"> <li>• Does the second person have something to gain, a hidden agenda, in trying to make you distrust the first person?</li> <li>• If the first person’s argument came from someone else, would it be persuasive?</li> </ul>
Genetic fallacy	You can’t trust something because of its origins.	<p>“This was made in China, so it must be low quality.”</p> <p>“He is a lawyer, so you can’t trust anything he says.”</p>	This fallacy is based on stereotypes. Stereotypes are generalizations; some are grossly inaccurate, and even those that are accurate in SOME cases are never accurate in ALL cases. Recognize this for what it is—an attempt to prey on existing biases.
Appeal to tradition	If we have always done it one particular way, that must be the right or best way.	<p>“We’ve always done it this way.”</p> <p>“We shouldn’t change this; it works fine the way it is.”</p>	<ul style="list-style-type: none"> <li>• Consider whether the situation has changed, calling for a change in the way things are being done.</li> <li>• Consider whether new information suggests that the traditional viewpoint is incorrect. Remember, we used to think that the earth was flat.</li> </ul>

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## Common Logical Fallacies

Name	Description	Examples	Ways to Combat This Logical Fallacy
Bandwagon approach	If the majority of people are doing it, it must be good.	“Everybody does it.” “Our customers don’t want to be served by people like that.”	<ul style="list-style-type: none"> <li>Remember that the majority is sometimes wrong, and what is popular isn’t always what is right.</li> <li>Ask yourself whether “following the pack” is going to get you where you want to be.</li> <li>Remember that organizations are usually successful by being better than their competitors at something . . . so following the crowd might not be the best approach to success.</li> </ul>
Appeal to emotion	Redirects the argument from logic to emotion	“We should do it for [recently deceased] Steve; it’s what they would have wanted.”	<ul style="list-style-type: none"> <li>Develop your awareness of your own emotions, and recognize when someone is trying to use them.</li> <li>Ask yourself whether the argument stands on its own without the appeal to your emotions.</li> </ul>

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**Table 4.2** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

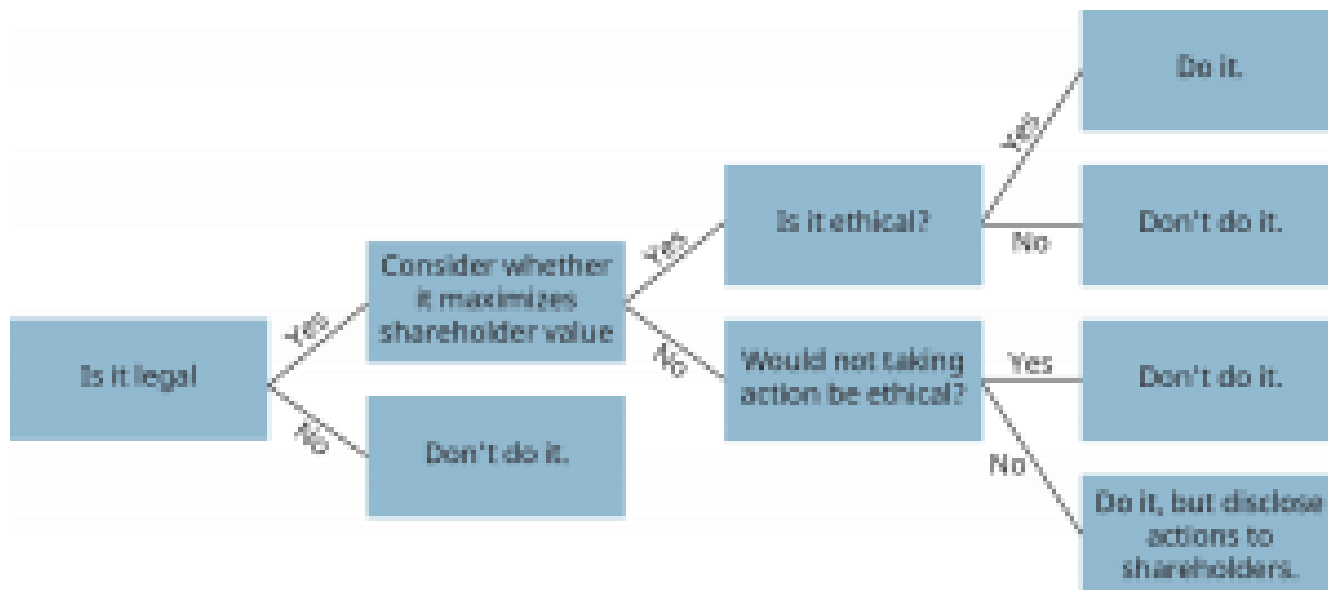
Have you considered the long-term implications?

A focus on immediate, short-term outcomes—with little consideration for the future—can cause problems. For example, imagine that a manager must decide whether to issue dividends to investors or put that money into research and development to maintain a pipeline of innovative products. It’s tempting to just focus on the short-term: providing dividends to investors tends to be good for stock prices. But failing to invest in research and development might mean that in five years the company is unable to compete effectively in the marketplace, and as a result the business closes. Paying attention to the possible long-term outcomes is a crucial part of analyzing alternatives.

Are there ethical implications?

It’s important to think about whether the various alternatives available to you are better or worse from an ethical

perspective, as well. Sometimes managers make unethical choices because they haven't considered the ethical implications of their actions. In the 1970s, Ford manufactured the Pinto, which had an unfortunate flaw: the car would easily burst into flames when rear-ended. The company did not initially recall the vehicle because they viewed the problem from a financial perspective, without considering the ethical implications.<sup>10</sup> People died as a result of the company's inaction. Unfortunately, these unethical decisions continue to occur—and cause harm—on a regular basis in our society. Effective managers strive to avoid these situations by thinking through the possible ethical implications of their decisions. The decision tree in **Exhibit 4.4** is a great example of a way to make managerial decisions while also taking ethical issues into account.



**Exhibit 4.4 Ethical Decision Tree**(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Thinking through the steps of ethical decision-making may also be helpful as you strive to make good decisions. James Rest's ethical decision-making model<sup>11</sup> identifies four components to ethical decision-making:

1. Moral sensitivity—recognizing that the issue has a moral component;
2. Moral judgment—determining which actions are right vs. wrong;
3. Moral motivation/intention—deciding to do the right thing; and
4. Moral character/action—actually doing what is right.

Note that a failure at any point in the chain can lead to unethical actions! Taking the time to identify possible ethical implications will help you develop moral sensitivity, which is a critical first step to ensuring that you are making ethical decisions.

Once you have determined that a decision has ethical implications, you must consider whether your various alternatives are right or wrong—whether or not they will cause harm, and if so, how much and to whom. This is the moral judgment component. If you aren't sure about whether something is right or wrong, think about how you would feel if that decision ended up on the front page of a major newspaper. If you would feel guilty or ashamed, don't do it! Pay attention to those emotional cues—they are providing important information about the option that you are contemplating.

The third step in the ethical decision-making model involves making a decision to do what is right, and the fourth step involves following through on that decision. These may sound, but consider a situation in which your boss tells you to do something that you know to be wrong. When you push back, your boss makes it clear that you will lose your job if

you don't do what you've been told to do. Now, consider that you have family at home who rely on your income. Making the decision to do what you know is right could come at a substantial cost to you personally. In these situations, your best course of action is to find a way to persuade your boss that the unethical action will cause greater harm to the organization in the long-term.

#### *Step 4: Selecting an Alternative*

Once alternative options have been generated and analyzed, the decision maker must select one of the options. Sometimes this is easy—one option is clearly superior to the others. Often, however, this is a challenge because there is not a clear “winner” in terms of the best alternative. As mentioned earlier in the chapter, there may be multiple good options, and which one will be best is unclear even after gathering all available evidence. There may not be a single option that doesn't upset some stakeholder group, so you will make someone unhappy no matter what you choose. A weak decision maker may become paralyzed in this situation, unable to select among the various alternatives for lack of a clearly “best” option. They may decide to keep gathering additional information in hopes of making their decision easier. As a manager, it's important to think about whether the benefit of gathering additional information will outweigh the cost of waiting. If there are time pressures, waiting may not be possible.

Recognize that perfection is unattainable

Effective managers recognize that they will not always make optimal (best possible) decisions because they don't have complete information and/or don't have the time or resources to gather and process all the possible information. They accept that their decision-making will not be perfect and strive to make good decisions overall. Recognizing that perfection is impossible will also help managers to adjust and change if they realize later on that the selected alternative was not the best option.

Talk to other people

This is another point in the process at which talking to others can be helpful. Selecting one of the alternatives will ultimately be your responsibility, but when faced with a difficult decision, talking through your choice with someone else may help you clarify that you are indeed making the best possible decision from among the available options. Sharing information verbally also causes our brains to process that information differently, which can provide new insights and bring greater clarity to our decision-making.

#### *Step 5: Implementing the Selected Alternative*

After selecting an alternative, you must implement it. This may seem too obvious to even mention, but implementation can sometimes be a challenge, particularly if the decision is going to create conflict or dissatisfaction among some stakeholders. Sometimes we know what we need to do but still try to avoid actually doing it because we know others in the organization will be upset—even if it's the best solution. Follow-through is a necessity, however, to be effective as a manager. If you are not willing to implement a decision, it's a good idea to engage in some self-reflection to understand why. If you know that the decision is going to create conflict, try to think about how you'll address that conflict in a productive way. It's also possible that we feel that there is no good alternative, or we are feeling pressured to make a decision that we know deep down is not right from an ethical perspective. These can be among the most difficult of

decisions. You should always strive to make decisions that you feel good about—which means doing the right thing, even in the face of pressures to do wrong.

### *Step 6: Evaluating the Effectiveness of Your Decision*

Managers sometimes skip the last step in the decision-making process because evaluating the effectiveness of a decision takes time, and managers, who are generally busy, may have already moved on to other projects. Yet evaluating effectiveness is important. When we fail to evaluate our own performance and the outcomes of our decisions, we cannot learn from the experience in a way that enables us to improve the quality of our future decisions.

Attending fully to each step in the decision-making process improves the quality of decision-making and, as we've seen, managers can engage in a number of tactics to help them make good decisions. Take a look at the *Ethics in Practice* box to see an example of how one particular manager puts these techniques into practice to make good decisions.

## ETHICS IN PRACTICE

### *Rob Ault, Project Manager, Bayside Community Church*

Bradenton, Florida When it comes to decision-making, ethical dilemmas require particular care. Because managers make many decisions, it should not be surprising that some of those decisions will have ethical implications. With multiple stakeholders to consider, sometimes what is best for one group of stakeholders is not what is best for others. I talked to Rob Ault about his experiences with ethical dilemmas over the course of his career. Rob has been in managerial roles for over 25 years, since he was 19 years old. He told me that he had experienced a number of ethical dilemmas in that time.

Rob has spent most of his career working for for-profit organizations, and for about half of that time he has worked in a union environment. What he has found most frustrating, regardless of environment, was when it was clear to him what was right, but what was right conflicted with what his boss was telling him to do. This included a situation in which he felt an employee should be fired for misbehavior (but wasn't), as well as situation in which he was asked to fire someone undeservedly. What we mostly talked about, though, was his process. How did he go about making decisions in these challenging situations?

Rob clearly stated that his approach to these situations has changed with experience. What he did early in his career is not necessarily what he would do now. He said that it takes experience and some maturity to recognize that, as a leader, the decisions you make affect other people's lives. He also explained that a starting point for the decision-making process is always a recognition of the fact that you have been hired to generate a benefit for your company. So a manager's decisions need to come from the perspective of what is going to be in the best long-term interest of the organization (in addition to what is morally right). This isn't always easy, because short-term consequences are much easier to observe and predict.

I asked Rob who he talked to prior to making decisions in situations with an ethical component. Rob told me that he felt one of the most important things you should do as a leader is to intentionally create and build relationships with people you trust in the organization. That way you have people you know you can

talk to when difficult situations come up. He was very clear that you should always talk to your boss, who will tend to have a broader understanding of what is going on in the context of the larger organization. He also told me that he liked to talk to his father, who happened to work in human resource management for a large Fortune 500 organization. His father was always helpful in providing the perspective of how things were likely to play out long-term if one person was allowed to bend the rules. Rob realized eventually that the long-term consequences of this were almost always negative: once one person is allowed to misbehave, others find out about it and realize that they can do the same thing without repercussions. Rob also seeks out the opinions of other individuals in the organization before reaching decisions with an ethical component; he told me that when he worked in a union environment, he tried to make sure he had a good relationship with the union steward, because it was helpful to get the perspective of someone who was committed to the side of the employee.

The biggest ethical dilemma Rob faced was one that he actually couldn't talk to me about. He disagreed with what he was being asked to do, and when it was clear that he had no other choice in the matter, he quit his job rather than do something he felt wasn't right. He accepted a severance package in exchange for signing a nondisclosure agreement, which is why he can't share any details . . . but it was clear from our conversation that he feels he made the right choice. That particular ethical dilemma makes it clear how challenging managerial decision-making can sometimes be.

#### Discussion Questions

1. If you were faced with an ethical dilemma, from whom would you seek advice?
2. Describe some decisions that might be good for an organization's profitability in the short-term, but bad for the organization in the long-term.
3. What factors would you take into consideration if you were thinking about leaving your job rather than do something unethical?

## CONCEPT CHECK

1. Explain what satisficing is and when it may be a good strategy.
2. What are the six steps in the decision-making process?
3. What are the four steps involved in ethical decision-making?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



## 4.6 Group Decision-Making

6. What are the advantages and disadvantages of group decision-making, and how can a manager improve the quality of group decision-making?

Involving more people in the decision-making process can greatly improve the quality of a manager's decisions and outcomes. However, involving more people can also increase conflict and generate other challenges. We turn now to the advantages and disadvantages of group decision-making.

### Advantages of Group Decisions

An advantage to involving groups in decision-making is that you can incorporate different perspectives and ideas. For this advantage to be realized, however, you need a diverse group. In a diverse group, the different group members will each tend to have different preferences, opinions, biases, and stereotypes. Because a variety of viewpoints must be negotiated and worked through, group decision-making creates additional work for a manager, but (provided the group members reflect different perspectives) it also tends to reduce the effects of bias on the outcome. For example, a hiring committee made up of all men might end up hiring a larger proportion of male applicants (simply because they tend to prefer people who are more similar to themselves). But with a hiring committee made up of an equal number of men and women, the bias should be cancelled out, resulting in more applicants being hired based on their qualifications rather than their physical attributes.

Having more people involved in decision-making is also beneficial because each individual brings unique information or knowledge to the group, as well as different perspectives on the problem. Additionally, having the participation of multiple people will often lead to more options being generated and to greater intellectual stimulation as group members discuss the available options. Brainstorming is a process of generating as many solutions or options as possible and is a popular technique associated with group decision-making.

All of these factors can lead to superior outcomes when groups are involved in decision-making. Furthermore, involving people who will be affected by a decision in the decision-making process will allow those individuals to have a greater understanding of the issues or problems and a greater commitment to the solutions.

### Disadvantages of Group Decisions

Group decision-making is not without challenges. Some groups get bogged down by conflict, while others go to the opposite extreme and push for agreement at the expense of quality discussions. Groupthink occurs when group members choose not to voice their concerns or objections because they would rather keep the peace and not annoy or antagonize others. Sometimes groupthink occurs because the group has a positive team spirit and camaraderie, and individual group members don't want that to change by introducing conflict. It can also occur because past successes have made the team complacent.

Often, one individual in the group has more power or exerts more influence than others and discourages those with differing opinions from speaking up (suppression of dissent) to ensure that only their own ideas are implemented. If members of the group are not really contributing their ideas and perspectives, however, then the group is not getting the benefits of group decision-making.

# How to Form a Quality Group

Effective managers will try to ensure quality group decision-making by forming groups with diverse members so that a variety of perspectives will contribute to the process. They will also encourage everyone to speak up and voice their opinions and thoughts prior to the group reaching a decision. Sometimes groups will also assign a member to play the devil's advocate in order to reduce groupthink. The devil's advocate intentionally takes on the role of critic. Their job is to point out flawed logic, to challenge the group's evaluations of various alternatives, and to identify weaknesses in proposed solutions. This pushes the other group members to think more deeply about the advantages and disadvantages of proposed solutions before reaching a decision and implementing it.

The methods we've just described can all help ensure that groups reach good decisions, but what can a manager do when there is too much conflict within a group? In this situation, managers need to help group members reduce conflict by finding some common ground—areas in which they can agree, such as common interests, values, beliefs, experiences, or goals. Keeping a group focused on a common goal can be a very worthwhile tactic to keep group members working with rather than against one another. **Table 4.3** summarizes the techniques to improve group decision-making.

Summary of Techniques That May Improve Group Decision-Making		
Type of Decision	Technique	Benefit
Group decisions	Have diverse members in the group.	Improves quality: generates more options, reduces bias
	Assign a devil's advocate.	Improves quality: reduces groupthink
	Encourage everyone to speak up and contribute.	Improves quality: generates more options, prevents suppression of dissent
	Help group members find common ground.	Improves quality: reduces personality conflict

**Table 4.3** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## Conclusion

Decision-making is a crucial daily activity for managers. Decisions range from small and simple, with straightforward answers, to big and complex, with little clarity about what the best choice will be. Being an effective manager requires learning how to successfully navigate all kinds of decisions. Expertise, which develops gradually through learning and experience, generally improves managerial decision-making, but managers rarely rely solely on their own expertise. They also conduct research and collect information from others; they pay attention to their own biases and to ethical implications; and they think critically about the information that they have received to make decisions that will benefit the organization and its stakeholders.

## CONCEPT CHECK

1. Explain why group decision-making can be more effective than individual decision-making.
2. What are some things that can prevent groups from making good decisions?
3. As a manager, what can you do to enhance the quality of group decision-making?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Key Terms

## **Bounded rationality**

The concept that when we make decisions, we cannot be fully rational because we don't have all the possible information or the cognitive processing ability to make fully informed, completely rational decisions.

## **Brainstorming**

A process of generating as many ideas or alternatives as possible, often in groups.

## **Confirmation bias**

The tendency to pay attention to information that confirms our existing beliefs and to ignore or discount information that conflicts with our existing beliefs.

## **Creativity**

The generation of new or original ideas.

## **Critical thinking**

A disciplined process of evaluating the quality of information, especially by identifying logical fallacies in arguments.

## **Decision-making**

The action or process of thinking through possible options and selecting one.

## **Devil's advocate**

A group member who intentionally takes on the role of being critical of the group's ideas in order to discourage groupthink and encourage deep thought and discussion about issues prior to making decisions.

## **Emotional intelligence**

The ability to understand and manage emotions in oneself and in others.

## **Escalation of commitment**

The tendency of decision makers to remain committed to poor decision, even when doing so leads to increasingly negative outcomes.

## **Evidence-based decision-making**

A process of collecting the best available evidence prior to making a decision.

## **Groupthink**

The tendency of a group to reach agreement very quickly and without substantive discussion.

## **Heuristics**

Mental shortcuts that allow a decision maker to reach a good decision quickly. They are strategies that develop based on prior experience.

## **Non-programmed decisions**

Decisions that are novel and not based on well-defined or known criteria.

## **Process conflict**

Conflict about the best way to do something; conflict that is task-oriented and constructive, and not focused on the individuals involved.

## **Programmed decisions**

Decisions that are repeated over time and for which an existing set of rules can be developed.

## **Reactive system**

System of decision-making in the brain that is quick and intuitive.

## **Reflective system**

System of decision-making in the brain that is logical, analytical, and methodical.

## **Relationship conflict**

Conflict between individuals that is based on personal (or personality) differences; this type of conflict tends to be destructive rather than constructive.

**Satisficing**

Choosing the first acceptable solution to minimize time spent on a decision.

**Stakeholders**

Individuals or groups who are impacted by the organization. These include owners, employees, customers, suppliers, and members of the community in which the organization is located.

**Suppression of dissent**

When a group member exerts his or her power to prevent others from voicing their thoughts or opinions.

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# Summary of Learning Outcomes

## 4.1 Overview of Managerial Decision-Making

1. What are the basic characteristics of managerial decision-making?

Managers are constantly making decisions, and those decisions often have significant impacts and implications for both the organization and its stakeholders. Managerial decision-making is often characterized by complexity, incomplete information, and time constraints, and there is rarely one right answer. Sometimes there are multiple good options (or multiple bad options), and the manager must try to decide which will generate the most positive outcomes (or the fewest negative outcomes). Managers must weigh the possible consequences of each decision and recognize that there are often multiple stakeholders with conflicting needs and preferences so that it often will be impossible to satisfy everyone. Finally, managerial decision-making can sometimes have ethical implications, and these should be contemplated before reaching a final decision.

## 4.2 How the Brain Processes Information to Make Decisions: Reflective and Reactive Systems

2. What are the two systems of decision-making in the brain?

The brain processes information to make decisions using one of two systems: either the logical, rational (reflective) system or the quick, reactive system. The reflective system is better for significant and important decisions; these generally should not be rushed. However, the reactive system can be lifesaving when time is of the essence, and it can be much more efficient when based on developed experience and expertise.

## 4.3 Programmed and Non-programmed Decisions

3. What is the difference between programmed and non-programmed decisions?

Programmed decisions are those that are based on criteria that are well understood, while non-programmed decisions are novel and lack clear guidelines for reaching a solution. Managers can establish rules and guidelines for programmed decisions based on known fact, which enables them to reach decisions quickly. Non-programmed decisions require more time to resolve; the decision maker may need to conduct research, collect additional information, gather opinions and ideas from other people, and so on.

## 4.4 Barriers to Effective Decision-Making

4. What barriers exist that make effective decision-making difficult?

There are numerous barriers to effective decision-making. Managers are limited in their ability to collect comprehensive information, and they are limited in their ability to cognitively process all the information that is available. Managers cannot always know all the possible outcomes of all the possible options, and they often face time constraints that limit their ability to collect all the information that they would like to have. In addition, managers, like all humans, have biases that influence their decision-making, and that can make it difficult for them to make good decisions. One of the most common biases that can confound decision-making is confirmation bias, the tendency for a person to pay attention to information that confirms her existing beliefs and ignore information that conflicts with these existing beliefs. Finally, conflict between individuals in organizations can make it challenging to reach a good decision.

## 4.5 Improving the Quality of Decision-Making

### 5. How can a manager improve the quality of her individual decision-making?

Managers tend to get better at decision-making with time and experience, which helps them build expertise. Heuristics and satisficing can also be useful techniques for making programmed decisions quickly. For nonprogrammed decisions, a manager can improve the quality of her decision-making by utilizing a variety of other techniques. Managers should also be careful to not skip steps in the decision-making process, to involve others in the process at various points, and to be creative in generating alternatives. They should also engage in evidence-based decision-making: doing research and collecting data and information on which to base the decision. Effective managers also think critically about the quality of the evidence that they collect, and they carefully consider long-term outcomes and ethical implications prior to making a decision.

## 4.6 Group Decision-Making

### 6. What are the advantages and disadvantages of group decision-making, and how can a manager improve the quality of group decision-making?

Groups can make better decisions than individuals because group members can contribute more knowledge and a diversity of perspectives. Groups will tend to generate more options as well, which can lead to better solutions. Also, having people involved in making decisions that will affect them can improve their attitudes about the decision that is made. However, groups sometimes fail to generate added value in the decision-making process as a result of groupthink, conflict, or suppression of dissent.

Managers can improve the quality of group decision-making in a number of ways. First, when forming the group, the manager should ensure that the individual group members are diverse in terms of knowledge and perspectives. The manager may also want to assign a devil's advocate to discourage groupthink. Managers should also encourage all group members to contribute their ideas and opinions, and they should not allow a single voice to dominate. Finally, they should not allow personality conflicts to derail group processes.

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# Chapter Review Questions

1. What are some of the factors that enabled Jen Rubio and Stephanie Korey to make good decisions when they established their luggage company, Away?
2. What are the two systems that the brain uses in decision-making? How are they related to programmed and non-programmed decisions?
3. What is a heuristic, and when would it be appropriate to use a heuristic for decision-making?
4. What is confirmation bias? Explain how it can be a barrier to effective decision-making.
5. What is a logical fallacy?
6. What are the two types of conflict? Which one is constructive, and which is destructive?
7. What are the steps in the decision-making process? Which ones do people tend to skip or spend insufficient time on?
8. What can individuals do to improve the quality of their decision-making?
9. What can groups or group leaders do to improve the quality of group decision-making?
10. What are the benefits of decision-making in a group, instead of individually?

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# Management Skills Application Exercises

1. If you wanted to buy a new car, what research would you do first to increase the likelihood of making a good decision? As a manager, do you think you would engage in more research or less research than that prior to making big decisions for the organization?
2. Think about a big decision that you have made. What impact did your emotions have on that decision? Did they help or hinder your decision-making? Would you make the same decision again?
3. If you were faced with an ethical dilemma at work, who would you want to talk to for advice prior to reaching a decision?
4. Which would be better to involve a group with, a programmed or a non-programmed decision? Why?
5. If you were manager of a group with a lot of personality conflict, what would you do?

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# Managerial Decision Exercises

1. Imagine that you are a manager and that two of your employees are blaming one another for a recent project not going well. What factors would you consider in deciding whom to believe? Who else would you talk to before making a decision? What would you do to try to reduce the likelihood of this happening again?
2. You have been asked whether your organization should expand from selling its products only in North America to selling its products in Europe as well. What information would you want to collect? Who would you want to discuss the idea with before making a decision?
3. You have a colleague who decided the organization should pursue a new technology. Nine months into the project of transitioning to the new technology, based on new information you are convinced that the new technology is not going to work out as anticipated. In fact, you expect it to be a colossal failure. However, when you try to talk to your colleague about the issue, she won't listen to your arguments. She is adamant that this new technology is the correct direction for your organization. Why do you think she is so resistant to seeing reason? Given what you learned in this chapter, what could you do to persuade her?
4. Your manager has asked you to take the lead on a new and creative project. She has encouraged you to create your own team (from existing employees) to work with you on the project. What factors would you want to consider in deciding who should join your project team? What would you want to do as the team leader to increase the likelihood that the group will be successful?
5. Identify the logical flaw(s) in this argument:
  - We want to have effective leaders in this organization.
  - Taller individuals tend to be perceived as more leader-like.
  - Men are usually taller than women.
  - So, we should only hire men to be managers in our organization.

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# Critical Thinking Case

## *Vinyl Records Make a Comeback*

The music industry has seen a series of innovations that have improved audio quality—vinyl records sales were eventually surpassed by compact discs in the 1980s, which were then eclipsed by digital music in the early 2000s. Both of the newer technologies boast superior sound quality to vinyl records. Vinyl should be dead . . . yet it's not. Some say this is simply a result of nostalgia—people love to harken back to older times. However, some audiophiles say that vinyl records produce a “warm” sound that can't be reproduced in any other format. In addition, a vinyl record is a tangible product (you can feel it, touch it, and see it when you own the physical record) and is more attractive, from an aesthetic perspective, than a CD. It is also a format that encourages listening to an entire album at once, rather than just listening to individual tracks, which can change the listening experience.

Whatever the reasons, vinyl is making an impressive comeback. Sales growth has been in the double digits for the last several years (over 50% in 2015 and again in 2016) and is expected to exceed \$5 billion in 2017. Sony, which hasn't produced a vinyl record since 1989, recently announced that it is back in the vinyl business.

One of the biggest challenges to making vinyl records is that most of the presses are 40+ years old. In the record-making process, vinyl bits are heated to 170 degrees, and then a specialized machine exerts 150 tons of pressure to press the vinyl into the shape of the record. About a dozen new vinyl record manufacturers have sprung up in the last decade in the United States. Independent Record Pressing, a company based in New Jersey, began producing vinyl records in 2015 using old, existing presses. Their goal upon starting up was to produce over a million records a year. Even at that level of production, though, demand far outstrips the company's capacity to produce because of the limited number of presses available. They could run their machines nonstop, 24 hours a day, and not catch up with demand.

The big question is what the future holds for this industry. Will this just be a passing fad? Will the vinyl record industry remain a small niche market? Or is this the renaissance, the rebirth of a product that can withstand the test of time and alternative technologies? If it's a rebirth, then we should see demand continue to grow at its recent rapid pace . . . and if demand remains strong, then investing in new presses may well be worthwhile. If this is just a short-lived nostalgic return to an outdated media, however, then the large capital investment required to purchase new presses will never be recouped. Even with the recent growth, vinyl records still accounted for only 7% of overall music industry sales in 2015. That may be enough to get old presses running again, but so far it hasn't been enough to promote a lot of investment in new machines. The cost of a new press? Almost half a million dollars.

At least one manufacturer is optimistic about the future of vinyl. GZ Media, based in Czechoslovakia, is currently the world's largest producer of vinyl records. President and owner Zdenek Pelc kept his record factory going during the lean years when vinyl sales bottomed out. He admits that the decision was not wholly logical; he continued in part because of an emotional attachment to the media. After demand for vinyl records practically disappeared, Pelc kept just a few of the presses running to meet the demand that remained. His intention was to be the last remaining manufacturer of vinyl records. Pelc's emotional attachment to vinyl records seems to have served him well, and it's a great example of why basing decisions on pure logic doesn't always lead to the best results. Consumers make purchasing decisions in part based on the emotional appeal of the product, so it shouldn't be surprising that consumers also feel an emotional attachment to vinyl records, as Pelc did.

When demand for vinyl records was low, Pelc stored the company's presses that were no longer in use so that they could be cannibalized for parts as needed. When sales began to grow again in 2005, he started pulling old machines out of storage and even invested in a few new ones. This has made GZ Media not only the largest vinyl record producer in the world, but also one of the only ones with new factory equipment. GZ Media produces over 20 million vinyl records a year, and Pelc is excited to continue that trend and to remain a major manufacturer in what is currently still considered a niche market.

### **Critical Thinking Questions**

1. Why do you think vinyl records are appealing to customers?
2. Do you think the sales growth will continue to be strong for vinyl sales? Why or why not?
3. What research would you want to conduct prior to making a decision to invest in new presses?

Sources: Lee Barron, "Back on record – the reasons behind vinyl's unlikely comeback," *The Conversation*, April 17, 2015, <https://theconversation.com/back-on-record-the-reasons-behind-vinyls-unlikely-comeback-39964>. Hannah Ellis-Peterson, "Record sales: vinyl hits 25-year high," *The Guardian*, January 3, 2017, <https://www.theguardian.com/music/2017/jan/03/record-sales-vinyl-hits-25-year-high-and-outstrips-streaming>. Allan Kozinn, "Weaned on CDs, They're Reaching for Vinyl," *The New York Times*, June 9, 2013. Rick Lyman, "Czech company, pressing hits for years on vinyl, finds it has become one," *The New York Times*, August 6, 2015. Alec Macfarlane and Chie Kobayashi, "Vinyl comeback: Sony to produce records again after 28-year break," *CNN Money*, June 30, 2017, <http://money.cnn.com/2017/06/30/news/sony-music-brings-back-vinyl-records/index.html>. Kate Rogers, "Why millennials are buying more vinyl records," *CNBC.com*, November 6, 2015. <https://www.cnbc.com/2015/11/06/why-millennials-are-buying-more-vinyl-records.html>. Robert Tait, "In the groove: Czech firm tops list of world's vinyl record producers," *The Guardian*, August 18, 2016.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# 5 - ORGANIZATIONAL PLANNING AND CONTROLLING

## Learning Outcomes

After reading this chapter, you should be able to answer these questions:

1. Understand the importance of planning and why organizations need to plan and control.
2. Outline the planning and controlling processes.
3. Identify different types of plans and control systems employed by organizations.
4. Explain the individual and organizational effects associated with goal setting and planning.
5. Understand how planning occurs in today's organizations.
6. Discuss the impact that control has on organizational members.
7. Describe management by objectives as a philosophy and as a management tool/technique; describe its effects.
8. Differentiate between the execution of the planning and controlling activities under control- and involvement-oriented management practices.

## EXPLORING MANAGERIAL CAREERS

### *Elisabeth Charbonnier: ChezPastis.com*

ChezPastis.com, the brainchild of Elisabeth Charbonnier, specializes in selling French and other gourmet foods online. Before starting ChezPastis.com, Elisabeth and her partners were professional chefs, and their goal for their company is to make gourmet products available to the world. ChezPastis.com began with a bang, and before long Elisabeth and her partners were too busy to plan for the future and were just trying to survive. After six months, ChezPastis.com experienced growing pains similar to other Internet start-ups.

One of the partners, Zack Fortuna, was online one day trying to order some books for his daughter's birthday. The message he got after attempting to place his order was frustrating: "Sorry! The items you have requested are currently on back order and will not be available for two months." Zack needed the books in two weeks, not two months. He decided to drive to the bookstore and buy books that were in stock rather than waste time online searching for items that might not be in stock. Suddenly, Zack realized that ChezPastis.com frequently runs out of items as well and this delays customer orders. Perhaps ChezPastis.com's growing pains have something to do with their supply problems.

**Question:** Are ChezPastis.com's inventory problem attributable to poor planning, poor control, or both? How can Elisabeth, Zack, and the other partners improve the situation?

"If you are good enough, it isn't necessary to set aside time for formal planning. After all, 'planning time' takes away from 'doing time.'" Managers often make such statements, possibly as a way of rationalizing their

lack of a formal planning program. These claims are simply not valid—planning *does* influence the effectiveness of the entire organization.

Some years ago, the Calico Candy Company developed and produced a highly successful saltwater taffy Santa Claus. Buoyed by this success, the company planned and manufactured a saltwater taffy Easter Bunny and produced the Santa at Christmas again. This time, however, Calico got stuck with its taffy through faulty planning. Market research clearly showed that consumer preferences had shifted from taffy to chocolate. Rather than plan its products to meet this new preference, the company stayed with what had worked in the past and lost a “ton of money.” Yes, planning is important.

**Outcome:** Zack comes to work the next day excited about his insight. The partners know that inventory has been an ongoing trouble spot but hadn’t realized the effect it could be having on potential customers who get frustrated with delayed orders and go elsewhere. After collecting data on customer requests and back orders, the partners discover that they fill customer orders immediately only 50 percent of the time! Jolted by this thunderbolt, the partners decide to hold regular strategic planning meetings where they will view the big picture and plan for the future. The first things they decide to do are install better control systems over their inventory process and collect data on customer online experiences with ChezPastis.com.

Elisabeth proposes setting a goal of never having to tell a customer that requested items are on back order. Zack agrees that this is an admirable goal; however, he thinks they should set a daring but reachable goal of immediately filling customer orders 80 percent of the time. After all, they are a small business in an unpredictable environment, and they don’t want to frustrate employees with a potentially impossible goal.

The essence of planning is to see opportunities and threats in the future and, respectively, exploit or combat them as the case may be. . . . Planning is a philosophy, not so much in the literal sense of that word but as an attitude, a way of life.<sup>1</sup>

## 5.1 Is Planning Important

1. Understand the importance of planning and why organizations need to plan and control.

**Planning** is the process by which managers establish goals and specify how these goals are to be attained. Plans have two basic components: outcome or goal statements and action statements. Outcome or goal statements represent the *end state*—the targets and outcomes managers hope to attain. Action statements reflect the *means*

by which organizations move forward to attain their goals. British prime minister Theresa May is determined to change the way that public companies' boards are comprised by advocating that employees be part of every board. As a part of her action statement, she advocated putting an employee representative in every boardroom, just like Mick Barker, a railway worker since the 1970s, has been quietly helping to shape decision-making as a member of the board of directors at the top of transport giant First Group.<sup>2</sup>

Planning is an intellectual activity.<sup>3</sup> It is difficult to see managers plan, because most of this activity unfolds in the mind of those doing the planning. While planning, managers have to think about what has to be done, who is going to do it, and how and when they will do it. Planners think both retrospectively (about past events) and prospectively (about future opportunities and impending threats). Planning involves thinking about organizational strengths and weaknesses, as well as making decisions about desired states and ways to achieve them.<sup>4</sup>

Planning for organizational events, whether in the internal or external environment, should be an ongoing process—part of a manager's daily, weekly, and monthly duties and a routine task for all members of high-involvement organizations. Plans should be continually monitored. Managers and other organizational members should check to see if their plans need to be modified to accommodate changing conditions, new information, or new situations that will affect the organization's future. Plans need to be administered with flexibility, as organizations learn about new and changing conditions. Clearly, the Calico Candy Company failed to monitor its plans in this way. By thinking of planning as a continuous activity, methods can be formulated for handling emerging and unforeseen opportunities and threats. Planning is one process through which organizational activity can be given meaning and direction.

### Why Should Managers Plan?

Managers have several reasons for formulating plans for themselves, their employees, and various organizational units: (1) to offset uncertainty and change; (2) to focus organizational activity on a set of objectives; (3) to provide a coordinated, systematic road map for future activities; (4) to increase economic efficiency; and (5) to facilitate control by establishing a standard for later activity.

Several forces contribute to the necessity for organizational planning. First, in the internal environment, as organizations become larger and more complex, the task of managing becomes increasingly complex. Planning maps out future activities in relation to other activities in the organization. Second, as the external environment becomes increasingly complex and turbulent, the amount of uncertainty faced by a manager increases. Planning enables organizations to approach their environment systematically.

A study out of Cornell University and Indiana University found that absenteeism cost companies \$40 billion per year; the absence of planning was one of the biggest problems businesses face. Firms that follow a clearly defined plan in their day-to-day operations will be more successful than those that do not. The authors state, "organizational controlled consequences that would tend to deter absenteeism." Interestingly, this may be as simple as inspecting the organizational policies that provide the "rules" for employee absenteeism.<sup>5</sup>

## Do Managers Really Plan?

Managers should plan formally, but do they? Some observers contend that managers typically are too busy to engage in a regular form of systematic planning. McGill University management professor Henry Mintzberg notes:

When managers plan, they do so implicitly in the context of daily actions, not in some abstract process reserved for two weeks in the organization's mountain retreat. The plans of the chief executives I have studied seemed to exist only in their heads—as flexible, but often specific, intentions. . . . The job of managing does not breed reflective planners; the manager is a real-time responder to stimuli.<sup>6</sup>

Others disagree. After reviewing a number of studies focused on the degree to which planning and other managerial activities are inherent parts of managing, management professors J. Carroll and J. Gillen state that “the classical management functions of Fayol, Urwick, and others are not folklore as claimed by some contemporary management writers but represent valid abstractions of what managers actually do and what managers should do.”<sup>7</sup> Barbara Allen, president of Sunbelt Research Associates, notes that she did a considerable amount of planning before launching her new business. Now that she is operating successfully, she reviews and updates her plans periodically.<sup>8</sup>

Managers often are very busy people. Some act without a systematic plan of action; however, many managers do plan systematically.<sup>9</sup> For example, many managers develop systematic plans for how their organization will react to a crisis. United Airlines, for example, created a crisis planning group. The group developed United's crisis contingency plan book, which specifies what the airline's crisis management team should do in the event of a crisis. Keri Calagna, principal, Deloitte Risk and Financial Advisory, Deloitte & Touche LLP, comments that up to 20.7% of a firm's value resides in reputation but that CEOs and 77% of board of directors members identified reputation risk as the area about which they felt most vulnerable and that only 39% had a plan to address it.<sup>10</sup>

The question about whether managers really plan and the observation that many times they are simply too busy to retreat to the mountaintop and reflect on where the organization should be going and how it should get there miss the point: there are different types of planning.

### CONCEPT CHECK

1. What is the process where managers establish goals and outline how these goals will be met called?
2. How do the internal and external environments of the organization and its strengths and weaknesses impact the planning process?
3. Why should managers plan?

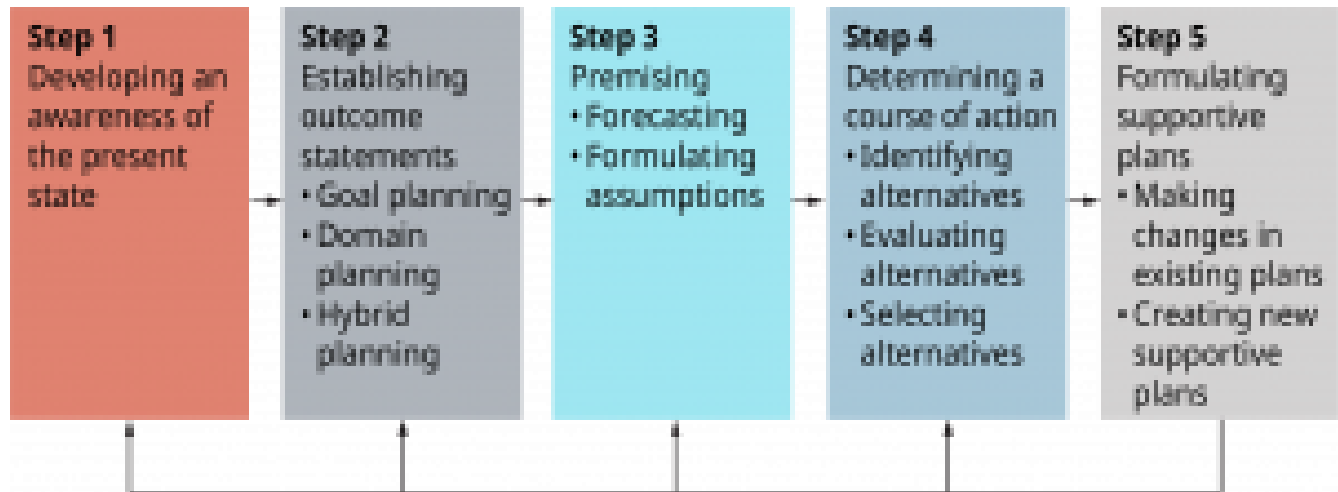
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## 5.2 The Planning Process

### 2. Outline the planning and controlling processes.

Planning is a process. Ideally it is future oriented, comprehensive, systematic, integrated, and negotiated.<sup>11</sup> It involves an extensive search for alternatives and analyzes relevant information, is systematic in nature, and is commonly participative.<sup>12</sup> The planning model described in this section breaks the managerial function of planning into several steps, as shown in **Exhibit 5.1**. Following this step-by-step procedure helps ensure that organizational planning meets these requirements.



**Exhibit 5.1 The Planning Process** Source: Adapted from H. Koontz and C. O'Donnell, 1972. *Principles of management: An analysis of managerial functions*. New York: McGraw-Hill, 113.

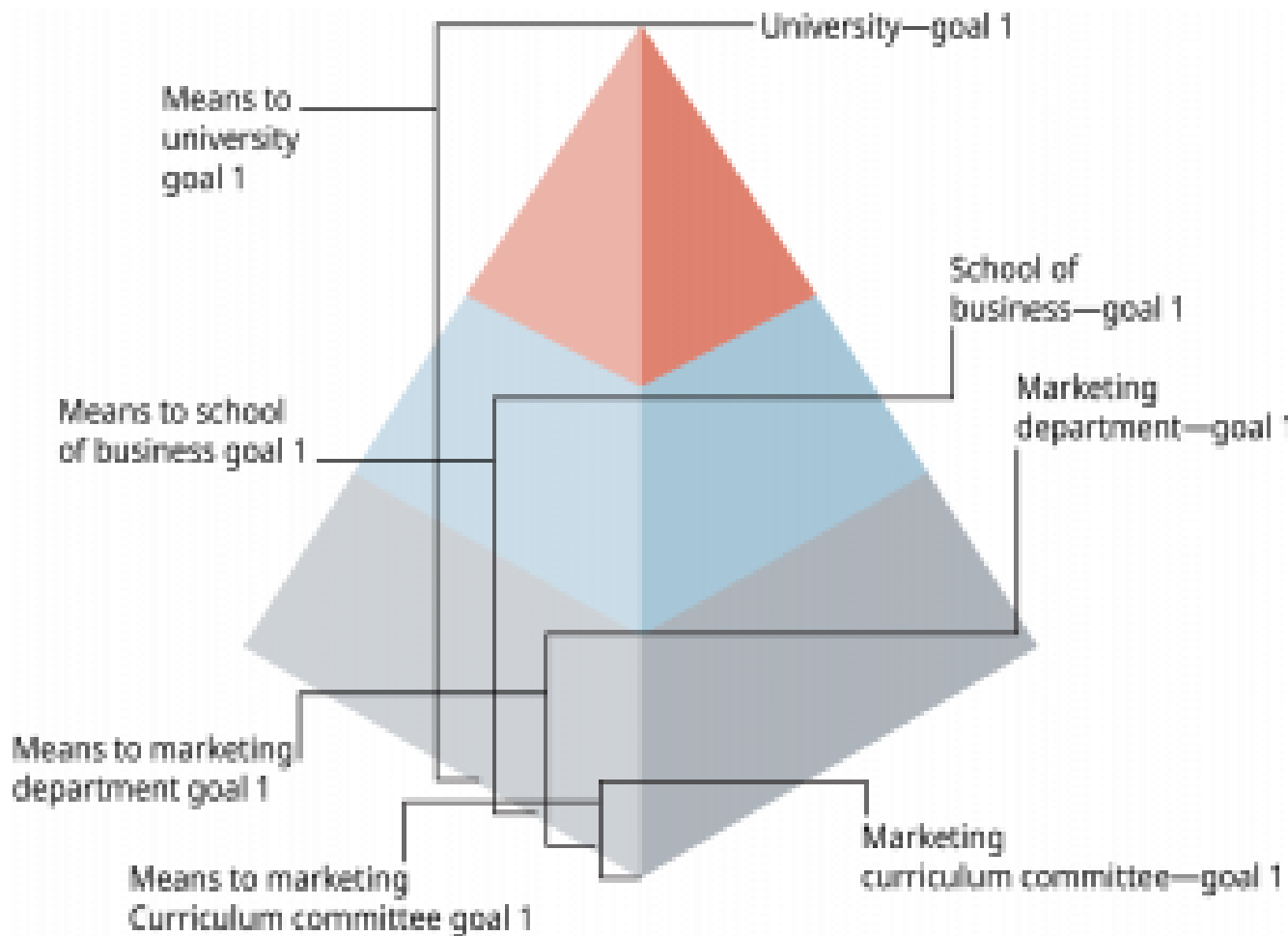
### Step 1: Developing an Awareness of the Present State

According to management scholars Harold Koontz and Cyril O'Donnell, the first step in the planning process is awareness.<sup>13</sup> It is at this step that managers build the foundation on which they will develop their plans. This foundation specifies an organization's current status, pinpoints its commitments, recognizes its strengths and weaknesses, and sets forth a vision of the future. Because the past is instrumental in determining where an organization expects to go in the future, managers at this point must understand their organization and its history. It has been said—"The further you look back, the further you can see ahead."<sup>14</sup>

### Step 2: Establishing Outcome Statements

The second step in the planning process consists of deciding "where the organization is headed, or is going to end up." Ideally, this involves establishing goals. Just as your goal in this course might be to get a certain grade, managers at various levels in an organization's hierarchy set goals. For example, plans established by a university's marketing

department curriculum committee must fit with and support the plans of the department, which contribute to the goals of the business school, whose plans must, in turn, support the goals of the university. Managers therefore develop an elaborate network of organizational plans, such as that shown in **Exhibit 5.2**, to achieve the overall goals of their organization.



**Exhibit 5.2 Network of Organization Plans** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

### *Goal vs. Domain Planning*

Outcome statements can be constructed around specific goals or framed in terms of moving in a particular direction toward a viable set of outcomes. In goal planning, people set specific goals and then create action statements.<sup>15</sup> For example, freshman Kristin Rude decides that she wants a bachelor of science degree in biochemistry (the goal). She then constructs a four-year academic plan that will help her achieve this goal. Kristin is engaging in goal planning. She first identifies a goal and then develops a course of action to realize her goal.

Another approach to planning is domain/directional planning, in which managers develop a course of action that moves an organization toward one identified domain (and therefore away from other domains).<sup>16</sup> Within the chosen domain may lie a number of acceptable and specific goals. For example, high-school senior Neil Marquardt decides that he wants to major in a business-related discipline in college. During the next four years, he will select a variety of courses from the business school curriculum yet never select a major. After selecting courses based on availability and

interest, he earns a sufficient number of credits within this chosen domain that enables him to graduate with a major in marketing. Neil never engaged in goal planning, but in the end he will realize one of many acceptable goals within an accepted domain.

The development of the Post-it® product by the 3M Corporation demonstrates how domain planning works. In the research laboratories at 3M, efforts were being made to develop new forms and strengths of cohesive substances. One result was cohesive material with no known value because of its extremely low cohesive level. A 3M division specialist, Arthur L. Fry, frustrated by page markers falling from his hymn book in church, realized that this material, recently developed by Spencer F. Silver, would stick to paper for long periods and could be removed without destroying the paper. Fry experimented with the material as page markers and note pads—out of this came the highly popular and extremely profitable 3M product Scotch Post-it®. Geoff Nicholson, the driving force behind the Post-it® product, comments that rather than get bogged down in the planning process, innovations must be fast-tracked and decisions made whether to continue or move on early during the product development process.<sup>17</sup>

Situations in which managers are likely to engage in domain planning include (1) when there is a recognized need for flexibility, (2) when people cannot agree on goals, (3) when an organization's external environment is unstable and highly uncertain, and (4) when an organization is starting up or is in a transitional period. In addition, domain planning is likely to prevail at upper levels in an organization, where managers are responsible for dealing with the external environment and when task uncertainty is high. Goal planning (formulating goals compatible with the chosen domain) is likely to prevail in the technical core, where there is less uncertainty.

### *Hybrid Planning*

Occasionally, coupling of domain and goal planning occurs, creating a third approach, called hybrid planning. In this approach, managers begin with the more general domain planning and commit to moving in a particular direction. As time passes, learning occurs, uncertainty is reduced, preferences sharpen, and managers are able to make the transition to goal planning as they identify increasingly specific targets in the selected domain. Movement from domain planning to goal planning occurs as knowledge accumulates, preferences for a particular goal emerge, and action statements are created.

### *Consequences of Goal, Domain, and Hybrid Planning*

Setting goals not only affects performance directly, but also encourages managers to plan more extensively. That is, once goals are set, people are more likely to think systematically about how they should proceed to realize the goals.<sup>18</sup> When people have vague goals, as in domain planning, they find it difficult to draw up detailed action plans and are therefore less likely to perform effectively. When studying the topic of motivation, you will learn about goal theory. Research suggests that goal planning results in higher levels of performance than does domain planning alone.<sup>19</sup>

### *Step 3: Premising*

In this step of the planning process, managers establish the premises, or assumptions, on which they will build their action statements. The quality and success of any plan depends on the quality of its underlying assumptions. Throughout the planning process, assumptions about future events must be brought to the surface, monitored, and updated.<sup>20</sup>

Managers collect information by scanning their organization's internal and external environments. They use this information to make assumptions about the likelihood of future events. As Kristin considers her four-year pursuit of her biochemistry major, she anticipates that in addition to her savings and funds supplied by her parents, she will need a full-time summer job for two summers in order to cover the cost of her undergraduate education. Thus, she includes finding full-time summer employment between her senior year of high school and her freshman year and between her freshman and sophomore years of college as part of her plan. The other two summers she will devote to an internship and finding postgraduate employment—much to mom and dad's delight! Effective planning skills can be used throughout your life. The plan you develop to pay for and complete your education is an especially important one.

## Step 4: Determining a Course of Action (Action Statements)

In this stage of the planning process, managers decide how to move from their current position toward their goal (or toward their domain). They develop an action statement that details what needs to be done, when, how, and by whom. The course of action determines how an organization will get from its current position to its desired future position. Choosing a course of action involves determining alternatives by drawing on research, experimentation, and experience; evaluating alternatives in light of how well each would help the organization reach its goals or approach its desired domain; and selecting a course of action after identifying and carefully considering the merits of each alternative.

## Step 5: Formulating Supportive Plans

The planning process seldom stops with the adoption of a general plan. Managers often need to develop one or more supportive or derivative plans to bolster and explain their basic plan. Suppose an organization decides to switch from a 5-day, 40-hour workweek (5/40) to a 4-day, 40-hour workweek (4/40) in an attempt to reduce employee turnover. This major plan requires the creation of a number of supportive plans. Managers might need to develop personnel policies dealing with payment of daily overtime. New administrative plans will be needed for scheduling meetings, handling phone calls, and dealing with customers and suppliers.

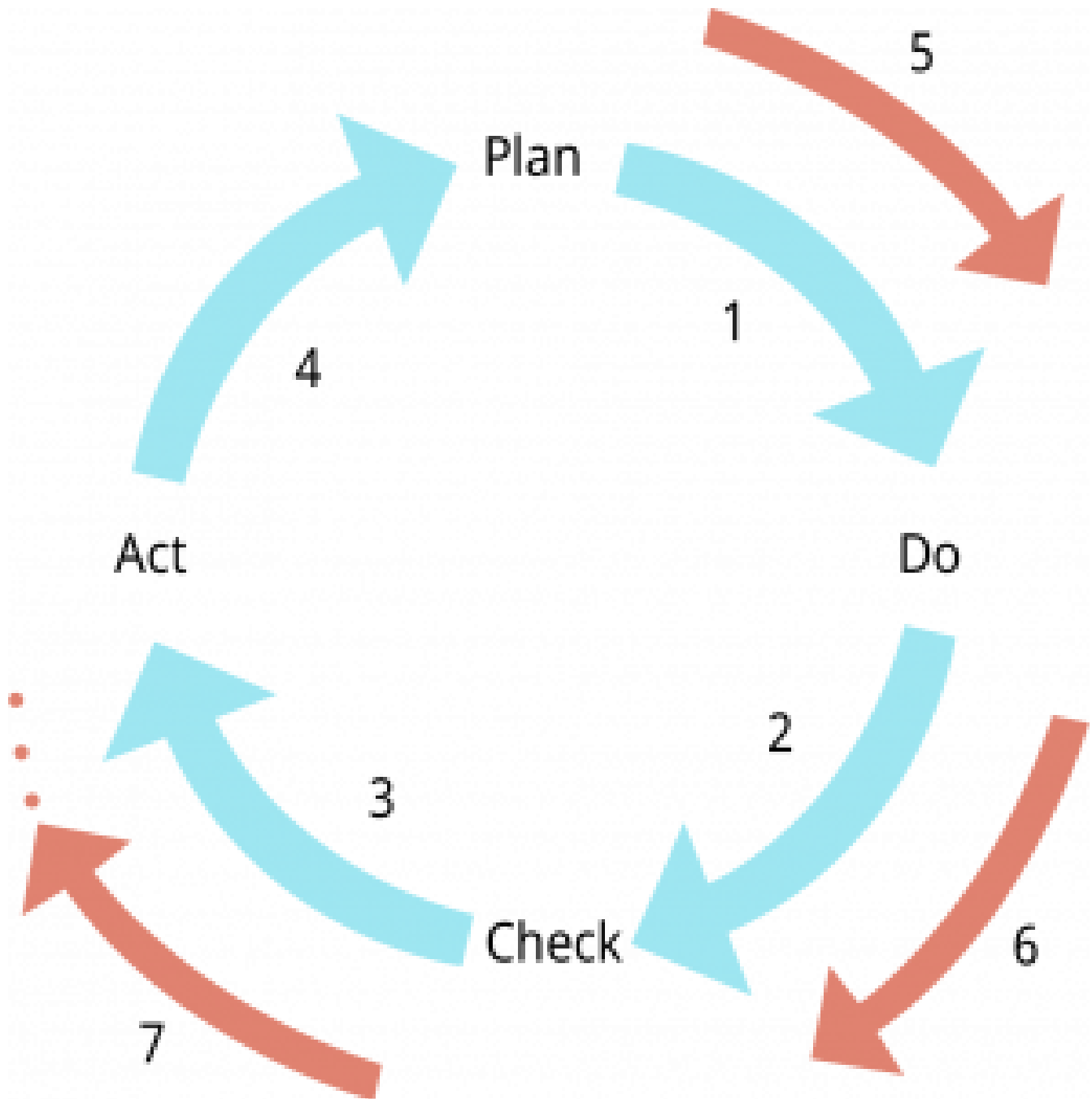
## Planning, Implementation, and Controlling

After managers have moved through the five steps of the planning process and have drawn up and implemented specific plans, they must monitor and maintain their plans. Through the controlling function (to be discussed in greater detail later in this chapter), managers observe ongoing human behavior and organizational activity, compare it to the outcome and action statements formulated during the planning process, and take corrective action if they observe unexpected and unwanted deviations. Thus, planning and controlling activities are closely interrelated (planning ➡ controlling ➡ planning . . .). Planning feeds controlling by establishing the standards against which behavior will be evaluated during the controlling process. Monitoring organizational behavior (the control activity) provides managers with input that helps them prepare for the upcoming planning period—it adds meaning to the awareness step of the planning process.

Influenced by total quality management (TQM) and the importance of achieving continuous improvement in the processes used, as well as the goods and services produced, organizations such as IBM-Rochester have linked their planning and controlling activities by adopting the Deming cycle (also known as the Shewhart cycle).

It has been noted on numerous occasions that many organizations that do plan fail to recognize the importance of continuous learning. Their plans are either placed on the shelf and collect dust or are created, implemented,

and adhered to without a systematic review and modification process. Frequently, plans are implemented without first measuring where the organization currently stands so that future comparisons and evaluations of the plan's effectiveness cannot be determined. The Deming cycle, shown in **Exhibit 5.3**, helps managers assess the effects of planned action by integrating organizational learning into the planning process. The cycle consists of four key stages: (1) Plan—create the plan using the model discussed earlier. (2) Do—implement the plan. (3) Check—monitor the results of the planned course of action; organizational learning about the effectiveness of the plan occurs at this stage. (4) Act—act on what was learned, modify the plan, and return to the first stage in the cycle, and the cycle begins again as the organization strives for continuous learning and improvement.



**Exhibit 5.3 The Deming (Shewhart) Cycle** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## CONCEPT CHECK

1. What are the five steps in the planning process?
2. What is the difference between goal, domain, and hybrid planning?
3. How are planning, implementation, and controlling related?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 5.3 Types of Plans

3. Identify different types of plans and control systems employed by organizations.

From an activity perspective, organizations are relatively complex systems, as they are involved in numerous activities. Many of these activities require management's attention from both a planning and controlling perspective. Managers therefore create different types of plans to guide operations and to monitor and control organizational activities. In this section, we introduce several commonly used plans. The major categories are hierarchical, frequency-of-use (repetitiveness), time-frame, organizational scope, and contingency. **Table 5.1** provides a closer look at many types of plans that fall in each of these categories.

### Hierarchical Plans

Organizations can be viewed as a three-layer cake, with its three levels of organizational needs. Each of the three levels—institutional, administrative, and technical core—is associated with a particular type of plan. As revealed in **Table 5.1**, the three types of hierarchical plans are strategic, administrative, and operating (technical core). The three hierarchical plans are interdependent, as they support the fulfillment of the three organizational needs. In the organization's hierarchy, the technical core plans day-to-day operations.

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## Organizational Plans

### Hierarchical Plans

- Strategic plans (institutional)—define the organization's long-term vision; articulate the organization's mission and value statements; define what business the organization is in or hopes to be in; articulate how the organization will integrate itself into its general and task environments.
- Administrative plans—specify the allocation of organizational resources to internal units of the organization; address the integration of the institutional level of the organization (for example, vision formulation) with the technical core (vision implementation); address the integration of the diverse units of the organization.
- Operating plans (technical core)—cover the day-to-day operations of the organization.

### Frequency-of-Use Plans

#### Standing Plans

- Policies—general statements of understanding or intent; guide decision-making, permitting the exercise of some discretion; guide behavior (for example, no employee shall accept favors and/or entertainment from an outside organization that are substantial enough in value to cause undue influence over one's decisions on behalf of the organization).
- Rules—guides to action that do not permit discretion in interpretation; specify what is permissible and what is not permissible.
- Procedures—like rules, they guide action; specify a series of steps that must be taken in the performance of a particular task.

#### Single-Use Plans

- Programs—a complex set of policies, rules, and procedures necessary to carry out a course of action.
- Projects—specific action plans often created to complete various aspects of a program.
- Budgets—plans expressed in numerical terms.

### Time-Frame Plans

- Short-, medium-, and long-range plans—differ in the distance into the future projected:
  - Short-range—several hours to a year
  - Medium-range—one to five years
  - Long-range—more than five years

### Organizational Scope Plans

- Business/divisional-level plans—focus on one of the organization's businesses (or divisions) and its competitive position.
- Unit/functional-level plans—focus on the day-to-day operations of lower-level organization units; marketing, human resources, accounting, and operations plans (production).
- Tactical plans—division-level or unit-level plans designed to help an organization accomplish its strategic plans.

### Contingency Plans

- Plans created to deal with events that might come to confront the organization (e.g., natural disasters, terrorist threats); alternative courses of action that are to be implemented if events disrupt a planned course of action.

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**Table 5.1** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## Strategic Plans

Strategic management is that part of the management process concerned with the overall integration of an organization's internal divisions while simultaneously integrating the organization with its external environment.



Strategic management formulates and implements tactics that try to match an organization as closely as possible to its task environment for the purpose of meeting its objectives.

Strategic plans address the organization's institutional-level needs. Strategic plans outline a long-term vision for the organization. They specify the organization's reason for being, its strategic objectives, and its operational strategies—the action statements that specify how the organization's strategic goals are to be achieved.

Part of strategic planning involves creating the organization's mission, a statement that specifies an organization's reason for being and answers the question “What business(es) should we undertake?” The mission and the strategic plan are major guiding documents for activities that the organization pursues. Strategic plans have several defining characteristics: They are long-term and position an organization within its task environment; they are pervasive and cover many organizational activities; they integrate, guide, and control activities for the immediate and the long term; and they establish boundaries for managerial decision-making.

Operating plans provide direction and action statements for activities in the organization's technical core. Administrative plans work to integrate institutional-level plans with the operating plans and tie together all of the plans created for the organization's technical core.

## Frequency-of-Use Plans

Another category of plans is frequency-of-use plans. Some plans are used repeatedly; others are used for a single purpose. Standing plans, such as rules, policies, and procedures, are designed to cover issues that managers face repeatedly. For example, managers may be concerned about tardiness, a problem that may occur often in the entire work force. These managers might decide to develop a standing policy to be implemented automatically each time an employee is late for work. The procedure invoked under such a standing plan is called a standard operating procedure (SOP).

Single-use plans are developed for unique situations or problems and are usually replaced after one use. Managers generally use three types of single-use plans: programs, projects, and budgets. See **Table 5.1** for a brief description of standing and single-use plans.

## Time-Frame Plans

The organization's need to address the future is captured by its time-frame plans. This need to address the future through planning is reflected in short-, medium-, and long-range plans. Given the uniqueness of industries and the different time orientations of societies—study Hofstede's differentiation of cultures around the world in terms of their orientation toward the future—the times captured by short, medium, and long range vary tremendously across organizations of the world. Konosuke Matsushita's 250-year plan, which he developed for the company that bears his name, is not exactly typical of the long-range plans of U.S. companies!

Short-, medium-, and long-range plans differ in more ways than the time they cover. Typically, the further a plan projects into the future, the more uncertainty planners encounter. As a consequence, long-range plans are usually less specific than shorter-range plans. Also, long-range plans are usually less formal, less detailed, and more flexible than short-range plans in order to accommodate such uncertainty. Long-range plans also tend to be more directional in nature.

## Organizational Scope Plans

Plans vary in scope. Some plans focus on an entire organization. For example, the president of the University of Minnesota advanced a plan to make the university one of the top five educational institutions in the United States. This strategic plan focuses on the entire institution. Other plans are narrower in scope and concentrate on a subset of organizational activities or operating units, such as the food services unit of the university. For further insight into organizational scope plans, see **Table 5.1**

## Contingency Plans

Organizations often engage in contingency planning (also referred to as scenario or “what if” planning). You will recall that the planning process is based on certain premises about what is likely to happen in an organization’s environment. Contingency plans are created to deal with what might happen if these assumptions turn out to be wrong. Contingency planning is thus the development of alternative courses of action to be implemented if events disrupt a planned course of action. A contingency plan allows management to act immediately if an unplanned occurrence, such as a strike, boycott, natural disaster, or major economic shift, renders existing plans inoperable or inappropriate. For example, airlines develop contingency plans to deal with terrorism and air tragedies. Most contingency plans are never implemented, but when needed, they are of crucial importance.

### CONCEPT CHECK

1. Define and describe the different types of plans defined in **Table 5.1** and how organizations use them.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 5.4 Goals or Outcome Statements

4. Explain the individual and organizational effects associated with goal setting and planning.

Creating goals is an inherent part of effective managerial planning. There are two types of organizational goals that are interrelated—official and operational goals.<sup>21</sup> Official goals are an organization's general aims as expressed in public statements, in its annual report, and in its charter. One official goal of a university, for example, might be to be “the school of first choice.” Official goals are usually ambiguous and oriented toward achieving acceptance by an organization's constituencies. Operational goals reflect management's specific intentions. These are the concrete goals that organization members are to pursue.<sup>22</sup> For example, an operational goal for a hospital might be to increase the number of patients treated by 5 percent or to reduce readmission.

The importance of goals is apparent from the purposes they serve. Successful goals (1) guide and direct the efforts of individuals and groups; (2) motivate individuals and groups, thereby affecting their efficiency and effectiveness; (3) influence the nature and content of the planning process; and (4) provide a standard by which to judge and control organizational activity. In short, goals define organizational purpose, motivate accomplishment, and provide a yardstick against which progress can be measured.

### Goal Formulation—Where Do Organizational Goals Come From?

There are two different views about how organizational goals are formulated. The first view focuses on an organization and its external environment. You will recall that there are many stakeholders (e.g., owners, employees, managers) who have a vested interest in the organization. Organizational goals emerge as managers try to maintain the delicate balance between their organization's needs and those of its external environment.<sup>23</sup> The second view concentrates on the set of dynamics in the organization's internal environment. Internally, an organization is made up of many individuals, coalitions, and groups who continually interact to meet their own interests and needs.<sup>24</sup> They bargain, trade, and negotiate, and through these political processes, organizational goals eventually emerge.

Neither approach to goal formulation can alone provide for long-term organizational success. Goals must fit an organization into its external environment while satisfying the needs of external constituencies. In addition, goals must enable an organization's internal components to work in harmony. For example, the goals of its marketing department need to mesh with those of its production and finance departments. The challenge for managers is to balance these forces and preserve the organization.

### Multiple Goals and the Goal Hierarchy

Consistent with the two views of goal emergence, Peter Drucker offers the perspective that organizations must simultaneously pursue multiple goals. A well-known management scholar, consultant, and writer, Drucker believes that to achieve organizational success, managers must try to achieve multiple goals simultaneously—namely, market standing, innovation, productivity, profitability; physical and financial resources, manager performance and development, employee performance and attitude, and public responsibility.<sup>25</sup> Reflecting his concerns, the Hewlett-Packard Corporation has established the seven corporate goals listed in **Table 5.2** Sometimes units within organizations may pursue goals that actually conflict with the goals of other internal units. The innovation goal of a research and development department, for example, might conflict with the production department's goal of efficiency.<sup>26</sup> Managers must strive to integrate the network of goals and resolve internal conflicts when they arise.

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### Hewlett-Packard's Corporate Goals

**Profit.** To achieve sufficient profit to finance our company growth and to provide the resources we need to achieve our other corporate objectives.

**Customers.** To provide products and services of the greatest possible value to our customers, thereby gaining and holding their respect and loyalty.

**Field of Interest.** To enter new fields only when the ideas we have, together with our technical, manufacturing and marketing skills, assure that we can make a needed and profitable contribution to the field.

**Growth.** To let our growth be limited only by our profits and our ability to develop and produce technical products that satisfy real customer needs.

**People.** To help our own people share in the company's success, which they make possible: to provide job security based on their performance, to recognize their individual achievements, and to help them gain a sense of satisfaction and accomplishment from their work.

**Management.** To foster initiative and creativity by allowing the individual great freedom of action in attaining well-defined objectives.

**Citizenship.** To honor our obligations to society by being an economic, intellectual and social asset to each nation and each community in which we operate.

Source: Adapted from Y. K. Shetty. 1979. New look at corporate goals. *California Management Review* 22(2): 71–79.

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**Table 5.2**

Broad organizational goals, such as productivity, innovation, and profitability, are likely to be broken into subgoals at various organizational levels. The complexities posed by many interrelated systems of goals and major plans can be illustrated by a goal hierarchy.<sup>27</sup> Thus, an organization sets organizational-level, divisional-level, departmental-level, and job-related goals. In the process, managers must make sure that lower-level goals combine to achieve higher-level goals.

### CONCEPT CHECK

1. What is the difference between official and operational goals?
2. How do multiple goals fit into a goal hierarchy?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 5.5 Formal Organizational Planning in Practice

### 5. Understand how planning occurs in today's organizations.

Studies indicate that, in the 1950s, approximately 8.3 percent of all major U.S. firms (1 out of every 12) employed a full-time long-range planner. By the late 1960s, 83 percent of major U.S. firms used long-range planning. Today it is estimated that nearly all U.S. corporations with sales over \$100 million prepare formal long-range plans.<sup>28</sup> Most formal plans extend five years into the future, and about 20 percent extend at least ten years.

### Encouraging Planning

In spite of the advantages to be gained by planning, many managers resist it. Some feel that there is not enough time to plan or that it is too complicated and costs too much. Others worry about the possible consequences of failing to reach the goals they set. Instead of preplanning, sometimes referred to as blueprint planning (that is, formulating outcome and action statements before moving forward), many managers simply fail to plan or at best engage in in-process planning (they read events and think about the next step just before acting). In-process planning works extremely well when individuals have a sense of what it is that they want to achieve and can improvise as they move forward in a sea of uncertainty and turbulence. This is much like skilled hockey players relying on their instincts, reading the defense, and improvising as they move up the ice and toward the opponent's net. This process often works better than attempting to implement a detailed preplan, as often characterizes plays in football.

In situations where we want to encourage preplanning, certain techniques facilitate the process:

- Develop an organizational climate that encourages planning.
- Top managers support lower-level managers' planning activities—for example, by providing such resources as personnel, computers, and funds—and serve as role models through their own planning activities.
- Train people in planning.
- Create a reward system that encourages and supports planning activity and carefully avoids punishment for failure to achieve newly set goals.
- Use plans once they are created.

In order for managers to invest the time and energy needed to overcome resistance to planning, they must be convinced that planning does in fact pay off.

### Does Planning Really Pay Off?

Managers of organizations in complex and unstable environments may find it difficult to develop meaningful plans, yet it is precisely conditions of environmental complexity and instability that produce the greatest need for a good set of organizational plans. Yet the question remains, does planning really pay off?

We know from our earlier discussion that setting goals is an important part of the planning process. Today, much is known about what characterizes effective individual goals. (We discuss this issue in greater detail later in this chapter.) Although group and organizational goals have been studied less, it is probably safe to assume that most of our knowledge about individual goals also applies to group and organizational goals. The research suggests that effective organizational goals should (1) be difficult but reachable with effort, (2) be specific and clearly identify what is desired, (3) be accepted

by and have the commitment of those who will help achieve them, (4) be developed by employees if such participation will improve the quality of the goals and their acceptance, and (5) be monitored for progress regularly.

While the evidence is not abundant, studies suggest that firms that engage in planning are more financially successful than those that do not.<sup>29</sup> For example, one study reports that the median return on investment for a five-year period is 17.1 percent for organizations engaged in strategic planning, versus 5.9 percent for those that do not.<sup>30</sup> Similarly, of 70 large commercial banks, those that had strategic planning systems outperformed those that did not.<sup>31</sup>

Although planning clearly has observable benefits, it can be expensive. The financial commitment can be large for organizations with a formal planning staff. Even so, research suggests that planning is warranted.

## The Location of the Planning Activity

Classical management thinking advocates a separation of “planning” and “doing.” According to this school of thought, managers plan for technical core employees and formulate most of the plans for the upper levels of the organization, with little participation from lower-level managers and workers. In contrast, behavioral management theorists suggest involving organization members in drawing up plans that affect them. Implementation of a management-by-objectives program (to be discussed later in this chapter), for example, is one means by which this participative planning can be realized. Researchers at the Tavistock Institute in England promote the idea of self-managed work groups as a means of expanding the level of employee involvement. According to their socio-technical model, work groups assume a major role in planning (as well as in organizing, directing, and controlling) the work assigned to them. Many organizations—for example, the John Lewis Partnership, Volvo, and Motorola—have had successful experiences with employee involvement in planning and controlling activities.<sup>32</sup>

## Planning Specialists

To keep pace with organizational complexity, technological sophistication, and environmental uncertainty, many organizations use planning specialists. Professional planners develop organizational plans and help managers plan. Boeing and Ford are among the many organizations with professional planning staffs. Planning specialists at United Airlines developed United’s crisis management plan.

Organizations have planning specialists and planning departments in place for a variety of reasons. These specialized roles have emerged because planning is time-consuming and complex and requires more attention than line managers can provide. In rapidly changing environments, planning becomes even more complex and often necessitates the development of contingency plans, once again demanding time for research and special planning skills. At times, effective planning requires an objectivity that managers and employees with vested interests in a particular set of organizational activities cannot provide.

A planning staff’s goals are varied. Their primary responsibility is to serve as planning advisors to top management and to assist lower-level line managers in developing plans for achieving their many and varied organizational objectives. Frequently, they coordinate the complex array of plans created for the various levels within an organization. Finally, a planning staff provides encouragement, support, and skill for developing formal organizational plans.

## MANAGING CHANGE

### *Using Technology for a More Efficient Business*

The need to control costs has been around since trade, buying and selling, began. Each new technology creates new possibilities in production and cost reduction. Recent technology isn't any different. Leaps in connectivity and data management are creating as many start-ups and new ways of identifying and solving problems.

Innovu uses new technology to help small and start-up business control the costs of their health benefits. Most small companies and start-ups are self-insured; that is, the company pays any covered employee medical bills or finances any wellness programs directly. According to Diane Hess, the executive director of the Central Penn Business Group on Health, employers account for 30 percent of the \$2.9 trillion in health care spending in the United States, and workers' compensation cost employers \$91 billion in 2014. These costs included \$31.4 billion for medical and \$30.9 in cash payments (Hess 2016). Innovu mines employee claims to find trends and also provides data on costs due to absenteeism, disability, and workers' compensation (Mamula 2017). As employers move to wellness programs to improve productivity and reduce medical costs, Innovu helps employers "make sure there are improvements to justify the expenses" (Hess 2016 n.p.).

In a similar vein, Marsh & McLennan Agency Michigan LLC is moving from simply providing insurance and generic "wellness programs" to helping companies focus on improving employees' overall well-being. While traditional wellness programs focus on physical health to improve productivity, the emerging trend is to help employees with family, social, and financial issues as well. The most comprehensive program from Marsh & McLennan is its MMA Michigan's Wellbeing University, which works to expand traditional wellness programs into nontraditional support services. The comprehensive approach of the program helps midsize employers "attract and retain talent, encourage employee satisfaction and reduce absenteeism." The move beyond simple wellness is a move toward investing in employees. Bret Jackson, president of Economic Alliance for Michigan, said, "If you have a happy and healthy employee, productivity increases" (Greene 2017 n.p.).

Branch Messenger is a novel idea to solve employee scheduling. Employees are able to view schedules, cover shifts, and ask for time off, all from an app on their phone. It integrates with existing company systems to allow data analysis, but perhaps more importantly, it allows employees to connect. The start-up's program has been adopted by large companies, such as Target, McDonald's, and Walgreens, to allow employees to swap shifts simply by using an app on their cell phones. This process streamlines the process of swapping shifts by allowing employees to handle most of the leg work, "bridg[ing] the communication gap between workers and the companies that employ them." The application is free to employees and runs on both iOS and Android devices. It can also generate digital schedules from paper schedules and create messaging channels that are workplace specific. Moving past simple shift flexibility, the application allows businesses to tap into an "on-demand" workforce that is more elastic. It also allows enterprises to "extend the value of existing workforce management systems without the need to switch costs" (Takahasi 2017 n.p.)

Allison Harden, a shift manager for a Pizza Hut in Tampa, Florida, likes the added connectivity of the program. “The messaging feature and the ability to share pictures and posts makes it really easy to stay connected with them,” Allison says. “It’s a way that I can do it outside a social network. Not everyone has Facebook and stuff like that—so it’s good and work-friendly, safe for work” (Branch Messenger 2017 n.p.).

“Safe for work” can carry connotations of “oversharing” on social media, but during Hurricane Irma, Allison and her crew relied on Branch Messenger for storm preparation, allowing the manager to post a safety checklist and update shifts. Then during the storm itself and after, drivers were able to tell each other which gas stations actually had gas, who still had electricity, and who was safe (Branch Messenger 2017).

Sources:

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#### **Questions:**

1. What ethical problems could surface with data mining as it applies to employee health records?
2. What security risks would a company need to consider when utilizing smartphone apps for work?

## CONCEPT CHECK

1. How do today’s organizations approach planning?
2. Does planning pay off for today’s organizations?
3. Which people in the organization should be involved in planning, and what are their roles?



Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>

## 5. 6 Employees' Responses to Planning

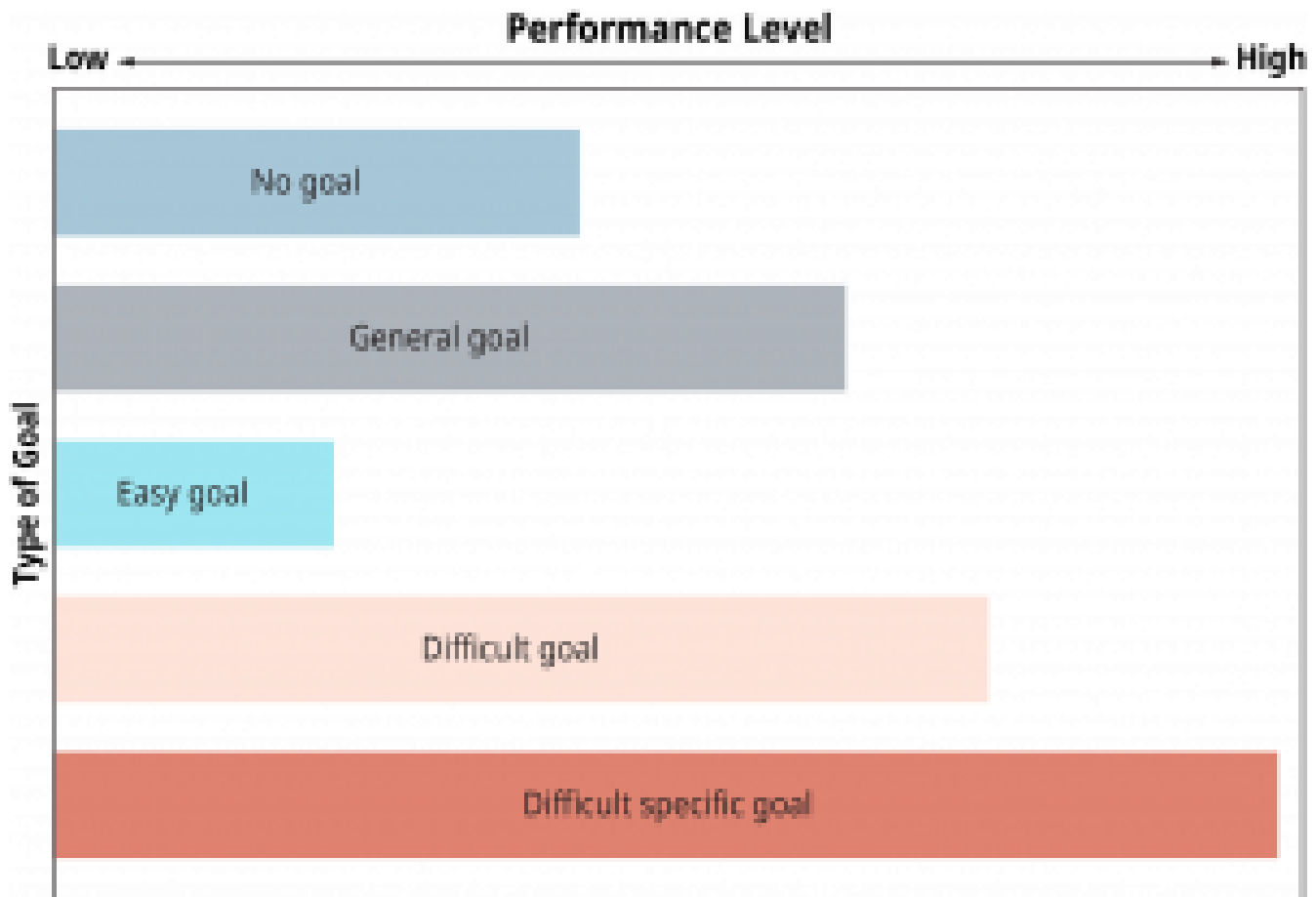
6. Discuss the impact that control has on organizational members.

Managers, of course, want their employees to work hard. However, effort alone is not enough; it must be directed toward the appropriate target and executed in a proper manner. The question we explore here is, do planning, goal setting, and the development of action statements have a favorable impact on employee motivation, performance, and job satisfaction?

We turn to goal theory for our answer. Research provides us with a clear and unequivocal picture of the effects of setting goals for organizational members. Goal theory specifies that certain types of goals motivate employee behavior and thereby contribute to the level of employee performance. Goal theory, while somewhat narrow in scope, is the most completely supported theory of motivation.<sup>33</sup> You have learned or will learn about the implications of goal setting as a fundamental part of the planning process and as a standard for the exercise of control when studying motivation. For goals to be effective, they must be difficult, specific, and accepted by the employee, and they must be met with feedback from management. Manufacturers often use production goals to motivate employees.

### Characteristics of Goals That Motivate Performance

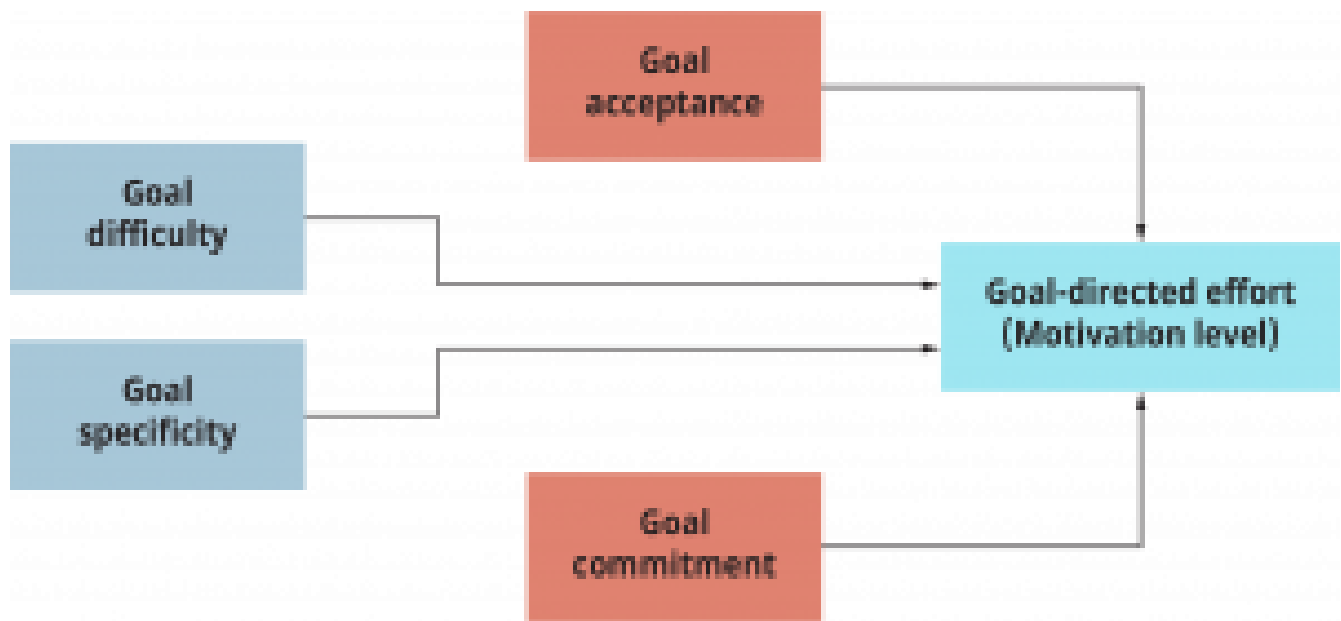
Goal theory (and the research related to it) highlights several important goal attributes—goal difficulty, goal specificity, goal acceptance and commitment, and goal feedback. As **Exhibit 5.4** shows, workers who have a goal, even if it is quite general, usually perform better than those with no goals. Yet certain types of goals are more effective than others. Two primary characteristics of goals that enhance their motivating potential are goal specificity and goal difficulty.<sup>34</sup> With regard to goal specificity, a goal that states “improve your performance” or “do your best” is generally not very effective because it is too general. Weyerhaeuser, for example, observed that its truck drivers hauling logs significantly increased their performance level when they were instructed to load their trucks to 94 percent of legal weight capacity, as opposed to simply “doing their best.” The drivers found the specific goal to be motivating, and they often competed with one another to achieve the prescribed goal. In the first nine months following the introduction of the 94 percent target, Weyerhaeuser estimated its savings to be approximately \$250,000.



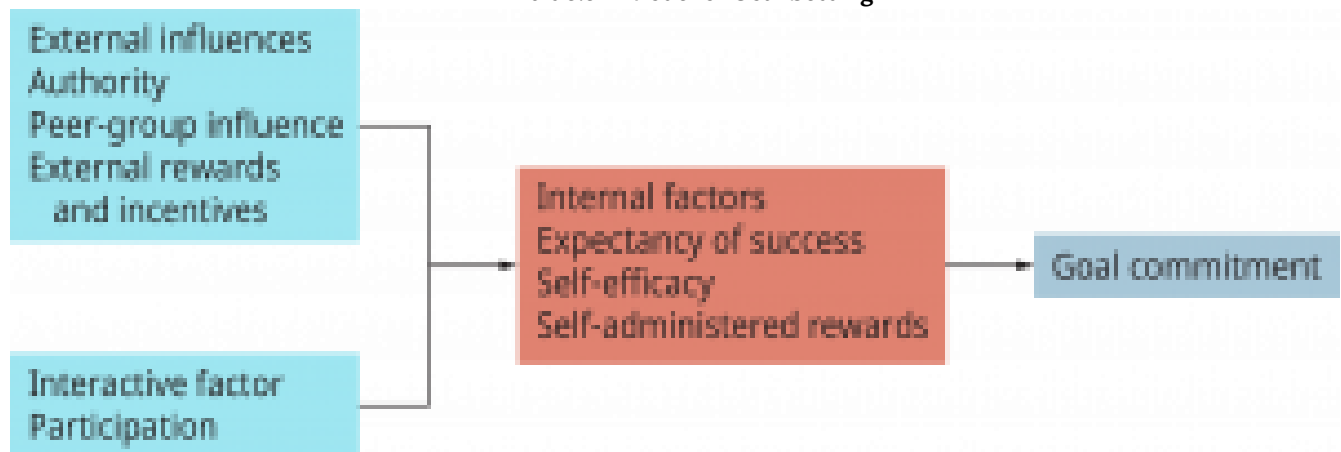
**Exhibit 5.4 The Effects of Goals on Performance**(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The second component of an effective goal is goal difficulty. People with difficult goals perform better than those with easy goals (note the third and fourth bars in **Exhibit 5.4**). If goals are perceived as too difficult or impossible, however, they lose their motivating effectiveness. Ideally, goals will be both specific and difficult. Thus, setting specific and challenging goals contributes more to planning effectiveness and organizational performance than does working under “no-goal” or “do your best” goal conditions.<sup>35</sup>

Even a goal that is both difficult and specific, however, is not going to be effective unless it is accepted by the person who is expected to achieve it.<sup>36</sup> Goal acceptance is the degree to which people accept a goal as their own (“I agree that this report must be finished by 5 p.m.”).<sup>37</sup> Goal commitment is more inclusive, referring to our level of attachment to or determination to reach a goal (“I *want* to get that report done on time”).<sup>38</sup> Goals sometimes fail to motivate people when managers assign them without making sure that workers have accepted or committed to the goals. **Exhibit 5.5** summarizes the conditions necessary to maximize goal-directed effort (motivation 5 direction 1 intensity), a major contributor to subsequent performance, while **Exhibit 5.6** summarizes the three sets of factors that facilitate goal commitment.<sup>39</sup>



**Exhibit 5.5 A Model of Goal Setting**



**Exhibit 5.6 Determinants of Goal Commitment** Source: Adapted from E. A. Locke, G. P. Latham, and M. Erez. 1988. The determinants of goal commitment. *Academy of Management Review* 13:28. Copyright 1998 by Academy of Management. Reproduced with permission of Academy of Management in the format Textbook via Copyright Clearance Center; and from E. Erez and P. C. Earley. 1987. Comparative analysis of goal setting across cultures. *Journal of Applied Psychology* 72:658–665.

Goal feedback is the last important goal attribute. Goal feedback provides us with knowledge about the results of our efforts. This information can come from a variety of sources, such as supervisors, peers, subordinates, customers, inanimate performance monitoring systems, and self-assessment. Regardless of the source, the right kind of feedback serves two important functions: directional and effort. Directionally, good feedback tells employees whether they are on the right path and on target or suggests the need for redirection. In addition, it should provide information that suggests the adequacy or inadequacy of the employee's level of effort. Thus, feedback is of critical importance!

## The Negative Side of Goals

There is, however, a negative side to goal setting. Total quality management (TQM) pioneer W. Edwards Deming fears that goals tend to narrow the performer's vision and invite people to slack off once the goal is achieved. TQM is also oriented more toward process (means) than toward success (goals, outcomes). Organizational learning and continuous improvement, a central component of TQM, is oriented toward continually finding problems in the production process that when eliminated will result in performance increases.<sup>40</sup> Performance goals, on the other hand, generally focus the performer's attention on successfully achieving a specified level of accomplishment at some future point.

Evidence also reveals a negative side to an employee's commitment to difficult goals. When organizational members are strongly committed to achieving difficult goals, their involvement in acts of good organizational citizenship is likely to decline.<sup>41</sup> This negative relationship is unfortunate because organizations operating in highly turbulent, competitive, and uncertain environments are extremely fragile social systems. They need the commitment and the sense of ownership that propel organizational members to spontaneously engage in behaviors that are not specified in their job descriptions but that are important to the organization's success and well-being.

There are several other negative effects associated with goals: The methods and means created to accomplish organizational goals may themselves become the goal (means-ends inversion). Organizational goals may be in conflict with personal or societal goals. Goals that are too specific may inhibit creativity and innovation. Ambiguous goals may fail to provide adequate direction, and goals and reward systems are often incompatible. For example, universities commonly encourage faculty members to be better teachers, but their reward systems primarily encourage good research.<sup>42</sup>

## Goal Setting and Employee Job Satisfaction

The statement "goal setting enhances job satisfaction" is not exactly accurate.<sup>43</sup> The relationship between goal setting and planning and job satisfaction is somewhat more complex. Goal setting, and therefore planning, impacts job satisfaction by working through the employee's level of performance and level of aspiration. Job satisfaction (or dissatisfaction) is most likely determined by the level of performance and not by the goals that have been set.

An employee's affective reaction to performance is determined not by the performance level itself but by the level of performance in relation to his aspiration level.<sup>44</sup> Job satisfaction, therefore, stems from the employee's evaluation of his actual performance in comparison to his aspiration level (or performance goal). In cases (see **Exhibit 5.7**) where performance reaches or passes the level aspired to, a positive emotion (job satisfaction) is likely to be produced. Performance that fails to reach aspirations causes a negative emotion (job dissatisfaction). In addition, if performance is valued by the employee because of the extrinsic rewards tied to it, high performance will create job satisfaction only if achieving the performance goal leads to the receipt of these valued extrinsic rewards.<sup>45</sup> Thus, goal setting is indirectly and contingently related to job satisfaction. If goal setting contributes to employees reaching their performance aspirations and/or the outcomes that are associated with that performance, job satisfaction is a likely by-product.



**Exhibit 5.7 Performance, Aspiration Level, and Satisfaction**(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

### *Managing through Goal Setting*

What can managers do to motivate employees through goal setting? First, it is important to encourage goal acceptance and commitment. This can be accomplished by working with organizational members to set difficult, specific, and reasonable goals and to make certain that members perceive them as reasonable. If necessary, provide training and other support needed to make the goals attainable. Offer feedback that lets people know when they are approaching the goal. Avoid using threats. Feedback that criticizes without providing insight into ways to contribute to performance improvements is both frustrating and unlikely to be effective. One of Deming's concerns about goal setting is that it creates fear in employees—fear of the failure to reach the goal. He sees fear as a serious disease that contributes to poor organizational performance.<sup>46</sup> Instead, a positive, success-oriented approach is almost always more effective. If and when negative feedback is needed to correct errors, a manager's criticisms of an employee should be credible, constructive, and objective. In addition, it is important to recall that feedback that simply criticizes, without providing insight into how to make the needed corrections, will produce few if any positive results. Finally, keep in mind that, whereas goal acceptance occurs before people work on a task and can be encouraged through promises of reward, goal commitment can be nurtured throughout the performance period as workers receive rewards for progress.

Encourage the development of work-group norms that contribute to goal commitment. Use legitimate authority to encourage the setting of specific and difficult goals. Stimulate workers to develop a sense of ownership in goals, thus producing goal acceptance and commitment. There are those who believe goal acceptance and commitment can be nurtured when workers come together as members of a family working toward the common goal of proving their worth.<sup>47</sup>

## Controlling as an Organizational Activity

A few years ago, the Duluth Police Department found itself struggling with employee morale. The summer had passed, and the department discovered that it had allowed too much vacation time given the volume of summer activity facing the department. As it developed its staffing plans for the upcoming summer, it would have to grant fewer requests for summer vacations. Management soon learned that there would actually be more requests for summer vacation than the previous summer. A conflict between management and the police union appeared inevitable.

The department turned to creative problem solving. In the process, it came up with the idea of moving from a seven-day week to an eight-day week. Under the old schedule, a police officer worked a traditional five days a week, eight hours a day, 40 hours, with two days off each week. Under the new schedule, officers would work 12 hours a day and 48 hours a week. In addition, officers would work four days and then have four days off. This would in effect give officers half the upcoming summer off without taking a single day of vacation. The plan was endorsed by both the police union and the city council. Following the endorsement of the new staffing plan, the department developed a plan for monitoring the effectiveness of this new schedule and collected baseline data so that subsequent assessment of the schedule could be compared to previous work schedules.<sup>48</sup>

In January, the new compressed work schedule was implemented. This was accompanied by a control system that would monitor the effectiveness of the new schedule. The department was particularly concerned about the impact of the schedule on stress levels, job satisfaction, and the overall effectiveness of its policing function. That is, would the 12-hour workday negatively affect performance? Periodically during the next couple of years, the department monitored the consequences of its new work schedule. There were several positive results. The level of stress appeared to decline along with the increases in hours worked and leisure time satisfaction, without any negative performance effects. Now, several years later, there is virtually no desire to return to the old, more traditional work schedule.

In effective organizations, the activities of planning and controlling are intricately interwoven. For each plan deemed important to the functioning of the organization, a system to monitor the plan's effectiveness must be designed and implemented. In the remainder of this chapter, we explore the nature of control, the control process, and its effects on the organization and its members.

## Controlling and the Control Process

Controlling is a managing activity. Controlling is defined as the process of monitoring and evaluating organizational effectiveness and initiating the actions needed to maintain or improve effectiveness. Thus, managers who engage in the controlling activity watch, evaluate, and when needed, suggest corrective action.

Like the managerial functions of planning, organizing, and directing, controlling is a complex activity that is performed at many organizational levels. Upper-level managers, for example, monitor their organization's overall strategic plans, which can be implemented only if middle-level managers control the organization's divisional and departmental plans, which, in turn, rely on lower-level managers' control of groups and individual employees (see our earlier discussion of the goal hierarchy).

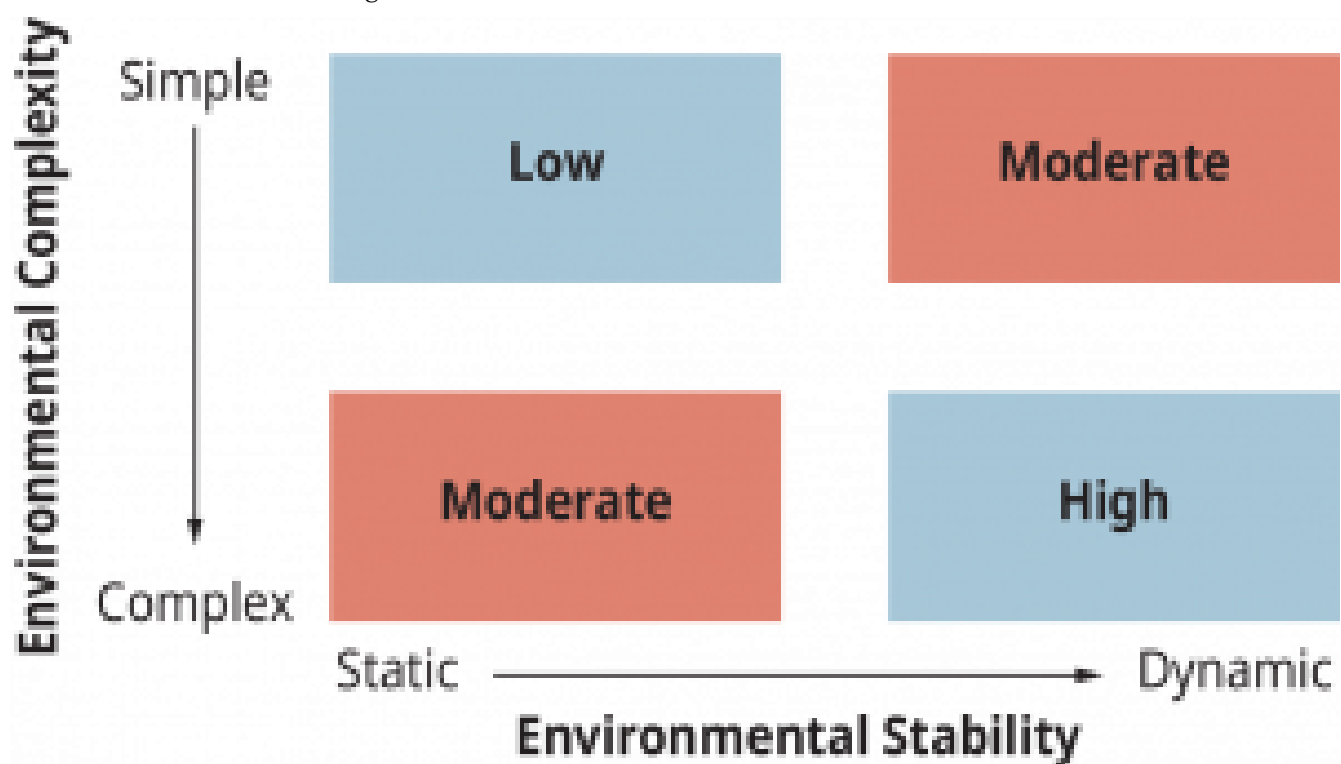
### *The Need for Control*

Although there is a continual and universal need for control in organizations, the importance, amount, and type of control vary across organizational situations. Probably the most important influence on the nature of an organization's control systems is the amount of environmental change and complexity it faces.

Organizations that operate with relatively stable external environments usually need to change very little, so

managers eventually are able to control their organizations by using a set of routine procedures. With greater levels of environmental change and the accompanying uncertainty, however, controlling requires continual attention from managers. Routines and rigid control systems are simply not adequate for such conditions.

Environmental complexity also affects the nature of control systems. Simple environments contain a limited number of highly similar components that are relatively easy to control through common sets of rules and procedures. The same bureaucratic control system, for example, can be used at most branch offices of a large bank. As complexity increases through organizational growth, product diversification, and so on, managers' needs for up-to-date information and coordination among organizational activities intensify. The complexity that calls for increased control, however, also requires open, organic systems that can respond quickly and effectively to complex environments. In such complicated situations, organizations often specify the development of flexible systems as a means goal: "To allow us to manage the complexities of our organization, we must remain flexible and open." Other control activities shift to ends goals, such as "We want to increase market share 10 percent in each of our divisions." Flexibility allows substantial choice as to how ends goals will be met: "Each division may decide how to achieve its 10 percent increase in market share." **Exhibit 5.8** shows the level of control organizations need under different environmental conditions.



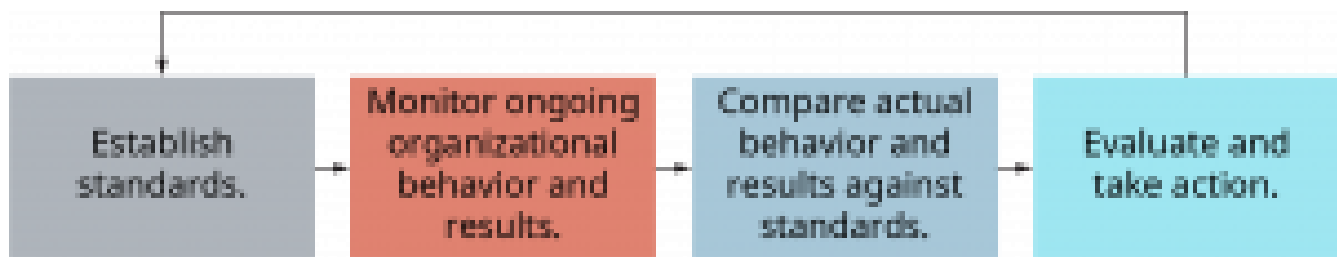
**Exhibit 5.8 Need for Control** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## A Control Model

In essence, control affects every part of an organization. Among some of the major targets of the organization's control efforts are the resources it receives, the output it generates, its environmental relationships, its organizational processes, and all managerial activities. Especially important targets of control include the functional areas of operations, accounting, marketing, finance, and human resources.

Traditional control models (see **Exhibit 5.9**) suggest that controlling is a four-step process.





**Exhibit 5.9 The Traditional Control Model** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

1. *Establish standards.* Standards are the ends and means goals established during the planning process; thus, planning and controlling are intricately interwoven. Planning provides the basis for the control process by providing the standards of performance against which managers compare organizational activities. Subsequently, the information generated as a part of the control process (see the subsequent steps in the control model) provides important input into the next planning cycle.
2. *Monitor ongoing organizational behavior and results.* After determining what should be measured, by whom, when, and how, an assessment of what has actually taken place is made.
3. *Compare actual behavior and results against standards.* Ongoing behavior is compared to standards. This assessment involves comparing actual organizational accomplishments relative to planned ends (what an organization is trying to accomplish) and means (how an organization intended for actions to unfold). The outcome of this comparison provides managers with the information they will evaluate in the final step.
4. *Evaluate and take action.* Using their comparative information, managers form conclusions about the relationships found between expectations and reality and then decide whether to maintain the status quo, change the standard, or take corrective action.

## Variations in Control Systems

Although all good control systems follow the process described above, this doesn't mean that all control systems are identical. Control systems differ in terms of the degree to which they are self-managing, as opposed to externally managed, and by the point in the process at which control is exercised.

### *Cybernetic and Noncybernetic Systems*

Control systems differ in the amount of outside attention required for them to operate effectively. Systems using cybernetic control are based on self-regulating procedures that automatically detect and correct deviations from planned activities and effectiveness levels. Few organizational control systems are totally cybernetic, but some come close. The control system for a coal-fired electrical generating station at Detroit Edison, for example, uses computers to monitor the flow of pulverized coal into the burning chamber. The computers speed up or reduce the flow as necessary to maintain adequate fuel supplies.

Merely automating a work system does not necessarily mean that the control system is cybernetic. The drone submarine sent to explore and photograph the sunken *Titanic* was fully automated, but humans on the surface monitored the effectiveness of the sub's operations and its adherence to the planned mission. To be classified as a cybernetic system, a work system must have built-in automatic control capabilities, although the built-in control need

not be machine-based. A group of workers who control their own activities without outside assistance constitute a cybernetic system.

Control systems that are operated completely independently from the work system itself involve noncybernetic control. They rely on external monitoring systems in much the same way that a manufacturing company uses a separate quality assurance department to monitor and enforce quality standards rather than allowing production crews to perform this activity. Cybernetic control systems automatically detect and correct deviations, but automating a control system does not mean it is cybernetic. This technician is adjusting the mixture in the vat, so this system is not self-regulating and thus is not cybernetic.

### *Time Perspectives*

Organizations can introduce the control activity at three stages in the work process: prior to, during, or after the performance of a work activity.<sup>49</sup> In practice, most managers use a hybrid control system that incorporates control at each of these intervals so that managers can prepare for a job, guide its progress, and assess its results.

Managers use precontrols (or preaction controls) to prevent deviation from a desired plan of action before work actually begins. For example, Butch Ledworowski, owner of Lil' America Building Contractors, inspects all construction materials to see that they meet industry standards. Managers can use two types of concurrent controls (steering and screening control) to prevent deviation from the planned course of action while work is in progress. Steering controls are reactive concurrent controls; they occur after work has begun but before it is completed. At Lil' America, for instance, Butch visits each construction site and watches his carpenters, offering advice and instruction as they work. Screening controls (also referred to as yes/no, go/no-go controls) are preventive concurrent controls. As activity at a critical stage is completed, managers use screening controls to assess work performed to that point and to judge whether progress is adequate. If it is, a yes decision is made to proceed to the next stage. At Lil' America, for example, Butch always inspects carpentry work after walls have been framed. Unless he approves the work, electricians cannot begin wiring the structure.

Managers use postaction controls after the product or service is complete to examine the output. After each remodeling job, Butch assesses the work to determine whether it meets specifications, was completed on time, and came in at or under budget. Postaction controls play an important role in future planning, but their primary function is to provide feedback by describing the degree to which previous activities have succeeded.

## Characteristics of Effective Control Systems

Successful control systems have certain common characteristics. First, a good control system follows the prescriptions in the control model (see **Exhibit 5.14**) and adequately addresses each organizational target. Next, to the extent possible, an effective control system takes a hybrid approach so that precontrol, concurrent, and postaction control systems can be used to monitor and correct activities at all points in an organization's operations. Other characteristics of a good control system include its treatment of information, its appropriateness, and its practicality.<sup>50</sup>

The control process itself and, certainly, all effective control systems are based on information. Without good information, managers cannot assess whether ends and means goals are met. They cannot determine the relationship between them or provide feedback to planners. To be effective, information must be accurate, objective, timely, and distributed to organization members who need it. High-involvement organizations work to make sure that virtually all organizational information is accessible by any employee who needs it in order to make quality decisions. Oticon, a Danish manufacturer of hearing aids, for example, scans all company communications and places them in its information system that all employees can access.

Another characteristic of a good control system is its focus on issues of importance to the organization. Managers who develop control procedures for virtually all work activities and outcomes waste resources and, as will be discussed later in this chapter, risk creating a control system that produces negative feelings and reactions.

A final characteristic of a good control system is its practicality. Something that works well for another organization or looks wonderful in print still has to fit *your* organization to work well there. Some practical considerations to look for in a control system include feasibility, flexibility, the likelihood that organization members will accept it, and the ease with which the system can be integrated with planning activities.

## The Impact of Control on Organizational Members

Thus far, you have been learning about the importance of the controlling function. Consider now what the controlling function does for—or to—the organization's members. If designed well, control systems have many positive effects both for organizations and for the people who work in them (see **Table 5.3**).<sup>51</sup> Unfortunately, sometimes control systems can produce a number of negative effects.

---

### **The Impact of Control on Organization Members**

#### **Potential Positive Effects of Control**

- Clarifies expectations
- Reduces ambiguity
- Provides feedback
- Facilitates goal setting
- Enhances satisfaction
- Enhances performance

#### **Potential Negative Effects of Control**

- Consumes resources
  - Creates feelings of frustration and helplessness
  - Creates red tape
  - Creates inappropriate goals
  - Fosters inappropriate behavior
  - Decreases satisfaction
  - Increases absenteeism
  - Increases turnover
  - Creates stress
- 

**Table 5.3** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

### *Positive Effects*

Organizational control systems can provide many positive effects for organization members in terms of motivation, performance, and satisfaction. This occurs by providing adequate structure, appropriate feedback, and effective goal-setting programs.

When workers want clarification of what they are expected to do, a leader can improve both their performance and

satisfaction by providing structure. The guidance provided by both precontrol and concurrent control systems can likewise be received favorably. Another potential and related benefit for employees with an uncertainty avoidance or low tolerance for ambiguity personality is that the structure of a good control system reduces the uncertainty of a work situation.

A good control system also provides constructive feedback. Most employees react quite favorably to the timely provision of accurate feedback about their effectiveness.<sup>52</sup> Feedback helps workers correct ineffective behaviors. Perhaps more importantly, feedback can be very rewarding. People who have a need to succeed (individuals with a high need for achievement) are gratified when feedback tells them that they are, in fact, succeeding. Feedback can improve job performance if workers use it to adjust their goals, approach, or effort levels appropriately. Both concurrent and postaction controls provide employees with feedback about the appropriateness of their behavior and the degree to which their work is producing successful results.

You have already seen that goal setting can be an important contributor to effective management. A good control system is very useful for identifying appropriate goals. Consider the control system used by the sales company where Maria Castro works. It specifies an expected sales approach (means goal) that helps her work toward a specific, difficult sales goal (ends goal). Precontrols help her understand how to achieve the desired sales level by providing such means goals as specific sales calls to make and promotional specials to offer. Concurrent controls and postcontrols provide feedback that helps Maria monitor her progress. The combined effects of goal setting and feedback about goal progress are particularly powerful.

### *Negative Effects*

Unfortunately, control systems don't always function well. Excessive controls are a waste of money and energy. Donald Pemble, for example, needs a larger travel budget because he must personally inspect bridges under his new control system. His inspectors spend the time they could have used to inspect bridges in logging entries, painting numbers, and griping about the unfairness of the situation. Not only do excessive controls waste money because they fail to enhance effectiveness, but they can also create additional problems. For example, Shannon and her coworkers have changed from good corporate citizens who kept accurate records and conducted comprehensive inspections into harried workers who falsify log entries. Worse, unsuspecting motorists travel over what might be unsafe bridges.

The vast amount of paperwork and documentation called for by an excessive control system can also cause frustration and helplessness. The red tape created by many universities' control systems, for example, wastes students' time. Standing in lines for hours, they wait to pay dorm fees, purchase meal tickets, rent parking spaces, pay tuition, and register for classes. Their frustration and dissatisfaction are mirrored by many university employees who question the competence, the reasonableness, and perhaps even the intelligence of supervisors who insist on maintaining excessive control.

Another dysfunctional result of poor control systems can be seen in their effect on goal-setting programs. Whereas a good control system can help design and monitor valuable goal-setting programs, a poor control system can accomplish quite the opposite. A control system focused on unreasonable ends and means goals can motivate workers to establish inappropriate individual goals. For instance, the ends goal Donald Pemble established of having all bridges inspected within two years was unreachable, and his monthly inspection quotas (means goals) were unobtainable. Donald's insistence on maintaining these inappropriate goals was evident in his reactions when the inspectors failed to meet them. Consequently, Shannon and her coworkers focused on preserving their jobs as a primary goal, rather than on conducting quality inspections.

In addition to encouraging the formation of inappropriate goals, poor control systems emphasize and reward behaviors that, although not necessarily inappropriate, may hinder more productive behavior. Managers who concentrate on workers' attendance, for example, may not promote such desirable behaviors as creativity, cooperation, and team building.<sup>53</sup> Although there is nothing wrong with encouraging attendance, a control system that fosters attendance (by punishing tardiness) because it is easier to measure than creativity encourages rigid, uncreative behavior

(on the part of employees who are almost always at work). An advertising agency that controls attendance but not creativity, for example, would soon be in serious trouble.

Even when control systems help identify appropriate goals and encourage appropriate behavior, rigid adherence to narrow goals can create problems. A large number of specific, concrete goals, for example, can inhibit creativity. The vast amount of time organization members must spend tending to concrete goals leaves them little time or energy to create. It is not only creativity that suffers, however. Every minute used taking attendance in a classroom is one less minute available for teaching. Every hour a police officer spends completing paperwork is one less hour available for public service. Managers should use only the goals they need, no more.

### *The Need for Personal Control*

Organizations clearly have a need to control their members and operations, but individuals also have a need for personal control, a need to believe that they have the “ability to effect a change, in a desired direction, on the environment.”<sup>54</sup> Sometimes organizations, through their structures and management processes, make people feel they have too little control. For example, managers can execute the control function by designing and demanding strict adherence to organizational rules and standard operating procedures. Colleges and universities, for example, tell students which classes they are allowed to take and when, what grades they have to maintain, how to behave outside the classroom, and so on. Companies tell employees when to come to work, how many hours to work, what to wear, when to take breaks, how to perform their jobs, and many other things. The challenge facing managers is to strike a balance between the amount of control their organization needs and the amount of personal control needed by its members. Studies suggest that, when this balance is reached, both the satisfaction and performance of organization members can be enhanced.<sup>55</sup> In addition, evidence reveals that a number of other organizationally undesirable consequences can result from low or less than desired levels of personal control, such as withdrawal and health-related effects (stress, frustration, and depression).<sup>56</sup>

Finding the optimal balance between organizational and personal control is not an easy task, however, because most employees desire more personal control than their organizations allow. People will strive to gain greater control “in spite of (and frequently because of) the barriers and constraints the organization places on the attainment of personal control.”<sup>57</sup> Repeated failures to gain personal control may cause workers to develop what has been called learned helplessness.<sup>58</sup> People who learn that they are helpless to influence their work environment are likely to be the source of low productivity, low quality, high absenteeism, dissatisfaction, and turnover. They tend to react with depression, anxiety, stress, frustration, hostility, anger, and alienation. Furthermore, once helplessness has been learned, people often continue to behave helplessly, even if the environment changes to permit them greater control. Managers must thus prevent employees from developing learned helplessness because reversing it is very difficult. They should allow workers to control the aspects of their work lives that they can adequately control and use only the necessary amount of organizational control.

### *In Search of Balance*

At this point, it might seem that managers should just accede to workers’ persistent demands for greater control. Research shows, however, that indiscriminately giving employees larger amounts of control actually causes performance to suffer if such control exceeds their capacity to use it.<sup>59</sup>

If a control system that is too excessive does not work, and if giving workers all of the personal control they desire is not effective, what do managers do to achieve the proper balance? First, people need to possess personal control; therefore, give them the amount of control they are able to handle. Second, make certain that workers given control believe they can use it effectively. Help them translate their effort into successful performance. Third, recognize that

organizational control systems influence the personal control perceptions of organizational members. These, in turn, change behavior and attitudes.

By interviewing and/or surveying employees, managers can learn more about employees' needs for control. Through organizational scans, managers can determine the amount and location of control already existing in the organization, as well as the areas needing control. The objective then becomes one of achieving the best possible match between employees and their work environment.

## CONCEPT CHECK

1. How is goal theory used in the planning process?
2. What are the organizational downsides to goals?
3. How is goal setting tied to job satisfaction and performance?

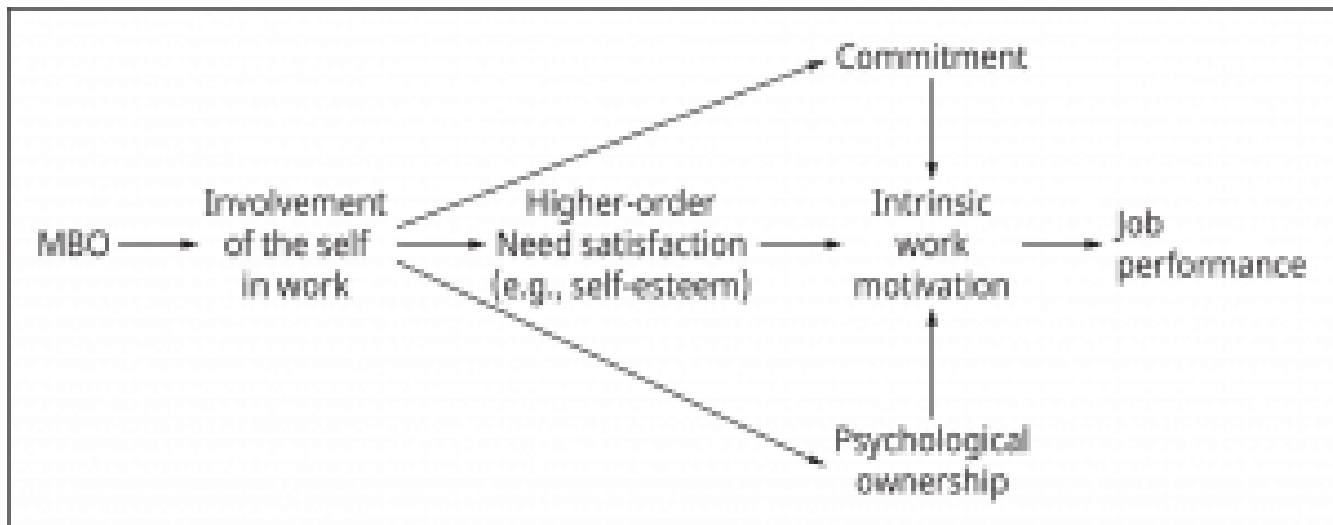
Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 5.7 Management by Objectives: A Planning and Control Technique

7. Describe management by objectives as a philosophy and as a management tool/technique; describe its effects.

When people are personally committed to their organization's plans, those plans are more likely to be accomplished. This truism is the philosophy underlying management by objectives.

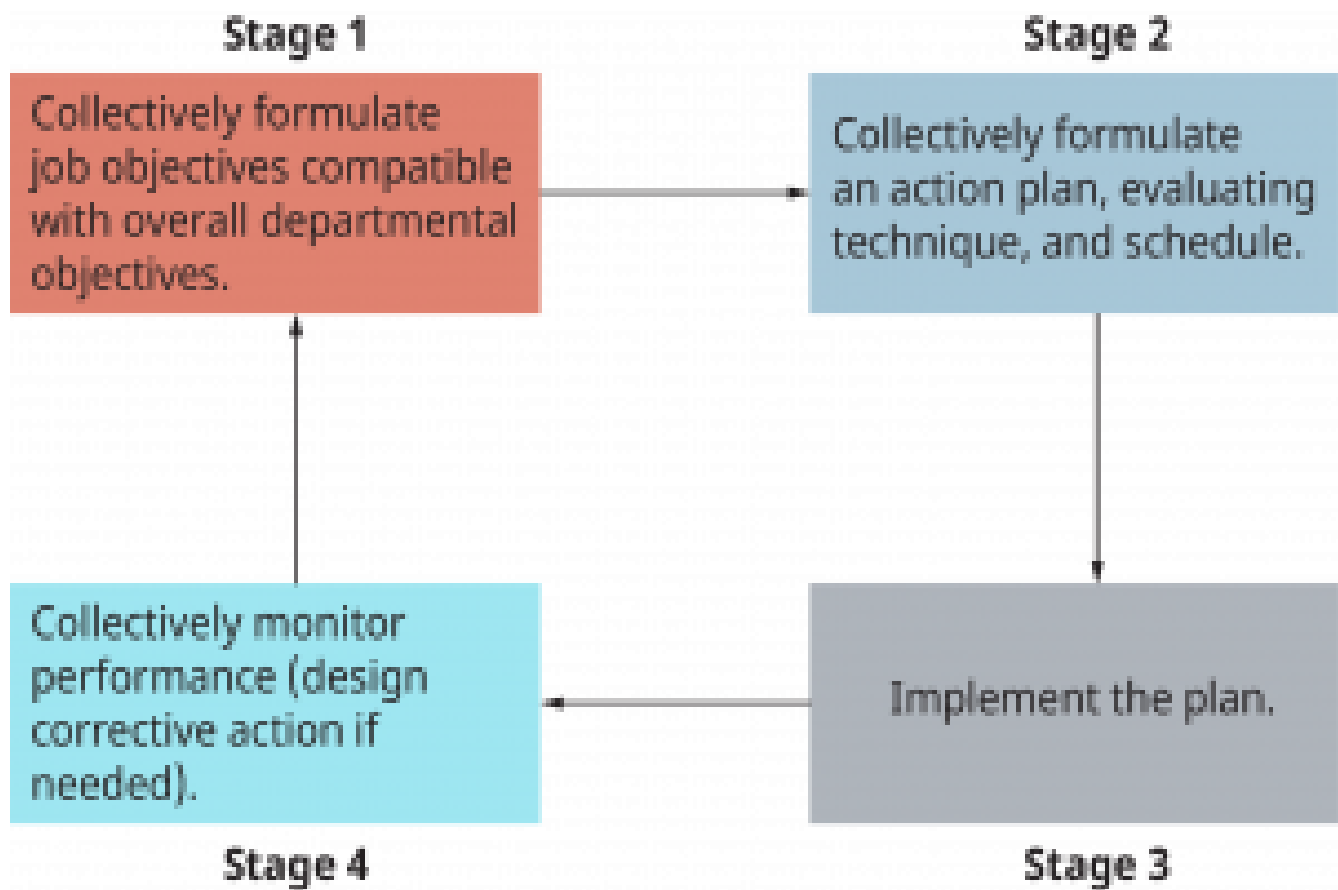
Management by objectives (MBO) is a philosophy of management, a planning and controlling technique, and an employee-involvement program.<sup>60</sup> As a management philosophy, MBO stems from the human resource model and Theory Y's assumption that employees are capable of self-direction and self-control. MBO also is anchored in Maslow's need theory. The reasoning is that employee involvement in the planning and control processes provides opportunities for the employee to immerse the self in work-related activities, to experience work as more meaningful, and to satisfy higher-order needs (such as self-esteem), which leads to increased motivation and job performance (see **Exhibit 5.10**). It is hypothesized that, through involvement, employee commitment to a planned course of action will be enhanced and job satisfaction will be increased.



**Exhibit 5.10 MBO and Its Effect on Employees** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Although there are many variations in the practice of MBO, it is basically a process by which an organization's goals, plans, and control systems are defined through collaboration between managers and their employees. Together they identify common goals, define the results expected from each individual, and use these measurements to guide the operation of their unit and to assess individual contributions.<sup>61</sup> In this process, the knowledge and skills of many organizational members are used. Rather than managers telling workers "These are your goals"—the approach of classical management philosophy—managers ask workers to join them in deciding what their goals should be.

After an acceptable set of goals has been established for each employee through a give-and-take, collaborative process, employees play a major role in developing an action plan for achieving these goals. In the final stage in the MBO process, employees develop control processes, monitor their own performance, and recommend corrections if unplanned deviations occur. At this stage, the entire process begins again. **Exhibit 5.11** depicts the major stages of the MBO process.



**Exhibit 5.11 The Management by Objective (MBO) Process** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## The Theory of MBO

MBO has the potential to enhance organizational effectiveness. The following four major components of the MBO process are believed to contribute to its effectiveness: (1) setting specific goals; (2) setting realistic and acceptable goals; (3) joint participation in goal setting, planning, and controlling; and (4) feedback.<sup>62</sup> First, as we saw earlier, employees working with goals outperform employees working without goals. Second, it is assumed that participation contributes to the setting of realistic goals for which there is likely to be goal acceptance and commitment. Setting realistic and acceptable goals is an important precondition for successful outcomes, especially if the goals are difficult and challenging in nature. Finally, feedback plays an important role. It is only through feedback that employees learn whether they should sustain or redirect their efforts in order to reach their goal, and it is only through feedback that they learn whether or not they are investing sufficient effort.

Thus, from a theoretical perspective, there are several reasons why MBO should produce a positive impact on employee performance, motivation, commitment, and job satisfaction. In the next section, we briefly look at what the research tells us about the effectiveness of MBO programs.



## The Evidence

In both the public and private sectors, MBO is a widely employed management tool. A recent review of the research on MBO provides us with a clear and consistent view of the effects of these programs. In the 70 cases studied by Robert Rodgers and John Hunter, 68 showed increased productivity gains, and only 2 showed losses.<sup>63</sup> In addition, the increases in performance were significant. Rodgers and Hunter report that the mean increase exceeded 40 percent.

While the results are generally positive in nature, differences in performance effects appear to be associated with the level of top management commitment. In those cases where top management is emotionally, intellectually (that is, top management espouses the value and importance of MBO), and behaviorally (top management actually uses MBO themselves) committed, the performance effects tend to be the strongest. The weakest MBO effects appear when top management does very little to “talk the value/importance of MBO” and they don’t use the system themselves, even as they implement it for others.<sup>64</sup> This evidence tells us that “the processes” used to implement MBO may render a potentially effective program ineffective. Thus, not only should managers pay attention to the strategies used to facilitate planning and controlling (like MBO), they should also be concerned with how they go about implementing the plans. MBO requires top management commitment, and it should be initiated from the top down.<sup>65</sup>

Research shows that an MBO program can play a meaningful role in achieving commitment to a course of action and improving performance. In fact, research clearly documents instances where MBO programs have increased organizational effectiveness. Still, there have been failures. After reviewing 185 studies of MBO programs, one researcher concluded that they are effective under some circumstances but not all.<sup>66</sup> For example, MBO tends to be more effective in the short term (less than two years), in the private sector, and in organizations removed from direct contact with customers. These factors also affect the success of an MBO program:

- The intensity of upper-level managers’ commitment: Half-hearted commitment to an MBO system is associated with a higher failure rate.
- The time element: Is there enough time for employees to learn how to participate in an MBO process, that is, to learn how to set meaningful goals, develop good action statements, and develop effective monitoring systems? Is there enough time for employees to learn how to assume responsibility in a new context? Is there enough time for employees and managers to collaborate in a joint planning and controlling process?
- The legitimacy of the system: Is it integrated into an overall philosophy of management? Or does it seem like a gimmick to seduce employees into being more productive?
- The integration of employees’ goals: Are goals for each employee integrated well enough into the goals of their larger work unit?

To be truly effective over the long haul, MBO programs probably need to be coupled with some type of gainsharing program (that is, programs whereby organizations share some of the financial gains accrued from the ideas, productivity improvements, and cost savings that stem from employee participation). Based on his extensive observation of involvement-oriented organizations, Edward E. Lawler III notes that information, knowledge, power, and rewards are four key components of an effective and sustained high involvement.<sup>67</sup> Typically, MBO systems don’t provide mechanisms through which employees share in the economic gains that may accrue to the organization as a result of their expanded role and responsibility. In light of the conditions that influence the effectiveness of MBO programs, management is challenged to provide an appropriate context for the design and maintenance of an effective MBO system.

## CONCEPT CHECK

1. What is management by objectives?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 5.8 The Control- and Involvement-Oriented Approaches to Planning and Controlling

8. Differentiate between the execution of the planning and controlling activities under control- and involvement-oriented management practices.

Planning and controlling are approached with distinctive differences under control-oriented and involvement-oriented approaches to management. In the mechanistic organization, both activities tend to be lodged with management in the organizational hierarchy, often above the point in the organization where the plans are being carried out. The hierarchy plays an active role in both the planning and controlling process, and the employee is often a passive player carrying out the planning directives and the target of the control activity.

The organic organization, with its involvement-oriented management practices, places the employee as an active player in both the planning and controlling activity. Management's role becomes one of a consultant, facilitator, enabler, philosopher, teacher, coach, and resource provider as employees take on active roles in planning and controlling and in assuming responsibility for the execution of both activities.

Upper-level managers assume responsibility for planning and controlling their units while employees assume the right and responsibility for planning and controlling at their job level. As upper-level managers carry out their planning and controlling activities, they do so by soliciting input from those below them in the organizational hierarchy.

Systems such as MBO are much more likely to characterize the planning and controlling process in involvement-oriented organizations than in control-oriented organizations. Control in high-involvement organizations is diffused through many groups and is commonly focused on task accomplishment and overcoming obstacles, with a de-emphasis on fixing blame with a particular individual for performance failures. In many control-oriented management systems, the reins of control are firmly held by the hierarchy, and the activities of individuals are carefully controlled. Performance failures, therefore, tend to become focused on the individual who fails to perform.

Finally, mechanistic organizations are more likely to create large planning departments and to centralize the planning function with specialists. As organizations confront increasing environmental or technology-induced uncertainty, rapid environmental change, and turbulence, planning and controlling move closer to the point in the organization where the plans are implemented and carried out on a day-to-day basis. In place of hierarchy-based control, organizations rely more on professional employees and groups of employees to control their own actions as they execute organizational plans.

### MANAGING CHANGE

#### *Blockchain and Managing Currency Fluctuations*

When a business goes from being local, even if local is defined as a whole country, to being a global business, a whole new set of constraints is presented and must be controlled and planned. Traditionally,

currency fluctuations can be one of the more interesting if not daunting elements of global business. Modern technology, however, has taken that challenge one step further.

The impact of currency fluctuations on profitability is discussed in economics, finance, and various accounting texts. What currency should be used to buy inventory? To sell inventory? How do puts and calls mitigate currency fluctuations? Is the added expense worth covering the potential loss? These are all questions businesses must consider when moving into a global market. When Tata Consultancy Services, India's largest software services exporter, reported first quarter results that were below expectations in the first quarter of 2017, much of the blame was laid on currency fluctuations, which accounted for 80 basis points of the drop in profitability (Alawadhi 2017).

But starting in 2009, financial transactions, including global financial transactions, became a little more complicated. Or did they? Bitcoin emerged in 2009 from an unknown source only known as Satoshi Nakamoto (The Economist Explains 2015). Built on what is called blockchain technology, Bitcoin and other cryptocurrencies (jargon for digital assets that are secured by cryptography) are a technological unknown in the future of exchange and financing. The technology behind blockchain and the resulting assets is complicated but not necessary to understand the potential effects of the technology. Effectively, Bitcoin is a "peer-to-peer electronic cash system that uses a distributed ledger to bypass central control systems for transactions" (Pepijn 2017). As peer-to-peer transactions, cryptocurrencies bypass the normal channels, such as banks and credit card processors. Theoretically, this lowers transaction costs for both the buyer and the seller. Blockchain, which can include assets beyond currency, also allows firms to raise funds directly from investors, bypassing investment bankers and venture capitalists. According to the *Financial Post*, "High levels of encryption protect the transaction by validating the parties involved and by preventing hacking, erasure or amendments" (Francis 2017).

Bitcoin uses blockchain technology to maintain a record of its currency ecosystem. The viability of blockchain technology as a thing in itself should not be confused with Bitcoin's price volatility, which has seen its price increase (and decrease) by several orders of magnitude. Shady bitcoin exchanges and a shifting regulatory landscape, a result of governments attempting to regulate the very concept of a means of exchange, have produced enormous swings up and down (Crypto Investor 2017).

But however volatile the new currencies, blockchain technology is seeing other, relatively sane applications. Isabel Cooke at Barclays has already used "distributed ledger technology," or blockchain technology, to process a trade finance transaction in the real world: "Our pilot trade brought the sign-off time from ten days to four hours. It reduced costs, added transparency, decreased risk and looked to improve the customer experience" (Why blockchain is 'difficult and exciting' 2017). With an immutable, public ledger to work from, "Creating a really clear audit trail across organisations provides real value – whether that's with land registration or trade finance. If we have a shared view of data on ledgers, we can then build business logic on top of that, and that can apply to interest rates swaps or smart contracts within the investment bank" (Crypto Investor 2017).

So are blockchains and cryptocurrencies the wave of the future or just a modern financial bubble or threat to global financial security? Some industry writers say that the decentralization and lower costs of the technology are necessary and will launch even more industries (Pepijn 2017). Even governments and central banks are looking at the potential benefits and costs savings of an electronic currency. According to investment banker Alex Tapscott, if the Bank of England replaced 30 percent of the traditional British currency with digital money, he thinks it would add 3 percent to British GDP. The expectation is that digital

currency would lower consumer prices and increase sellers' profits. And the encryption technology would prevent counterfeiting, fraud, or tampering (Francis 2017).

In a perfect world, exchanges in a global currency, such as the blockchain-based cryptocurrencies, could sidestep currency fluctuations. In the real world, however, the wild value fluctuations of cryptocurrencies mean blockchain technology has a way to go before delivering on that possibility, if it ever does.

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### Questions

1. What other applications can you see for blockchain technology? Would they reduce costs?
2. What drawbacks or potentials risks do you see in blockchain technology?
3. Do you think blockchain technology could be used to offset currency fluctuations? Would this likely increase or decrease the risk?
4. Why would governments be suspicious of cryptocurrencies and consider regulating or outlawing them? Have any governments done so to date?

## CONCEPT CHECK

1. Describe the execution of the planning and controlling activities under control- and involvement-oriented management practices.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>

# Key Terms

**action statements**

The means by which an organization moves forward to attain its goals.

**administrative plans**

Plans that work to integrate institutional-level plans with the operating plans and tie together all of the plans created for the organization's technical core.

**concurrent controls**

Controls intended to prevent deviation from a planned course of action while work is in progress.

**contingency plans**

Plans that deal with alternative courses of action.

**controlling**

Monitoring the behavior of organizational members and the effectiveness of the organization itself to determine whether organizational goals are being achieved and taking corrective action if necessary.

**cybernetic control**

Self-regulating control procedures.

**Deming cycle**

A planning model directed toward attaining continuous improvement by integrating organizational learning into the planning process (plan, do, check, act).

**domain/directional planning**

The development of a course of action that moves an organization toward one domain or direction (and, therefore, away from other domains or directions).

**goal hierarchy**

The interrelationship among an organization's job-, department-, divisional-, and organizational-level goals.

**goal planning**

Development of action statements to move toward the attainment of a specific goal.

**hybrid control system**

Control system that exercises control prior to, during, and after the performance of a work activity.

**hybrid planning**

The coupling of domain and goal planning.

**management by objectives (MBO)**

A philosophy of management, a planning and controlling technique, and an employee involvement program.

**noncybernetic control**

Control systems that operate independently from the work system that is being monitored; a monitoring system that is external to the target of control.

**official goals**

The aims of an organization that are expressed in highly abstract and general terms, generally employed for the organization's external constituents.

**operating plans**

Direction and action statements for activities in the organization's technical core.

**operational goals**

The aims of an organization that reflect management's specific intentions.

**outcome or goal statements**

End states—the targets and outcomes that managers hope to attain.

**planning**

The process by which managers establish goals and specify how these goals are to be attained.

**postaction controls**

Controls employed after a product or service is complete.

**precontrols**

Controls designed to prevent deviation from a desired plan of action before work actually begins.

**single-use plans**

Plans developed for unique situations or problems and one-time use.

**standing plans**

Rules, policies, and procedures about how to deal with issues that managers face repeatedly.

**strategic plans**

Hierarchical plans that address an organization's institutional-level needs and attempt to position it advantageously within its task environment.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



# Summary of Learning Outcomes

## 5.1 Is Planning Important

1. Understand the importance of planning and why organizations need to plan and control.

Planning is the process through which managers establish goals and detail how these goals will be attained.

## 5.2 The Planning Process

2. Outline the planning and controlling processes.

There are five major stages in the planning process. First, an organization establishes its preplanning foundation, which reviews past events and describes the current situation. In the second step, the organization sets forth goals based on the preplanning foundation. In the third step, managers forecast what is likely to happen in the organization's internal and external environments in order to develop alternative courses of action. Then, managers identify possible courses of action for meeting their objectives, evaluate each alternative, and select a course of action. Finally, planners develop the supportive plans necessary to accomplish the organization's major plan of action. Once implemented, that plan is monitored and controlled so that it meets the goals established in the second step.

## 5.3 Types of Plans

3. Identify different types of plans and control systems employed by organizations.

Managers create many types of plans based on hierarchical level, frequency of use, time frame, and organizational scope. Contingency plans to be used in case of unexpected events or wrong assumptions are critical for effective management in highly turbulent environments.

## 5.4 Goals or Outcome Statements

4. Explain the individual and organizational effects associated with goal setting and planning.

Goal development is an important part of the planning process. Goals developed for employees, for departments, and for entire organizations greatly enhance organizational effectiveness. Evidence reveals that performance is higher when organizations, as well as individuals, operate under difficult (but attainable), specific goals.

## 5.5 Formal Organizational Planning in Practice

5. Understand how planning occurs in today's organizations.

Plans reduce uncertainty and risk, focus attention on goals, and enhance understanding of the external environment. Although most major organizations engage in formal planning, many managers fail to plan appropriately. Lack of time, uncertainty about the future, and fear of failure are among the reasons given by managers for their failure to plan.

## 5.6 Employees' Responses to Planning

6. Discuss the impact that control has on organizational members.

The primary purposes of the controlling function are to monitor the extent to which an organization's plans are being followed and their effectiveness and to identify when and where it is necessary to take corrective action. To accomplish these ambitious tasks, managers construct control systems that touch most aspects of an organization's functional areas, its relationship with the external and internal environments, and its relationships across different hierarchical levels.

The control process consists of four steps. In Steps 1 and 2, managers create standards and monitor ongoing organizational behavior. In Step 3, they examine the degree to which ongoing activity is consistent with their goals and means objectives and the relationship between the two. In Step 4, managers develop prescriptions to correct problems, to maintain strengths, and to provide feedback to an organization's planners.

Whereas all control systems have the same general purposes, they differ in their specifics. Some are self-managing cybernetic systems; noncybernetic systems require regular external supervision to be effective. Other variations in control systems include the point at which control activities are applied: before the work has begun (precontrols), while work is in progress (concurrent controls), and after work has been completed (postaction controls). A hybrid control system engages a variety of control activities at many points in time.

Although there are variations in control systems, all good systems have characteristics that enable them to work well in a given organization. Managers evaluating a control system might thus gauge its adequacy in providing accurate, timely, objective information to appropriate people in the organization. They also should examine whether the system focuses on the most critical aspects of their organization's conditions in a feasible, flexible manner that will be accepted by organizational members. Because of the importance of the information it provides, a good control system should also be integrated with planning activities.

Any control system can produce both positive and negative effects. If it is well designed, a control system provides needed structure and feedback and facilitates the development and execution of effective goal-setting programs. The result can be a satisfied, motivated, and productive workforce. Inappropriate control systems, however, can cause frustration, dissatisfaction, and poor performance. Being aware of a control system's potential effects on organization members helps managers capitalize on its positive aspects, reduce the impact of negative effects, and promote workers' acceptance of the system.

The effort to maintain control is not restricted to managers. All employees have a need for personal control, a need that sometimes conflicts with their organization's need to maintain control. To achieve effectiveness, managers must balance the control needs of both the organization and its members.

## 5.7 Management by Objectives: A Planning and Control Technique

7. Describe management by objectives as a philosophy and as a management tool/technique; describe its effects.

Management by objectives (MBO), with its emphasis on goal setting, participation, and feedback, frequently contributes to increased employee goal commitment, motivation, and performance. If performance matches the employee's aspirations, job satisfaction is likely to be an important by-product of the organization's planning and controlling activities.

## 5.8 The Control- and Involvement-Oriented Approaches to Planning and Controlling

8. Differentiate between the execution of the planning and controlling activities under control- and involvement-oriented management practices.

Planning and controlling are approached with distinctive differences under control-oriented and involvement-oriented approaches to management. In the mechanistic organization, both activities tend to be lodged with management in the organizational hierarchy, often above the point in the organization where the plans are being carried out. The hierarchy plays an active role in both the planning and controlling process, and the employee is often a passive player carrying out the planning directives and the target of the control activity.

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# Chapter Review Questions

1. Define managerial planning and controlling.
2. Discuss the relationship between the two managerial functions of planning and controlling.
3. Identify and briefly describe each stage in the planning and controlling processes.
4. There are five types of plans discussed in this chapter, compare and contrast three of these.
5. What are multiple goals? What is a goal hierarchy? How are these concepts related?
6. Briefly describe the two views of the goal formulation process, and explain how they differ.
7. Describe the MBO process, the philosophy behind it, and its relationship with performance.
8. Distinguish between cybernetic and non-cybernetic control and between pre, concurrent, and postaction control systems.
9. Identify and discuss three positive and three negative effects often associated with control systems.
10. How does the desire for personal control affect managers, and how can they balance it with organizational control systems?

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# Management Skills Application Exercises

1. Use the tools described in this chapter to write a plan that will help you set goals, plans on how to achieve them (e.g., achieve an A average in all of my core concentration courses and A- in all courses I am taking). Also account for personal time and other activities you are involved in and goals that you have for these, such as keeping physically fit, etc.
2. You are managing a small manufacturing operation that involved the final assembly of Children sippy cups. There are two components to the sippy cup: the cup, a lid, and a straw as well as the box that will hold the product. You have 2 direct reports who you can assign to assemble the product. You also have a dotted-line report with the purchasing agent for the company that procures the components of the product (a dotted-line report is where one employee must work for and report to more than one manager) as well as the boxes and material needed (e.g., plastic that is used on the shrink-wrapping machine) to complete the product for sale. You have been given the following metrics.
  - a. You have been given a goal of producing 2,300 units per week.
  - b. It takes 1 minute to assemble the sippy cup.
  - c. It takes 45 seconds to place the sippy cup in the box and shrink-wrap the product.
  - d. It takes 15 seconds to examine the product for meeting quality, and you expect that 99.5% of the products will meet or exceed expectations.
  - e. The employees work for 8 hours per day.

Write up a plan that has achievable goals for your two direct reports and your dotted-line report. Also prepare a memo to your supervisor about how you plan on achieving your goal.

3. You and another student will engage in a role-play exercise. One will be the manager, and one will be an employee who is not happy with the aggressive goals that he has been given. After a 10-minute discussion, you both report on what was resolved, what was not, and how this would affect job satisfaction and performance for the employee.

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# Managerial Decision Exercises

1. You are a manager, and your direct report is complaining about not being involved in the planning process. How do you respond?
2. You are a sales manager and have reviewed the monthly sales goals and conclude that the targets can't be achieved without additional hires or paying employees overtime to secure additional orders. Also, you think that the product could have an 8% price increase without hindering sales units. You review the operational plans and want to provide an alteration of the plans to your boss. What should you do to plan that discussion?

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# Critical Thinking Case

## *How Do Amazon, UPS, and FedEx Manage Peak Seasons?*

Typically, the day after Thanksgiving (Black Friday) marks the beginning of the holiday shopping season in the United States. Holiday sales, typically defined as sales occurring in November and December, account for roughly 30 percent of annual sales for U.S. retailers (Holiday Forecasts and Historical Sales 2015). For 2016, total online sales from November 10 to December 31 amounted to 91.7 billion dollars. And the top retailers for this period were eBay, Amazon, Walmart, and Target (Tasker 2016). The growth in online sales appears inevitable, but how do the top shippers, UPS and FedEx, manage the sudden upsurge?

Not always so well. In 2013, both FedEx and UPS underestimated holiday demand, and with bad weather conditions as well, struggled to deliver packages as promised. Since then, both carriers have worked hard to keep adequate resources available to handle the end-of-year upsurge. But in 2014, UPS overcompensated and had too much capacity, once again damaging profitability (Livengood 2017).

Matching retailer expectations to reality is a challenge, and not just for the shipping companies. Although retailers would prefer to know how much to expect in sales, forecasts will be inaccurate, sometimes wildly so. In preparing its forecast for the 2017 peak season, Logistics Management examined economic factors, such as GDP, job growth, retail sales, and inventory levels. It also looked at imports. An informal survey of logistical professionals found that 93.5 percent expect the 2017 season to be the same as 2016 (35.5 percent) or more active (58 percent) (Berman 2017).

In June 2017, UPS announced that it would be adding a surcharge to some peak season rates. According to the UPS website, “During the 2016 holiday season, the company’s average daily volume exceeded 30 million packages on more than half of the available shipping days. In contrast, on an average nonpeak day, the company ships more than 19 million packages” (UPS Establishes New Peak Shipping Charge 2017). The rate for the 2017 peak season would apply to select services and to oversize shipments, primarily (UPS Establishes New Peak Shipping Charge 2017). Analysts see the surcharge as a signal that UPS is the rate setter in parcel delivery. Such an assessment is not surprising given that the increase in parcel delivery as an outcome of increased e-commerce is seen as a core driver of earnings for UPS (Franck 2017).

Second-ranked FedEx, in contrast, announced that it would not follow suit but instead would “forgo most holiday surcharges on home deliveries this year” (Schlangensteen 2017). The surcharges levied by UPS are aimed primarily at small shippers, not the larger contract shippers. By not adding a seasonal surcharge, FedEx might hope to capture sales from individuals and small businesses that are deterred by the UPS surcharge (Schlangensteen 2017).

Kevin Sterling, a Seaport Global Holdings analyst, believes that FedEx has the existing capacity to absorb additional ground shipments. “[FedEx is] going to let UPS be Scrooge at Christmas” (Schlangensteen 2017). UPS already has a contract with Amazon, the de facto behemoth of online shopping, for normal shipping, leaving room for FedEx to pick up the slack during the holiday rush (Schlangensteen 2017).

In contrast, UPS reports that the additional charge is needed to offset the costs of additional resources necessary to achieve expected upsurges in capacity. UPS spokesperson Glenn Zaccara commented, “UPS’s peak season pricing positions the company to be appropriately compensated for the high value we provide at a time when the company must double daily delivery volume for six to seven consecutive weeks to meet customer demands” (Schlangensteen 2017).

With or without surcharges, price structures at both companies strive to discourage shipment of heavy, odd-sized, or oversized packages because such packages won’t flow through either company’s sorting systems and require special handling. All the same, FedEx has seen a 240 percent increase in such shipments over the last 10 years, which make up roughly 10 percent of all packages shipped using its ground services. And although FedEx is not adding a holiday surcharge, per se, it has added charges for packages that require extra handling, particularly shipments between November 20 through December 24 (Schlangensteen 2017).

Critical Thinking Questions:

1. What do you think are some of the difficulties of adding 25 percent more employees for the holiday season? What kind of planning do you think would be needed?
2. China effectively shuts down for two weeks each year and celebrates the lunar new year. How does that resemble (or not) peak season in Western countries?
3. The case focuses on U.S. markets. How are European markets affected by holiday shopping?
4. Have your own shopping habits changed with the ease of online shopping? If so, how? Do you expect them to change when you graduate and have more disposable income?

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# 6 - STRATEGY

## Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. What is strategic analysis and why do firms need to analyze their competitive environment?
2. What is a SWOT analysis and what can it reveal about a firm?
3. What makes up a firm's external macro environment, and what tools do strategists use to understand it?
4. What makes up a firm's external micro environment, and what tools do strategists use to understand it?
5. How and why do managers conduct an internal analysis of their firms?
6. What does it mean to compete with other firms in a business environment, what does it mean when a firm has a competitive advantage over its rivals, and what generic strategies can a firm implement to gain advantage over its rivals?
7. What elements go into determining a firm's strategic position?

## EXPLORING MANAGERIAL CAREERS

*Lauri Goodman Lampson, Planning Design Research Corporation*

Lauri Goodman Lampson is president and CEO of Planning Design Research Corporation,<sup>1</sup> a firm that analyzes work environments to understand how employees work and what kind of spaces and facilities they need to do their best, most productive work. Lampson was hired by Accenture, a consulting firm, to evaluate and improve its location in Houston. Accenture's Houston office was a three-story, 66,000-square-foot building that served 800 employees.<sup>2</sup> Accenture employees are consultants themselves, and they typically spend up to two-thirds of their working time away from the office serving clients.

Lampson worked with Accenture director of workplaces Dan Johnson and Steelcase, an office furniture manufacturer, to study how Accenture was using its Houston space. Lampson's "focus is on gaining a deep understanding of the business and its strategy for success and then developing strategic workplace solutions that enable those goals."<sup>3</sup> To achieve this outcome, Lampson and Steelcase analyzed employee demographics and expectations and studied how employees actually interacted with each other and performed tasks in the workplace. Accenture wanted to have a workspace that fostered its corporate goals of: worker innovation, collaboration, and flexibility.<sup>4</sup>

Understanding a firm's strengths is an important step in strategic analysis, and Lampson's focus on supporting those strengths in the workplace environment led to Workplace 2.0, Accenture's reimagined facility. Not only does the new workspace provide better physical and technological support for collaboration among Accenture employees, but Lampson and Steelcase were able to identify opportunities

for Accenture to significantly reduce the size of its offices. Accenture saves money by using less space (it was able to downsize to a single floor of 25,000 square feet to serve the same number of workers) and supports worker interaction and engagement by providing a more effective workspace. You can watch a video of this transformation here: <https://www.youtube.com/watch?v=y4oIIY3HJfo>

## 6.1 Gaining Advantages by Understanding the Competitive Environment

1. What is strategic analysis, and why do firms need to analyze their competitive environment?

Strategic analysis is the process that firms use to study and understand the many different layers and aspects of their competitive environment. Why do firms spend time and money trying to understand what is going on around them? Firms do not operate in a vacuum. They are impacted by forces and factors from inside their organizations and outside in the world at large. Understanding these forces and factors is crucial to achieving success as a business. For example, the growth in the Spanish-speaking population in the United States has led many firms to change the signage in their stores and labels on their products to include Spanish, in order to make their stores easier to shop in and their products easier to identify for this growing market. The external environment is continually changing, and the most successful firms are able to prepare for and adapt to environmental changes because they have done their homework and understand how external forces impact their operations.

To react to change more easily and develop products consumers want, managers and consultants engage in environmental scanning—the systematic and intentional analysis of both a firm’s internal state and its external, competitive environment. From a local coffee shop to an international corporation, firms of all sizes benefit from strategic analysis. Let’s examine some important strategic factors in more detail.

### The Competitive Environment

A firm’s competitive environment includes components inside the firm and outside the firm. External factors are things in the global environment that may impact a firm’s operations or success, examples are a rise in interest rates, or a natural disaster. External factors cannot be controlled, but they must be managed effectively and to understand them so that the firm can be as successful. For example, the unemployment rate will affect a firm’s ability to hire qualified employees at a reasonable rate of pay. If unemployment is high, meaning that a lot of people are looking for jobs, then a firm will probably have a lot of applicants for any positions it needs to fill. It will be able to choose more highly qualified applicants to hire and may be able to hire them at a lower pay rate because the employee would rather work for a lower pay rate than not have a job at all. On the other hand, when unemployment is low, meaning that not many people are looking for jobs, firms may have to offer higher pay or settle for lower qualifications to find someone to fill a position.

Internal factors are characteristics of the firm itself. To plan to compete against other firms, a firm needs to understand what physical, financial, and human resources it has, what it is good at, and how it is organized. For example, Walmart has a sophisticated IT system that tracks inventory and automatically orders products before they run out, by calculating how long it will take for the new product to arrive and comparing that to the rate at which the product is selling off the shelves. The system orders new product so that it will arrive just as the product on the shelves is running out, so that Walmart stores do not need to have storage space for inventory. All Walmart inventory is on the store shelves, ready to be sold to customers. How does this system benefit Walmart? It does not have to spend money on storing or keeping track of inventory, all products in the store can generate revenue because they are available for customers to buy, and when the system is working optimally, the store never runs out of items customers want.

## CONCEPT CHECK

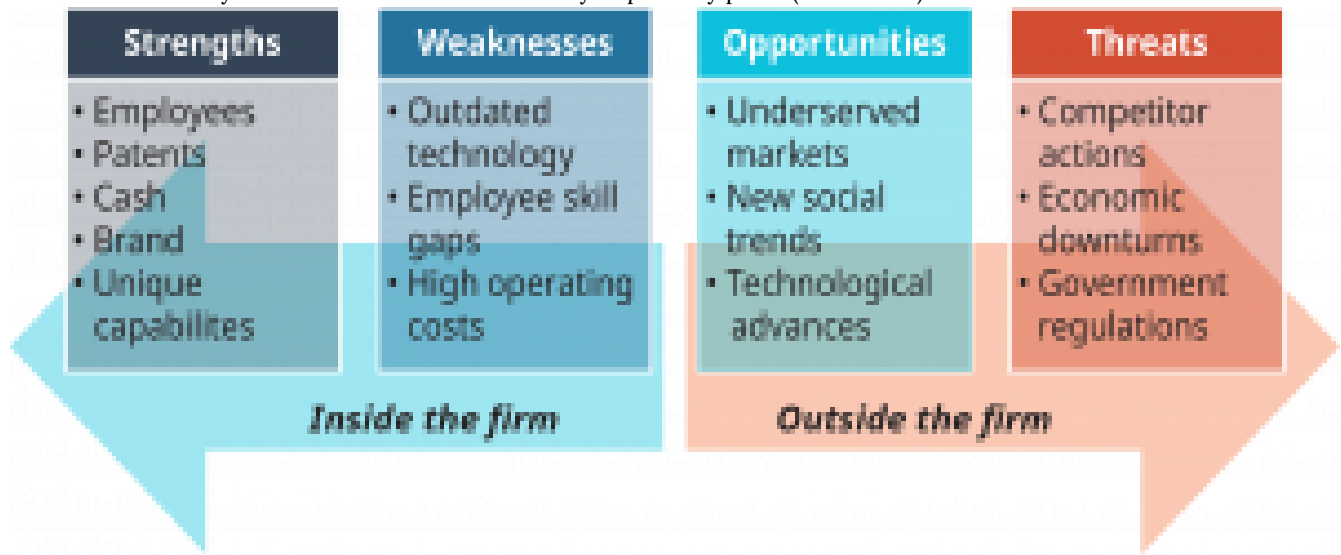
1. Why do managers use strategic analysis?
2. How are internal factors different from external factors in a firm's competitive environment?

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## 6.2 Using SWOT for Strategic Analysis

### 2. What is a SWOT analysis, and what can it reveal about a firm?

You may already have heard of one very common tool firms use to analyze their strategic and competitive situations: SWOT, which is an acronym for **s**trengths, **w**eaknesses, **o**pportunities, and **t**hreats. Firms use SWOT analysis to get a general understanding of what they are good or bad at and what factors outside their doors might present chances for success or difficulty. Let's take a look at SWOT analysis piece by piece (**Exhibit 6.1**).



**Exhibit 6.1** The Components of SWOT (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

### Strengths

A firm's strengths are, to put it simply, what it is good at. Nike is good at marketing sports products, McDonald's is good at making food quickly and inexpensively, and Ferrari is good at making beautiful fast cars. When a firm analyzes its strengths, it compiles a list of its capabilities and assets. Does the firm have a lot of cash available? That is a strength. Does the firm have highly skilled employees? Another strength. Knowing exactly what it is good at allows a firm to make plans that exploit those strengths. Nike can plan to expand its business by making products for a sport it doesn't currently serve. Its sports marketing expertise will help it successfully launch that new product line.

### Weaknesses

A firm's weaknesses are what it is not good at—things that it does not have the capabilities to perform well. Weaknesses are not necessarily faults—remember that not all firms can be great at all things. When a firm understands its weaknesses, it will avoid trying to do things it does not have the skills or assets to succeed in, or it will find ways to improve its weaknesses before undertaking something new. A firm's weaknesses are simply gaps in capabilities, and those gaps do not always have to be filled within the firm.

SWOT analysis alerts firms to the gaps in their capabilities so they can work around them, find help in those areas, or develop capabilities to fill the gaps. For example, Paychex is a firm that handles payroll for over 600,000 firms.<sup>5</sup> Paychex

processes hours, pay rates, tax and benefits deductions, and direct deposit for firms that would rather not have to perform those tasks themselves. A large firm would need to have a team of employees dedicated to fulfilling that task and equip that team with software systems to do the job efficiently and accurately. For Paychex, these capabilities are a company strength—that's what it does. Other companies that do not have the resources to develop this capability or may not be interested in doing so can hire Paychex to do the job for them.

## Opportunities

While strengths and weaknesses are internal to an organization, but opportunities and threats are always external. An opportunity is a potential situation that a firm is equipped to take advantage of. Think of opportunities in terms of things that happen in the market. Opportunities offer positive potential, however sometimes a firm is not equipped to take advantage of an opportunity which is why considering the entire SWOT is important before deciding what to do. For example, as cities are becoming more populated, parking is becoming scarcer. Younger consumers who live in cities are starting to question whether it makes sense to own a car at all, when public transportation is available and parking is not. Sometimes, however, a person might need a car to travel outside the city or transport a special purchase. Daimler, the manufacturer of Mercedes-Benz and Smart cars, started a car-sharing service in Europe, North America, and China called Car2Go to offer cars to this new market of part-time drivers. By establishing Car2Go, Daimler has found a way to sell the use of its products to people who would not buy them outright.

## Threats

When a manager assesses the external competitive environment, they label anything that would make it harder for their firm to be successful as a threat. A wide variety of situations and scenarios can threaten a firm's chances of success, from a downturn in the economy to a competitor launching a better version of a product the firm also offers. A good threat assessment looks thoroughly at the external environment and identifies threats to the firm's business so it can be prepared to meet them. Opportunities and threats can also be a matter of perspective or interpretation: the Car2Go service that Daimler developed to serve young urban customers who don't own cars could also be cast as a defensive response to the trend away from car ownership in this customer group. Daimler could have identified decreasing sales among young urban professionals as a threat and developed Car2Go as an alternative way to gain revenue from these otherwise lost customers.

## The Limitations of SWOT Analysis

Although a SWOT analysis can identify important factors and situations that affect a firm, it only works as well as the person doing the analysis. SWOT can generate a good evaluation of the firm's internal and external environments, but it is more likely to overlook key issues because it is difficult to identify or imagine everything that could, for example, be a threat to the firm. That's why the remainder of this chapter will present tools for developing a strategic analysis that is more thorough and systematic in examining both the internal and external environments that firms operate in.

## CONCEPT CHECK

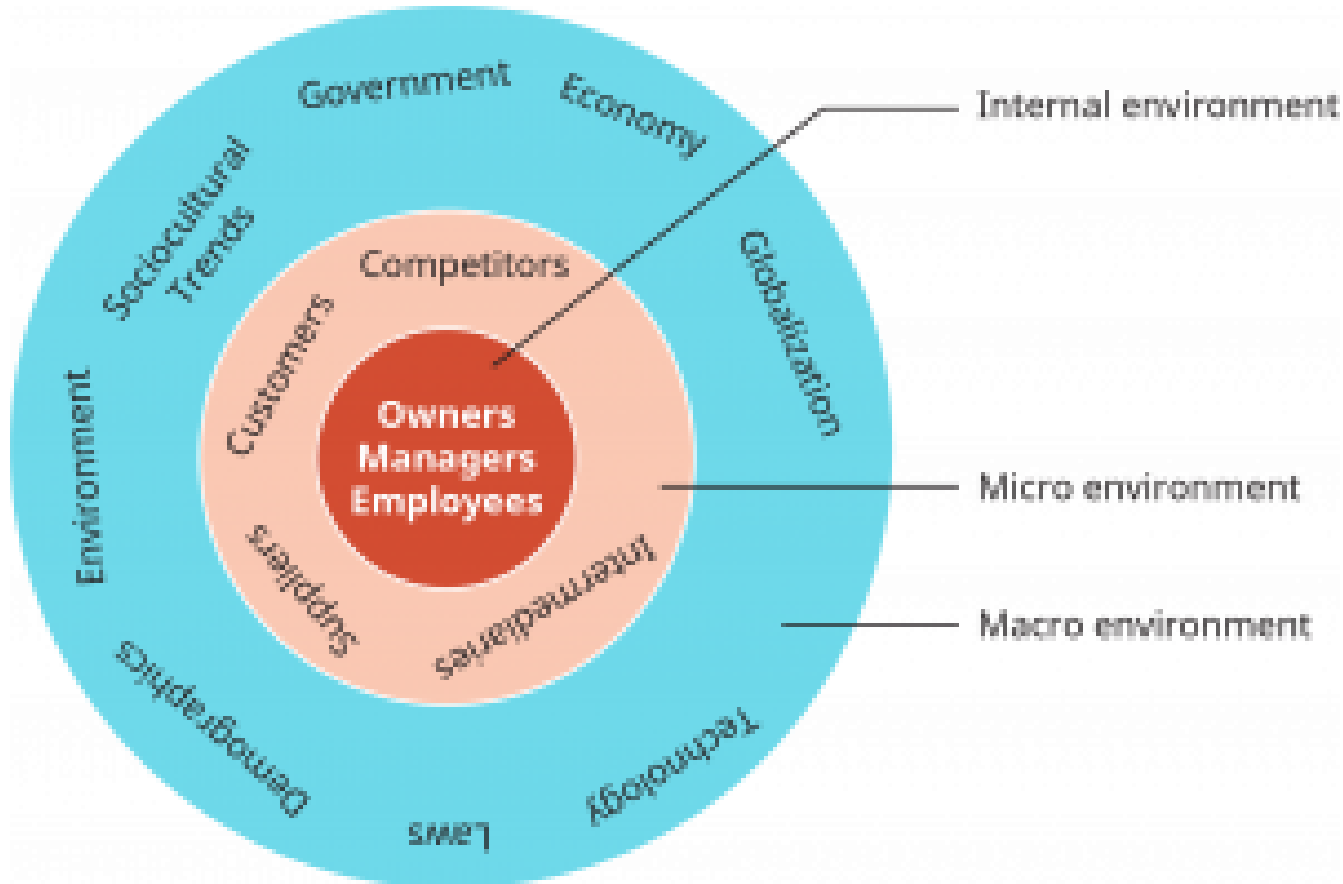
1. Explain the elements of a SWOT analysis.
2. What information does a SWOT analysis provide managers? What information might it miss?

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## 6.3 A Firm's External Macro Environment: PESTEL

### 3. What makes up a firm's external macro environment, and what tools do strategists use to understand it?

The world at large forms the external environment for businesses. A firm must confront, adapt to, take advantage of, and defend itself against what is happening in the world around it to succeed. To make gathering and interpreting information about the external environment easier, strategic analysts have defined several general categories of activities and groups that managers should examine and understand. **Exhibit 6.2** illustrates layers and categories found in a firm's environment.



**Exhibit 6.2 Components of a Firm's Environment**(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

A firm's macro environment contains elements that can impact the firm but are generally beyond its direct control. These elements are characteristics of the world at large and are factors that all businesses must contend with, regardless of the industry they are in or type of business they are. In the **Exhibit 6.2**, the macro environment is indicated in blue. Note that the terms contained in the blue ring are all “big-picture” items that exist independently of business activities. That is not to say that they do not affect firms or that firm activities cannot affect macro environmental elements; both can and do happen, but firms are largely unable to directly change things in the macro environment.

Strategists study the macro environment to learn about facts and trends that may present opportunities or threats to their firms. However, they do not usually just think in terms of SWOT. Strategists have developed more discerning tools to examine the external environment.



## PESTEL

PESTEL is a tool that reminds managers to look at several distinct categories in the macro environment. Like SWOT, PESTEL is an acronym. In this case, the letters represent the categories to examine: **p**olitical factors, **e**conomic factors, **s**ociocultural factors, **t**echnological factors, **e**nvironmental factors, and **l**egal factors. When using PESTEL to analyze a specific firm's situation, overlap between different categories of PESTEL factors can sometimes happen just as it can with SWOT.

Remember our earlier example: When urban millennials decide that car ownership is no longer attractive, car manufacturers' sales are threatened. However, those same manufacturers might be able to adapt their sales methods to offer millennials car-sharing services, taking advantage of the opportunity to earn revenue from millennials who want access to cars for vacations or big shopping trips. PESTEL can also reveal multiple impacts from a single element in the external environment. For example, decreasing interest in car ownership among urban millennials would be a sociocultural trend. However, the technological connectedness of those same urban millennials is exactly what makes it possible for ride-sharing services such as Uber and Lyft to thrive: their services are app based and provide convenience both by connecting drivers and passengers quickly and by making transactions cashless.

**Exhibit 6.3** illustrates the components of PESTEL, which will be discussed individually below.

<b>Political Factors</b>	• Tax rates, tariffs, trade agreements, labor and environmental regulations
<b>Economic Factors</b>	• Employment levels, interest rates, exchange rates
<b>Sociocultural Factors</b>	• Demographic trends, consumer preferences, market diversity
<b>Technological Factors</b>	• The internet, smartphones, connectivity, automation
<b>Environmental Factors</b>	• Resource scarcity, recycling, alternative energy sources
<b>Legal Factors</b>	• Contracts, laws, intellectual property rights

**Exhibit 6.3 The PESTEL Model for External Environmental Analysis** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

### *Political Factors*

Political factors in the macro environment include taxation, tariffs, trade agreements, labor regulations, and

environmental regulations. Note that in PESTEL, factors are not characterized as opportunities or threats. They are simply things that a firm can take advantage of or treat as problems, depending on its own interpretation or abilities. American Electric Power, a large company that generates and distributes electricity, may be negatively impacted by environmental regulations that restrict its ability to use coal to generate electricity because of pollution caused by burning coal. However, another energy firm has taken advantage of the government's interest in reducing coal emissions by developing a way to capture the emissions while producing power. The Petra Nova plant, near Houston, was developed by NRG and JX Nippon, who received Energy Department grants to help fund the project.<sup>6</sup> Although firms do not directly make government policy decisions, many industries and firms invest in lobbying efforts to try to influence government policy development to create opportunities or reduce threats.

### *Economic Factors*

All firms are impacted by the state of the national and global economies. The increased interdependence of individual country economies has made evaluating the economic factors in a firm's macro environment more complex. Firms analyze economic indicators to make decisions about entering or exiting geographic markets, investing in expansion, and hiring or laying off employees. As discussed earlier in this chapter, employment rates impact the quantity, quality, and cost of employees available to firms. Interest rates impact sales of big-ticket items that consumers normally finance, such as appliances, cars, and homes. Interest rates also impact the cost of capital for firms that want to invest in expansion. Exchange rates present risks and opportunities to all firms that operate across national borders, and the price of oil impacts many industries, from airlines and transportation companies to solar panel producers and plastic recycling companies. Once again, any scenario can be a threat to one firm and an opportunity to another, so economic forces should not be assumed to be intrinsically good or bad.

### *Sociocultural Factors*

Quite possibly the largest category of macro environmental factors an analyst might examine are sociocultural factors. This broad category encompasses everything from changing national demographics to fashion trends and many things in between. Demographics, a subset of this category, includes facts about income, education levels, age groups, and the ethnic and racial composition of a population. All of these facts present market challenges and possibilities. Firms can target products to specific market segments by studying the needs and preferences of demographic groups, such as working women (they might need day-care services but not watch daytime television), college students (who would be interested in affordable textbooks but couldn't afford to buy new cars), or the elderly (who would be willing to pay for lawn-mowing services but might not be interested in adventure tourism).

Changes in people's values and interests are also included in this category. Environmental awareness has spurred demand for solar panels and electric and hybrid cars. A general interest in health and fitness has created industries in gyms, home gym equipment, and organic food. The popularity of social media has created an enormous demand for instant access to information and services, not to mention smartphones. Values and interests are constantly changing and vary from country to country, creating new market opportunities as well as communication challenges for companies trying to enter unfamiliar new markets.

### *Technological Factors*

The rise of the Internet may be the most disruptive technological change of the last century. The globe has become more interconnected and interdependent because of the fast, low-cost communications the Internet provides. Customer

service agents in India can serve customers in Kansas because technology has advanced to the point that the customer's account information can be instantly accessed by the service provider in India. Entrepreneurs around the world can reach customers anywhere through companies such as eBay, Alibaba, and Etsy, and they can get paid, regardless of their customers' currency, through PayPal. The Internet has enabled Jeff Bezos, who started an online bookselling company called Amazon in 1994, to transform how consumers shop for goods.

How else have technological factors impacted business? The Internet is not the only technological advance that has transformed how businesses operate. Automation has increased efficiency for manufacturers. MRP (materials requirement planning) systems have changed how companies and their suppliers work together, and global-positioning technology has helped construction engineers manage large projects more accurately. Consumers and firms have nearly unlimited access to information, and this access has empowered consumers to make more-informed buying decisions and challenged firms to develop ways to analyze the large amounts of data their businesses generate.

### *Environmental Factors*

The physical environment, which provides natural resources for manufacturing and energy production, has always been a key part of human business activity. As resources become scarcer and more expensive, environmental factors impact businesses more every day. Firms are developing technology to operate more cleanly and using fewer resources. Political pressure on businesses to reduce their impact on the natural environment has increased globally and dramatically in the 21st century. In 2017, London, Barcelona, and Paris announced their plans to ban cars with internal combustion engines over the next few decades, in order to combat air-quality issues.<sup>7</sup>

This external environment category often overlaps with others in PESTEL because concern for the environment is also a sociocultural trend, as more consumers look for recycled products and buy electric and hybrid cars. On the political front, firms are facing increased regulation around the world on their carbon emissions and natural resource use. Although SWOT would characterize these factors as either opportunities or threats, PESTEL simply identifies them as aspects of the external environment that firms must consider when planning for their futures.

### *Legal Factors*

Legal factors in the external environment often coincide with political factors because laws are enacted by government entities. This does not mean that the categories identify the same issues, however. Although labor laws and environmental regulations have deep political connections, other legal factors can impact business success. For example, in the streaming video industry, licensing fees are a significant cost for firms. Netflix pays billions of dollars every year to movie and television studios for the right to broadcast their content. In addition to the legal requirement to pay the studios, Netflix must consider that consumers may find illegal ways to view the movies they want to see, making them less willing to pay to subscribe to Netflix. Intellectual property rights and patents are major issues in the legal realm.

Note that some external factors are difficult to categorize in PESTEL. For instance tariffs can be viewed as either a political or economic factor while the influence of the internet could be viewed as either a technological or social factor. While some issues can overlap two or more PESTEL areas, it does not diminish the value of PESTEL as an analytical tool,

## CONCEPT CHECK

1. Describe a firm's macro environment.
2. What does PESTEL stand for? How do managers use PESTEL to understand their firm's macro environment?

## ETHICS IN PRACTICE

### *Sustainability and Responsible Management: Can LEGO Give up Plastic?*

“In 2012, the LEGO Group first shared its ambition to find and implement sustainable alternatives to the current raw materials used to manufacture LEGO products by 2030. The ambition is part of the LEGO Group's work to reduce its environmental footprint and leave a positive impact on the planet our children will inherit.”<sup>8</sup>

Danish toy company LEGO announced in 2015 that it would invest almost \$160 million dollars into its efforts to meet the goal it announced in 2012. You know LEGO—they are the colored plastic bricks that snap together to make toys ranging from Harry Potter castles to Star Wars fighter craft. The family-owned company was founded in 1932 by Ole Kirk Christiansen and has since grown to be the world's number one toy brand.<sup>9</sup>

Given that LEGO and plastic seem to go hand in hand, why would the company want to give up on the material that makes their toys so successful? LEGO's manufacturing process relies on plastic to make highly precise plastic bricks that always fit together securely and easily. Replacing the plastic with another material that is durable, can be brightly colored, and can be molded as precisely is a difficult task. LEGO's leadership has decided that a strategic position based on fossil fuels is not sustainable and is making plans now to transition to a more environmentally friendly material to manufacture its products.

Switching from oil-based plastic might make economic sense as well. Manufacturers who rely on petroleum-based products must weather volatile oil prices. LEGO's raw materials costs could skyrocket overnight if the price of oil climbs again as it did in 2011. That price spike was due to conflict in Libya and other parts of the Arab world,<sup>10</sup> something entirely beyond the control of any business.

Technological innovations in bio-based plastics may be the answer for LEGO,<sup>11</sup> which is working with university researchers around the globe to find a solution to its carbon-footprint problem.

Sources: Trangbæk, Roar Rude (2016). “LEGO Group to invest 1 Billion DKK Boosting Search for Sustainable Materials.” <https://www.lego.com/en-us/aboutus/news-room/2015/june/sustainable-materials-centre>. Accessed July 29, 2017; Brand Finance (2017). “Toys 25 2016.” [http://brandfinance.com/images/upload/brand\\_finance\\_toys\\_25\\_2017\\_report\\_locked.pdf](http://brandfinance.com/images/upload/brand_finance_toys_25_2017_report_locked.pdf) Accessed July 29, 2017; Holodny, Elena (2016). TIMELINE: The tumultuous 155-year history of oil prices. *Business Insider*. <http://www.businessinsider.com/timeline-155-year-history-of-oil-prices-2016-12> Accessed July 29, 2017; and Peters, Adele (2015). “Why LEGO is Spending Millions to Ditch Oil-Based Plastic.” *Fast Company*. <https://www.fastcompany.com/3048017/why-lego-is-spending-millions-to-ditch-oil-based-plastic> Accessed July 29, 2017.

#### Critical Thinking Questions

1. How would you approach this issue if you were the manager in charge of sourcing raw materials for LEGO? How would PESTEL analysis inform your actions?
2. What PESTEL challenges is LEGO trying to address by changing the raw materials used in its products?
3. Explain what favorable PESTEL factors support LEGO’s efforts.

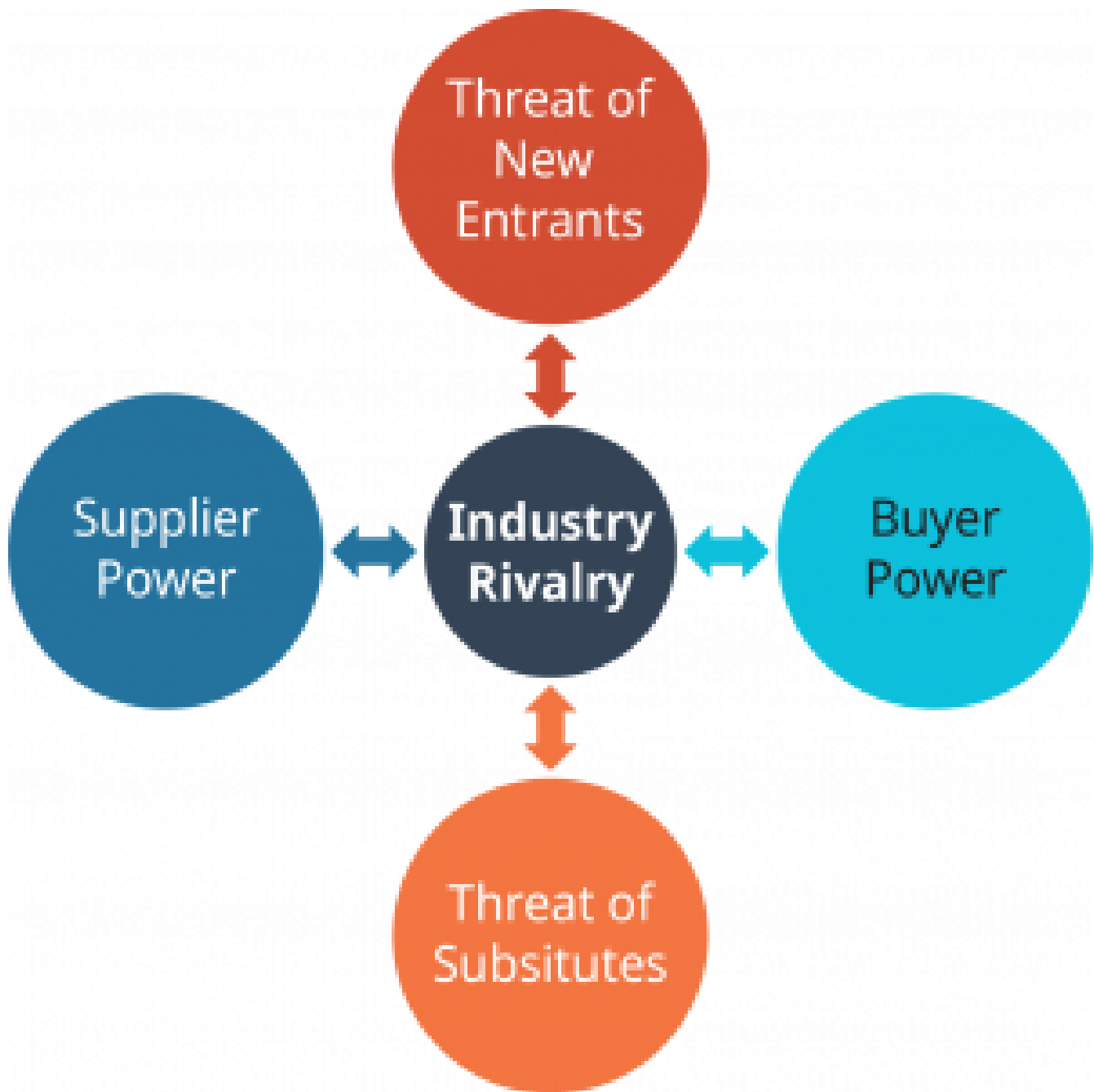
Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 6.4 A Firm's Micro Environment: Porter's Five Forces

### 4. What makes up a firm's external micro environment, and what tools do strategists use to understand it?

A firm's micro environment is illustrated in the green circle in **Exhibit 6.2**. These entities are all directly connected to the firm in some way, and firms must understand the micro environment in order to successfully compete in an industry. All firms are part of an industry—a group of firms all making similar products or offering similar services, for example automobile manufacturers or airlines. Firms in an industry may or may not compete directly against one another, as we'll discuss shortly, but they all face similar situations in terms of customer interests, supplier relations, and industry growth or decline.

Harvard strategy professor Michael Porter developed an analysis tool to evaluate a firm's micro environment. Porter's Five Forces is a tool used to examine different micro-environmental groups in order to understand the impact each group has on a firm in an industry (**Exhibit 6.4**). Each of the forces represents an aspect of competition that affects a firm's potential to be successful in its industry. It is important to note that this tool is different than Porter's generic strategy typology that we will discuss later.



**Exhibit 6.4 Porter's Five Forces Model of Industry Competition** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## Industry Rivalry

Industry rivalry, the first of Porter's forces, is in the center of the diagram. Note that the arrows in the diagram show two-way relationships between rivalry and all of the other forces. This is because each force can affect how hard firms in an industry must compete against each other to gain customers, establish favorable supplier relationships, and defend themselves against new firms entering the industry.

When using Porter's model, an analyst will determine if each force has a strong or weak impact on industry firms. In

the case of rivalry, the question of strength focuses on how hard firms must fight against industry rivals (competitors) to gain customers and market share. Strong rivalry in an industry reduces the profit potential for all firms because consumers have many firms from which to purchase products or services and can make at least part of their purchasing decisions based on prices. An industry with weak rivalry will have few firms, meaning that there are enough customers for everyone, or will have firms that have each staked out a unique position in the industry, meaning that customers will be more loyal to the firm that best meets their particular needs.

## The Threat of New Entrants

In an industry, there are incumbent (existing) firms that compete against each other as rivals. If an industry has a growing market or is very profitable, however, it may attract new entrants. These either are firms that start up in the industry as new companies or are firms from another industry that expand their capabilities or target markets to compete in an industry that is new to them.

Different industries may be easier or harder to enter depending on barriers to entry, factors that prevent new firms from successfully competing in the industry. Common barriers to entry include cost, brand loyalty, and industry growth. For example, the firms in the airline industry rarely face threats from new entrants because it is very expensive to obtain the equipment, airport landing rights, and expertise to start up a new airline.

Brand loyalty can also keep new firms from entering an industry, because customers who are familiar with a strong brand name may be unwilling to try a new, unknown brand. Industry growth can increase or decrease the chances a new entrant will succeed. In an industry with low growth, new customers are scarce, and a firm can only gain market share by attracting customers of other firms. Think of all the ads you see and hear from competing cell phone providers. Cell phone companies are facing lower industry growth and must offer consumers incentives to switch from another provider. On the other hand, high-growth industries have an increasing number of customers, and new firms can successfully appeal to new customers by offering them something existing firms do not offer. It is important to note that barriers to entry are not always external, firms often lobby politicians for regulations that can be a barrier to entry. These types of barriers will be covered in greater depth in more upper level courses.

## Threat of Substitutes

In the context of Porter's model, a substitute is any other product or service that can satisfy the same need for a customer as an industry's offerings. Be careful not to confuse substitutes with rivals. Rivals offer similar products or services and directly compete with one another. Substitutes are completely different products or services that consumers would be willing to use instead of the product they currently use. For example, the fast food industry offers quickly prepared, convenient, low-cost meals. Customers can go to McDonald's, Wendy's, Burger King, or Taco Bell—all of these firms compete against each other for business. However, their customers are really just hungry people. What else could you do if you were hungry? You could go to the grocery store and buy food to prepare at home. McDonald's does not directly compete against Kroger for customers, because they are in different industries, but McDonald's does face a threat from grocery stores because they both sell food. How does McDonald's defend itself from the threat of Kroger as a substitute? By making sure their food is already prepared and convenient to purchase—your burger or salad is ready to eat and available without even getting out of your car.



## Supplier Power

Virtually all firms have suppliers who sell parts, materials, labor, or products. Supplier power refers to the balance of power in the relationship between firms and their suppliers in an industry. Suppliers can have the upper hand in a relationship if they offer specialized products or control rare resources. For example, when Sony develops a new PlayStation model, it often works with a single supplier to develop the most advanced processor chip it can for their game console. That means its supplier will be able to command a fairly high price for the processors, an indication that the supplier has power. On the other hand, a firm that needs commodity resources such as oil, wheat, or aluminum in its operations will have many suppliers to choose from and can easily switch suppliers if price or quality is better from a new partner. Commodity suppliers usually have low power.

## Buyer Power

The last of Porter's forces is buyer power, which refers to the balance of power in the relationship between a firm and its customers. If a firm provides a unique good or service, it will have the power to charge its customers premium prices, because those customers have no choice but to buy from the firm if they need that product. In contrast, when customers have many potential sources for a product, firms will need to attract customers by offering better prices or better value for the money if they want to sell their products. One protection firms have against buyer power is switching costs, the penalty consumers face when they choose to use a particular product made by a different company. Switching costs can be financial (the extra price paid to choose a different product) or practical (the time or hassle required to switch to a different product). For example, think about your smartphone. If you have an iPhone now, what would be the penalty for you to switch to a non-Apple smartphone? Would it just be the cost of the new phone? Smartphones are not inexpensive, but even when cell phone service providers offer free phones to new customers, many people still don't switch. The loss of compatibility with other Apple products, the need to transfer apps and phone settings to another system, and the loss of favorite iPhone features, such as iMessage, are enough to keep many people loyal to their iPhones.

### CONCEPT CHECK

1. Describe each of Porter's Five Forces. What information does each provide a manager trying to understand her firm's micro environment?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 6.5 The Internal Environment

### 5. How and why do managers conduct an internal analysis of their firms?

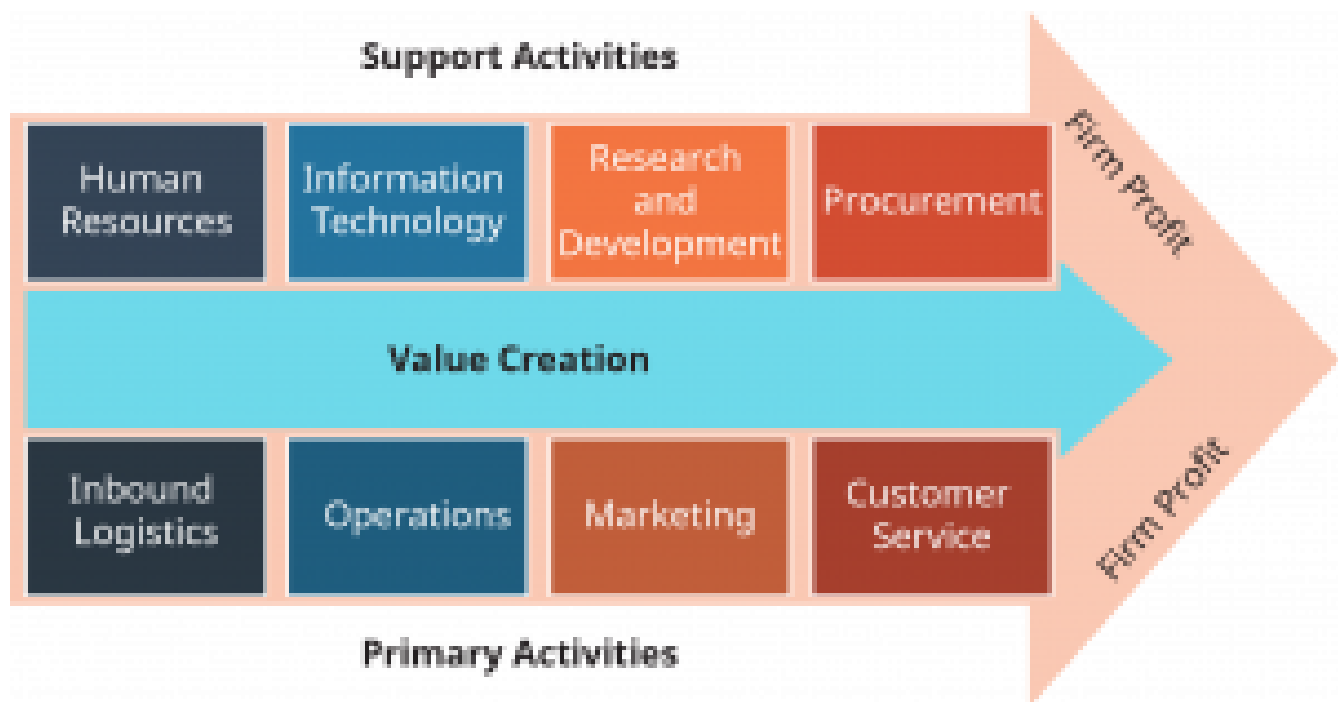
A firm's internal environment is illustrated in **Exhibit 6.2** by the innermost orange circle. The internal environment consists of members of the firm itself, investors in the firm, and the assets a firm has. Employees and managers are good examples; they are firm members who have skills and knowledge that are valuable assets to their firms. Evaluating a firm's internal environment is not just a matter of counting heads, however. Successful firms have a wide range of resources and capabilities that they can use to maintain their success and grow into new ventures. A thorough analysis of a firm's internal situation provides a manager with an understanding of the resources available to pursue new initiatives, innovate, and plan for future success.

### Resources and Capabilities

A firm's resources and capacities are the unique skills and assets it possesses. Resources are things a firm has to work with, such as equipment, facilities, raw materials, employees, and cash. Capabilities are things a firm can do, such as deliver good customer service or develop innovative products to create value. Both are the building blocks of a firm's plans and activities, and both are required if a firm is going to compete successfully against its rivals. Firms use their resources and leverage their capabilities to create products and services that have some advantage over competitors' products. For example, a firm might offer its customers a product with higher quality, better features, or lower prices. Not all resources and capabilities are equally helpful in creating success, though. Internal analysis identifies exactly which assets bring the most value to the firm.

### The Value Chain

Before examining the role of resources and capabilities in firm success, let's take a look at the importance of how a firm uses those factors in its operations. A firm's value chain is the progression of activities it undertakes to create a product or service that consumers will pay for. A firm should be adding value at each of the chain of steps it follows to create its product. The goal is for the firm to add enough value so that its customers will believe that the product is worth buying for a price that is higher than the costs the firm incurs in making it. As an example, **Exhibit 6.5** illustrates a hypothetical value chain for some of Walmart's activities.



**Exhibit 6.5 A Value Chain Example** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

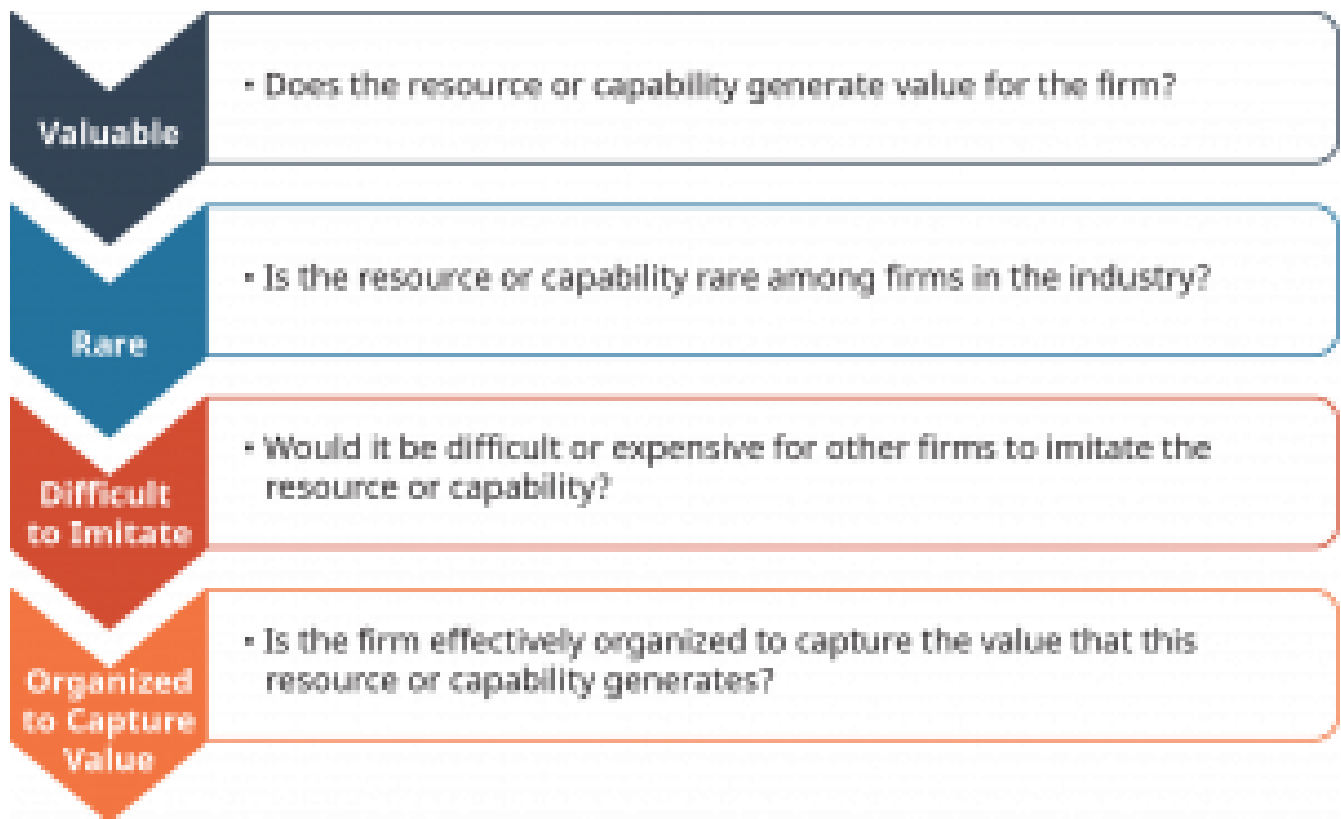
In this example, note that value increases from left to right as Walmart performs more activities. If it adds enough value through its efforts, it will profit when it finally sells its services to customers. By working with product suppliers (procurement), getting those products to store locations efficiently (inbound logistics), and automatically keeping track of sales and inventory (information technology), Walmart is able to offer its customers a wide variety of products in one store at low prices, a service customers value. Primary activities, the ones across the bottom half of the diagram, are the actions a firm takes to directly provide a product or service to customers. Support activities, the ones across the top of the diagram, are actions required to sustain the firm that are not directly part of product or service creation.

## Using Resources and Capabilities to Build an Advantage over Rivals

A firm's resources and capabilities are not just a list of equipment and things it can do. Instead, resources and capabilities are the distinctive assets and activities that separate firms from each other. Firms that can amass critical resources and develop superior capabilities will succeed in competition over rivals in their industry. Strategists evaluate firm resources and capabilities to determine if they are sufficiently special to help the firm succeed in a competitive industry.

### *Using VRIO*

The analytical tool used to assess resources and capabilities is called VRIO. As usual, this is an acronym developed to remind managers of the questions to ask when evaluating their firms' resources and capabilities. The four questions of VRIO, which focus on value, rarity, imitation, and organization, are illustrated in **Exhibit 6.6**.



**Exhibit 6.6 VRIO, a Tool for Evaluating Firm Resources and Capabilities** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

If each question can be answered with a “yes,” then the resource or capability being evaluated can be the source of a competitive advantage for the firm. An example will help you better understand the VRIO process.

Imagine that you are a top manager for Starbucks and you want to understand why you are able to be successful against rivals in the coffee industry. You make a list of some of Starbucks’ resources and capabilities and use VRIO to determine which ones are key to your success. These are shown in **Table 6.1**.

Starbucks’ Resources and Capabilities	
Resources	Capabilities
Brand name	Making quality coffee drinks
Thousands of locations worldwide	Delivering excellent customer service
Cash	Training excellent staff
Loyal customers	Paying above-average wages
Well-trained employees	Retaining quality employees

**Table 6.1** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

You look at your list and decide to pick a few of the entries to evaluate with VRIO (**Table 6.1**):

Evaluating Starbucks' VRIO					
Resource/Capability	Is it valuable?	Is it rare?	Is it difficult to imitate?	Is Starbucks organized to capture its value?	Can it be a basis for competitive advantage?
Brand name	Yes	Yes	Yes	Yes	Yes
Delivering excellent customer service	Yes	Yes	Yes	Yes	Yes
Thousands of locations worldwide	Yes	No	No	Yes	No

**Table 6.2**(Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

According to the evaluation above, Starbucks' brand helps it compete and succeed against rivals, as does its excellent customer service. However, simply having a lot of locations globally isn't enough to beat rivals—McDonald's and Subway also have thousands of worldwide locations, and both serve coffee. Starbucks succeeds against them because of their brand and customer service.

## CONCEPT CHECK

1. What are firm resources and capabilities?
2. Describe a value chain and what the activities in the chain represent.
3. What is VRIO? What questions do the letters stand for, and how does using VRIO help a manager make decisions?

## MANAGING CHANGE

### *Technology and Innovation: Uber, Lyft, and the Self-Driving Car: The Transportation of the Future Is Coming Soon*

Although the ride-sharing industry is still relatively new, it has seen explosive growth, and its two main rivals, Uber and Lyft, are looking for ways to increase their capacity to serve riders. Both firms, and rivals like them, operate in basically the same way. A person needing a ride uses a smartphone app to alert a nearby person with a car of their location. The driver, usually an independent contractor for the service (meaning they are just a person with a car that has signed up to provide rides in exchange for a portion of the fare the customer pays), picks up the customer and drives them to their destination. Paying for the ride

is also handled through the app, and the driver receives about 75–80% of the fare, with Uber or Lyft keeping the balance.<sup>12</sup>

The popularity of ride-sharing services has soared, and both companies are constantly recruiting more drivers. However, both companies have also explored alternatives to independent drivers: self-driving cars. Uber and Lyft have taken different paths to develop this capability. Uber has worked to internally develop its own software technology and self-driving car technology, while Lyft has focused on software interfaces that can accommodate other companies' self-driving cars.<sup>13</sup> Lyft's partnerships with firms such as Google and GM that are already developing self-driving cars has put it ahead of Uber in the race to get driverless vehicles into its ride-sharing network, and it was able to test self-driving cars in Boston by partnering with NuTonomy in 2017.<sup>14</sup> Lyft offered a demonstration to journalists at the Consumer Electronics Show in Las Vegas in 2018, offering rides in self-driving cars developed by Aptiv.<sup>15</sup> Uber had been testing similar technology in Pittsburgh but suspended its self-driving car program after a fatal pedestrian accident in Arizona.<sup>16</sup>

Sources: Ridester (2017). "How Much do Uber Drivers Actually Make? The Inside Scoop." *Ridester.com*. <https://www.ridester.com/how-much-do-uber-drivers-make/> Accessed July 29, 2017; Bensinger, Greg (2017). "Lyft Shifts Gears With New Driverless-Car Division; San Francisco company to hire hundreds of engineers and open new Silicon Valley office." *The Wall Street Journal*. July 21, 2017; Edelstein, Stephen (2017). "Lyft Finally Launches Its Boston Self-Driving Car Pilot Program." *The Drive*. Dec. 17, 2017. <http://www.thedrive.com/tech/16779/lyft-finally-launches-its-boston-self-driving-car-pilot-program>; O'Kane, Sean (2018). "I took a gamble by riding in a self-driving Lyft in Las Vegas." *The Verge*. January 8, 2018. <https://www.theverge.com/2018/1/8/16860590/self-driving-lyft-las-vegas-ces-2018>; and Korosec, Kristen (2018). "Uber self-driving cars back on public roads, but in manual mode/" *Tech Crunch*. July 24, 2018. <https://techcrunch.com/2018/07/24/uber-self-driving-cars-back-on-public-roads-but-in-manual-mode/>.

### Critical Thinking Questions

1. What resource or capability challenges have Uber and Lyft faced because their fast company growth?
2. What PESTEL factors do you think are contributing to the popularity of ride-sharing services?
3. What industry challenges (think of Porter's Five Forces) does the use of self-driving cars address?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 6.6 Competition, Strategy, and Competitive Advantage

6. What does it mean to compete with other firms in a business environment, what does it mean when a firm has a competitive advantage over its rivals, and what generic strategies can a firm implement to gain advantage over its rivals?

Now that you understand more about the environment that businesses operate in, let's take a deeper look at exactly how they operate. Businesses exist to make profits by offering goods and services in the marketplace at prices that are higher than the costs they incurred creating those goods and services. Businesses rarely exist alone in an industry; competition is usually a key part of any marketplace. This means that businesses must find ways to attract customers to their products and away from competitors' products. Strategy is the process of planning and implementing actions that will lead to success in competition.

The analytical tools we discuss here are part of the strategic planning process. Managers cannot successfully plan to compete in an industry if they don't understand its competitive landscape. It is also unlikely that a firm planning to launch a new product they are not equipped to make will be successful.

### Competition

Porter's Five Forces model is centered around rivalry, a synonym for competition. In any industry, multiple firms compete against each other for customers by offering better or cheaper products than their rivals. Firms use PESTEL to understand what consumers are interested in and use VRIO to evaluate their own resources and capabilities so that they can figure out how to offer products and services that match those consumer interests and that are better in quality and price than the products offered by their competitors.

A firm is described as having a competitive advantage when it successfully attracts more customers, earns more profit, or returns more value to its shareholders than rival firms do. A firm achieves a competitive advantage by adding value to its products and services or reducing its own costs more effectively than its rivals in the industry.

### Generic Business-Level Competitive Strategies

When discussing business strategy, a business is a firm or a unit of a firm that centers its activities around one primary type of product or service line. Business-level strategy is the general way that a business organizes its activities to compete against rivals in its product's industry. Michael Porter (the same Harvard professor who developed the Five Forces Model) defined three generic business-level strategies that outline the basic methods of organizing to compete in a product market. He called the strategies "generic" because these ways of organizing can be used by any firm in any industry.

#### *Cost Leadership*

When pursuing a cost-leadership strategy, a firm offers customers its product or service at a lower price than its

rivals can. To achieve a competitive advantage over rivals in the industry, the successful cost leader tightly controls costs throughout its value chain activities. Supplier relationships are managed to guarantee the lowest prices for parts, manufacturing is conducted in the least expensive labor markets, and operations may be automated for maximum efficiency. A cost leader must spend as little as possible producing a product or providing a service so that it will still be profitable when selling that product or service at the lowest price. Walmart is the master of cost leadership, offering a wide variety of products at lower prices than competitors because it does not spend money on fancy stores, it extracts low prices from its suppliers, and it pays its employees relatively low wages.

## *Differentiation*

Not all products or services in the marketplace are offered at low prices, of course. A differentiation strategy is exactly the opposite of a cost-leadership strategy. While firms do not look to spend as much as possible to produce their output, firms that differentiate try to add value to their products and services so they can attract customers who are willing to pay a higher price. At each step in the value chain, the differentiator increases the quality, features, and overall attractiveness of its products or services. Research and development efforts focus on innovation, customer service is excellent, and marketing bolsters the value of the firm brand. These efforts guarantee that the successful differentiator can still profit even though its production costs are higher than a cost leader's. Starbucks is a good example of a differentiator: it makes coffee, but its customers are willing to pay premium prices for a cup of Starbucks coffee because they value the restaurant atmosphere, customer service, product quality, and brand.

Porter's typology assumes that firms can succeed through either cost leadership or differentiation. Trying to combine these two, Porter suggests, can lead to a firm being stuck in the middle.

## *Focus*

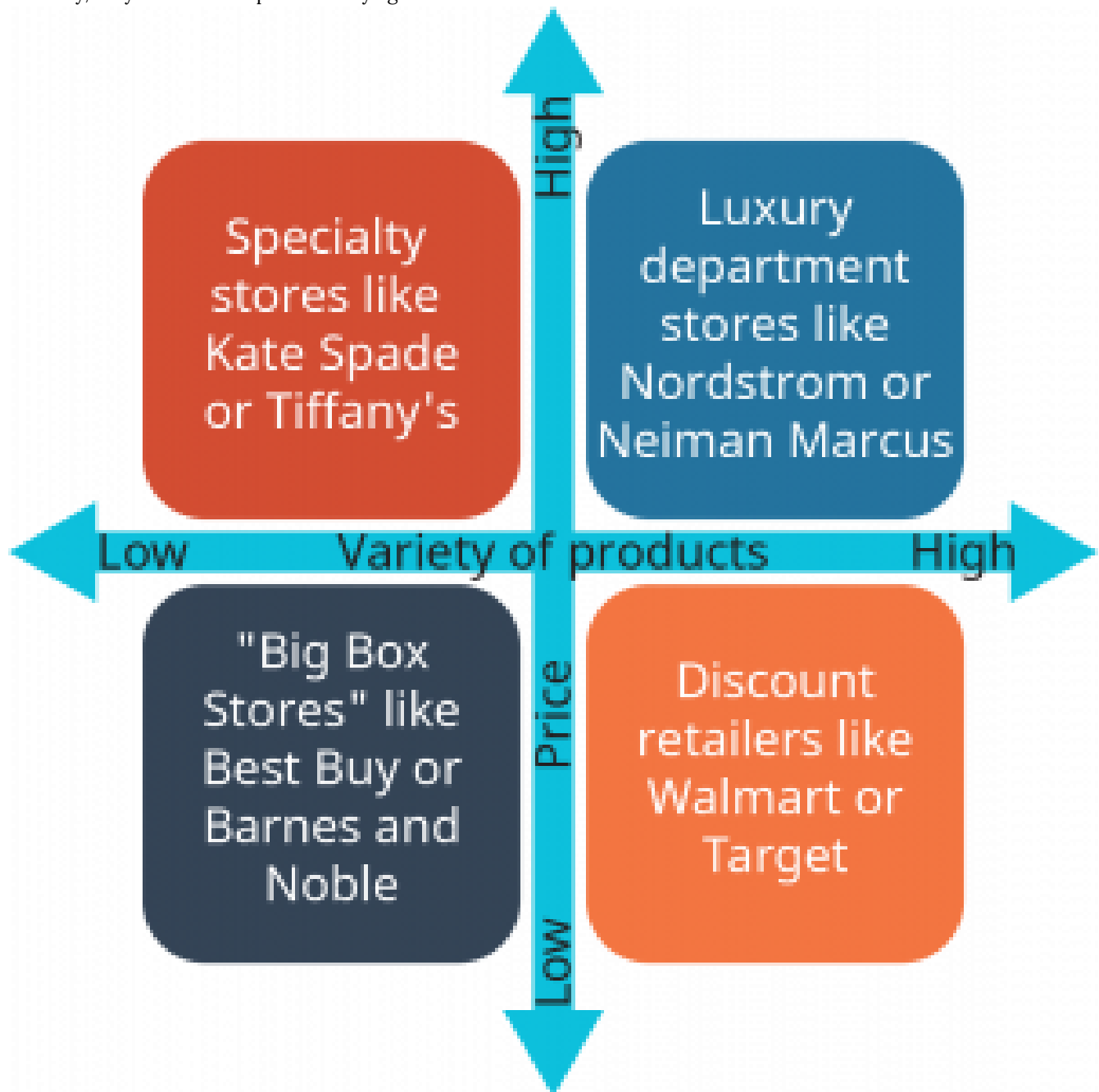
Porter's third generic competitive strategy, focus, is a little different from the other two. A firm that focuses still must choose one of the other strategies to organize its activities. It will still strive to lower costs or add value. The difference here is that a firm choosing to implement a focused strategy will concentrate its marketing and selling efforts on a smaller market than a broad cost leader or differentiator. A firm following a focus-differentiation strategy, for example, will add value to its product or service that a few customers will value highly, either because the product is specifically suited to a particular use or because it is a luxury product that few can afford. For example, Flux is a company that offers custom-made bindings for your snowboard. Flux is a focus differentiator because it makes a specialized product that is valued by a small market of customers who are willing to pay premium prices for high-quality, customized snowboarding equipment.

## Strategic Groups

When managers analyze their competitive environment and examine rivalry within their industry, they are not confronted by an infinite variety of competitors. Although there are millions of businesses of all sizes around the globe, a single business usually competes mainly against other businesses offering similar products or services and following the same generic competitive strategy. Groups of businesses that follow similar strategies in the same industry are called strategic groups, and it is important that a manager know the other firms in their strategic group. Rivalry is fiercest within a strategic group, and the actions of one firm in a group will elicit responses from other group members, who



don't want to lose market share in the industry. Take a look at **Exhibit 6.7**: although all of the firms shown are in the retail industry, they don't all compete directly against one another.



**Exhibit 6.7 Strategic Groups in the Retail Industry** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Although some cross competition can occur (for example, you could buy a Kate Spade wallet at Nordstrom), firms in different strategic groups tend to compete more with each other than against firms outside their group. Although Walmart and Neiman Marcus both offer a wide variety of products, the two firms do not cater to the same customers, and their managers do not lose sleep at night wondering what each might do next. On the other hand, a Walmart manager would be concerned with the products or prices offered at Target; if laundry detergent is on sale at Target, the Walmart manager might lose sales from customers who buy it at Target instead, and so the Walmart manager might respond to Target's sale price by discounting the same detergent at Walmart.

## CONCEPT CHECK

1. What is competition, and what is the role of strategy in competition?
2. When does a firm have a competitive advantage over its rivals?
3. Explain the differences between the three business-level generic competitive strategies.

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## 6.7 Strategic Positioning

### 7. What elements go into determining a firm's strategic position?

A manager who has done all of the analysis described so far in this chapter has some decisions to make based on all of the information the analysis has revealed. A firm's decisions on how to serve customers and compete against rivals is called strategic positioning. In order to develop its position, a firm combines its understanding of the competitive environment, including the firm's own resources and capabilities, its industry situation, and facts about the macro environment. A strategic position includes a choice of generic competitive strategy, which a firm selects based on its own capabilities and in response to the positions already staked out by its industry rivals. The firm also determines which customers to serve and what those customers are willing to pay for. A strategic position also includes decisions about what geographic markets to participate in.

Most importantly, a firm's strategic position should try to be unique in some way that competitors cannot imitate quickly or easily. Competitive advantage is achieved when a firm attracts more customers or makes more profit than rivals. This cannot happen unless the firm organizes its activities to provide customers with better value than rivals.

### CONCEPT CHECK

1. How does strategic analysis help a firm develop its own strategic position?

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# Key Terms

**barriers to entry**

Industry factors (such as high start-up costs) that can prevent new firms from successfully launching new operations in that industry.

**buyer power**

In the relationship between a firm and its customers, buyers with high power can negotiate product price or features, while buyers with low power cannot.

**capabilities**

A firm's skill at coordinating and leveraging resources to create value.

**competition**

Business actions a firm undertakes to attract customers to its products and away from competitors' products.

**competitive advantage**

When a firm successfully attracts more customers, earns more profit, or returns more value to its shareholders than rival firms do.

**competitive environment**

Factors and situations both inside the firm and outside the firm that have the potential to impact its operations and success.

**cost-leadership strategy**

A generic business-level strategy in which a firm tightly controls costs throughout its value chain activities in order to offer customers low-priced goods and services at a profit.

**demographics**

Part of PESTEL that includes facts about the income, education, age, and ethnic and racial composition of a population.

**differentiation strategy**

A generic business-level strategy in which firms add value to their products and services in order to attract customers who are willing to pay a higher price.

**economic factors**

PESTEL category that includes facts (such as unemployment rates, interest rates, and commodity prices) about the state of the local, national, or global economy.

**environmental factors**

PESTEL category that examines a firm's external situation with respect to the natural environment, including pollution, natural resource availability and preservation, and alternative energy.

**environmental scanning**

The systematic and intentional analysis of a firm's internal state and its external environment.

**external environment**

The aspects of the world at large and of a firm's industry that can impact its operations.

**external factors**

Things in the world or industry environments that may impact a firm's operations or success, such as the economy, government actions, or supplier power. Strategic decisions can be made in response to these things but normally cannot directly influence or change them.

**focus strategy**

A generic business-level competitive strategy that firms use in combination with either a cost-leadership or differentiation strategy in order to target a smaller demographic or geographic market with specialized products or services.

**generic business-level strategies**

Basic methods of organizing firm value chain activities to compete in a product market that can be used by any sized firm in any industry.

**industry**

A group of firms all offering products or services in a single category, for example restaurants or athletic equipment.

**industry rivalry**

One of Porter's Five Forces; refers to the intensity of competition between firms in an industry.

**internal environment**

Innermost layer of a firm's competitive environment, including members of the firm itself (such as employees and managers), investors in the firm, and the resources and capabilities of a firm.

**internal factors**

Characteristics of a firm itself, such as resources and capabilities, that the firm can use to successfully compete against its rivals.

**legal factors**

In PESTEL, the laws impacting business, such as those governing contracts and intellectual property rights and illegal activities, such as online piracy.

**macro environment**

The outermost layer of elements in a firm's external environment that can impact a business but are generally beyond the firm's direct control, such as the economy and political activity.

**micro environment**

The middle layer of elements in a firm's external environment, primarily concerned with a firm's industry situation.

**new entrants**

One of Porter's Five Forces, the threat of new entrants assesses the potential that a new firm will start operations in an industry.

**opportunity**

A situation that a firm has the resources and capabilities to take advantage of.

**PESTEL**

A strategic analysis tool that examines several distinct categories in the macro environment: **p**olitical, **e**conomic, **s**ociocultural, **t**echnological, **e**nvironmental, and **l**egal.

**political factors**

PESTEL factor that identifies political activities in the macro environment that may be relevant to a firm's operations.

**Porter's Five Forces**

Evaluates the interconnected relationships between various actors in an industry, including competing firms, their suppliers, and their customers, by examining five forces: industry rivalry, threat of new entrants, threat of substitutes, supplier power, and buyer power.

**primary activities**

Firm activities on the value chain that are directly responsible for creating, selling, or servicing a product or service, such as manufacturing and marketing.

**resources**

Things a firm has, such as cash and skilled employees, that it can use to create products or services.

**sociocultural factors**

PESTEL category that identifies trends, facts, and changes in society's composition, tastes, and behaviors, including demographics.

**strategic analysis**

Process that firms use to study and understand their competitive environment.

**strategic group**

Businesses offering similar products or services and following the same generic competitive strategy.

**strategic positioning**

Firm's decisions on how to organize its actions and operate to effectively serve customers and compete against rivals.

**strategy**

Process of planning and implementing actions that will lead to success in competition.

**strengths**

Resources and capabilities of a firm; what it is good at.

**substitutes**

One of Porter's Five Forces; products or services outside a firm's industry that can satisfy the same customer needs as industry products or services can.

**supplier power**

One of Porter's Five Forces; describes the balance of power in the relationship between firms in an industry and their suppliers.

**support activities**

Value chain activities that a firm performs to sustain itself; do not directly create a product or service but are necessary to support the firm's existence, such as accounting and human resources.

**switching costs**

Penalty, financial or otherwise, that a consumer bears when giving up the use of a product currently being used to select a competing product or service.

**SWOT**

Strategic analysis tool used to examine a firm's situation by looking at its **strengths**, **weaknesses**, **opportunities**, and **threats**.

**technological factors**

PESTEL category that includes factors such as the Internet, social media, automation, and other innovations that impact how businesses compete or how they manufacture, market, or sell their goods or services.

**threat**

Anything in the competitive environment that would make it harder for a firm to be successful.

**value chain**

Sequence of activities that firms perform to turn inputs (parts or supplies) into outputs (goods or services).

**VRIO**

analytical tool that evaluates a firm's resources and capabilities to determine whether or not it can support an advantage for the firm in the competitive environment: **value**, **rarity**, **imitation**, and **organization**.

**weaknesses**

Things that a firm does not have good capabilities to perform or gaps in firm resources.

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# Summary of Learning Outcomes

## 6.1 Gaining Advantages by Understanding the Competitive Environment

1. What is strategic analysis, and why do firms need to analyze their competitive environment?

Strategic analysis is a systematic evaluation of a firm's situation, both internally and with respect to what is happening in the outside world. This analysis examines what the firm itself is good or bad at, how rivals in its industry are competing against it for customers, and what factors in the world environment, such as economic indicators or demographic changes, might impact the firm's ability to be successful.

Firms need to conduct this analysis in order to be aware of and prepared for changes in their competitive environment and to maximize their chance of successfully competing against rivals and sustaining their profitability and market share in their industry.

## 6.2 Using SWOT for Strategic Analysis

2. What is a SWOT analysis, and what can it reveal about a firm?

SWOT is a traditional analytical tool that identifies a firm's **strengths**, **weaknesses**, **opportunities**, and **threats** (SWOT is an acronym of these four factors). It is useful for conducting a quick look at the internal capabilities (strengths and weaknesses) and external events and situations (opportunities and threats) a firm is facing.

SWOT is not a comprehensive analytical tool, because the four categories for analysis are too broad and will not necessarily identify all of the factors important to a firm's success that a more thorough analysis would.

## 6.3 A Firm's External Macro Environment: PESTEL

3. What makes up a firm's external macro environment, and what tools do strategists use to understand it?

The external environment of a firm is composed of two primary layers: the macro environment and the micro environment. The macro environment includes facts and situations that a firm must be aware of but cannot always influence. The macro environment is analyzed using the PESTEL analytical tool that considers a firm's political and legal aspects, economic indicators, sociocultural trends, demographic facts, technological changes, and environmental aspects.

## 6.4 A Firm's Micro Environment: Porter's Five Forces

4. What makes up a firm's external micro environment, and what tools do strategists use to understand it?

The second layer of a firm's external environment is its micro environment, which includes the components of a firm's industry, such as competitors, suppliers, and customers. Porter's Five Forces of industry competition (industry rivalry,

threat of new entrants, threat of substitutes, supplier power, and buyer power) capture the dynamic relationships between these components.

## 6.5 The Internal Environment

5. How and why do managers conduct an internal analysis of their firms?

Managers cannot lead their firms to success without understanding what the firm is able to do. An analysis of the firm's resources and capabilities, as well as its gaps, is essential in determining the best path forward for the firm. A good strategy for competitive advantage capitalizes on a firm's key resources and capabilities, as identified and evaluated using the VRIO (value, rarity, imitation, and organization) analytical tool.

Resources and capabilities that satisfy VRIO criteria are the key things that a firm is best at, and these should be leveraged so the firm can compete against rivals.

## 6.6 Competition, Strategy, and Competitive Advantage

6. What does it mean to compete with other firms in a business environment, and what does it mean when a firm has a competitive advantage over its rivals and what generic strategies can a firm implement to gain advantage over its rivals?

Competition is the battle for customers. Firms compete against rivals offering similar products and services and try to attract customers by making sure their product or service is a little better or less expensive than those of their competitors. The firm that is most successful in this battle, measured in terms of profitability or in terms of market share, has a competitive advantage.

Generic competitive strategies are the basic templates for organizing firm activities in order to achieve competitive advantage in an industry. A firm will perform value chain activities, such as marketing and research and development, in order to support the overall competitive strategy it has chosen.

Following a generic cost-leadership strategy requires that a firm try to save money throughout the value chain so that it can offer customers low-priced goods and services. In contrast, differentiators add value to their products and services while performing value chain activities so that they can charge premium prices to consumers.

A third generic competitive strategy, focus, is chosen in combination with one of the other two strategies by firms who decide to target smaller geographic or demographic customer groups.

## 6.7 Strategic Positioning

7. What elements go into determining a firm's strategic position?

A firm develops a strategic position in response to the factors present in its competitive environment. Strategic analysis is essential in identifying and understanding the factors that a strategic position must address. The choice of strategic position factors in a firm's key resources and capabilities when choosing a generic competitive strategy, product or service to be offered, target market, and geographic reach to compete successfully against rivals in an industry. To be successful in allowing a firm to achieve a competitive advantage in its industry, a firm's strategic position should be



different from its competitors' positions in the same industry and should be hard for competitors to copy so that the firm's competitive advantage lasts.

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# Chapter Review Questions

1. Why do managers use strategic analysis?
2. What information does a SWOT analysis provide managers? What information might it miss?
3. Describe a firm's macro environment and how managers use PESTEL to understand it.
4. What is a firm's micro environment, and why is it important?
5. What is an industry, and how do Porter's Five Forces help a manager trying to understand a firm's industry environment?
6. What are firm resources and capabilities, and what information does VRIO provide about them?
7. When does a firm have a competitive advantage over its rivals?
8. What are generic competitive strategies, and how are they implemented in a firm's value chain activities?
9. What do strategic group members have in common with each other? What impact do firms outside a strategic group have on those in that group?
10. How does strategic analysis help a firm develop its own strategic position? Why should that position be unique?

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# Management Skills Application Exercises

1. (Analytical Skills) Assume that you have been hired by a local small-business consulting firm. You have been asked by your boss to review a proposal from a client who is considering opening a new Pilates and yoga studio in a trendy part of town. Because you know SWOT analysis, you have been asked to group the following attributes about the proposed business into a SWOT analysis:
  - a. The proposed location is on the same street corner as the main subway line station and three blocks from a ferry terminal that commuters use go to work.
  - b. The proposed location has a vestibule and a new HVAC system.
  - c. The street that the location is situated on has many small shops, restaurants, and bars and is a popular gathering place.
  - d. There are many historic structures that are in need of updates, but some owners are reluctant to invest in these aging structures.
  - e. The area has become gentrified over the past decade, and there is more disposable income than in the past.
  - f. In addition to the young professionals, a large number of 55 and over retirees who are now empty nesters have been moving into the neighborhood.
  - g. With the young professionals and empty nesters, this area has one of the lowest birth rates in the nation.
  - h. The two-year lease is affordable for the business plan, but there is no guarantee of renewal after the term.
  - i. There is a rumor of a spin studio opening two blocks away.
  - j. The building has been updated with ramps and restrooms to accommodate disabled patrons.
  - k. The local paper has interviewed the client and will be running a “Pilates Craze” feature in the upcoming weekend newspaper.
2. (Interpersonal Skills) Your instructor may assign you to a small group, and you will receive either a “Team A” or “Team B” assignment. Team A groups will need to meet for 15 minutes in a face-to-face setting, while Team B members will meet electronically either by setting up a meeting via Skype or using text messaging on their cell phones. Team A members will need to set up a time and location for their meeting while Team B members will need to share their contact information with a team leader.

Your instructor will assign a company to discuss and report on. Team A will discuss a firm’s internal environment while team B will discuss the firm’s external environment. In class, each team will report its conclusions about its assignment and report on the benefits and challenges that meeting in person or electronically posed.
3. (Communication) Set up an interview with a manager at a local business who is involved in the strategic planning process at her company. Ask her what type of planning she is involved in (strategic, operational). Discover if she involves the employees who report to her in the planning process and how planning is tied to goal setting. Write a report on your findings. The interview should take no more than 15 minutes.

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# Managerial Decision Exercises

1. Select three different businesses from different industries, such as a hospitality business (hotel, restaurant, fitness center), a manufacturing company, and a not-for-profit business. Perform a SWOT analysis for each business.
2. Perform a quick PESTEL analysis of the companies listed below. What is the largest risk for each of the companies? Assume that you had \$100,000 to invest in one of more of these companies. Explain how you would allocate your investment and why you chose this particular allocation.
  - a. Uber
  - b. Tesla
  - c. General Motors
3. Technology has the ability to disrupt industries. You are involved in an industry that is undergoing change and disruption by taking this class. The traditional textbook industry is being disrupted by the availability of digital textbooks, and free textbooks such as this one are further impacting traditional textbook publishers. Place the following statements into Porter's Five Forces model.
  - a. Students have access to the material at a greatly reduced cost.
  - b. Authorship is funded through philanthropic donations rather than royalties paid from textbook sales revenue.
  - c. More students have access to the Internet than ever before.
  - d. Companies, governments, and students invest large sums of money in their education.
  - e. Traditional public educational institutions are adapting their delivery models for online learning.
  - f. Private companies such as Apollo (University of Phoenix) are offering lower-cost education options.
  - g. Bookstores now offer traditional textbooks as well as used and rental options.
  - h. Government legislation is urging faculty to consider lower-cost options.

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# Critical Thinking Case

## *Tesla Aims for the Mass Market*

Elon Musk cofounded Tesla in 2003 with the vision of making electric cars that could rival, and even replace, traditional gas-engine cars in the consumer marketplace. At the start of the 21st century, the external environment was beginning to show favorable signs for the development of electric cars: people were becoming more concerned about the environment and their carbon footprints, and gas prices were beginning a steep climb that had already spurred the sales of hybrid gas-electric cars such as the Toyota Prius.

The automobile industry was not responding to these environmental trends, instead relying on the fact that trucks such as the Ford F-150 and Chevrolet Silverado were still the two top-selling vehicles in America in 2003. Musk saw a different future for vehicles, and Tesla introduced the all-electric Roadster in 2008. Four years later, the more practical Model S was introduced, and Tesla sales began to climb.

As a new entrant in the automobile industry, though, Tesla faced several challenges. Manufacturing and distribution in this industry are extremely expensive, and Tesla had to develop the capability of efficiently manufacturing large quantities of cars. Tesla also had to establish dealerships for its cars, although it also decided to sell cars online, taking advantage of tech-savvy consumers' comfort with online shopping. Perhaps Tesla's greatest challenge was convincing consumers to trust the new technology of all-electric cars. *Range anxiety* became an actual term, describing people's fear that their car batteries would run out before they reached their destinations. To combat this, Tesla developed an extensive network of charging stations so consumers could be confident that they could charge their cars conveniently.

Elon Musk has been a master of raising money to fund Tesla's efforts to successfully enter the mainstream automobile manufacturing industry; so far, Tesla's entry has cost billions of dollars. Tesla has also taken advantage of tax incentives to develop its charging stations and to sell its cars, because Tesla customers receive tax credits for the purchase of their cars. Tesla cars are not inexpensive, however, and that has limited their marketability. Most Americans cannot afford the Model S or more recent Model X's high prices (up to and exceeding \$100,000).

In 2017, Tesla launched the Model 3, designed to transform the car industry by being its first mass-market, affordable model. The company started taking "reservations" for the model in 2016, promising that it would arrive with a \$35,000 price tag. By mid-2017, the reservations list had reached half a million customers, creating a new problem for Tesla. How could it possibly manufacture that many cars when production levels for all of 2016 were less than 84,000 cars?

1. What PESTEL factors supported Tesla's success? Which factors posed challenges?
2. How has Tesla's strategic position changed since it was founded in 2003?
3. What kind of responses would you expect from Tesla's rivals in the automobile manufacturing industry to the Model 3's popularity?

Sources: Tesla company website: <https://www.tesla.com/> and investor relations site: <http://ir.tesla.com/>; Edmunds, "Top 10 Best Selling Cars in 2003." <https://www.edmunds.com/car-reviews/top-10/top-10-best-selling-vehicles-in-2003.html> (updated May 12, 2009); Bill Vlasic, "In Pivotal Moment, Tesla Unveils its First Mass Market Sedan." New York Times, July 29, 2017, <https://www.nytimes.com/2017/07/29/business/tesla-model-3-elon-musk.html?ref=business>.

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# 7 - INNOVATION AND CHANGE

## Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. What are mechanistic versus organic organizational structures?
2. What are the fundamental dimensions of change?
3. How do managers deal with change?

## EXPLORING MANAGERIAL CAREERS

*Jackie Smith, CareSource University*

Jackie Smith is a human resources, training and organizational development professional with more than 20 years of experience. She has worked in a variety of organizations and industries in both the for-profit and not-for-profit sectors.

Jackie is vice president of CareSource University at CareSource, a Medicaid managed care organization. She oversees CareSource University as well as the company's performance management, succession, and goal-setting processes. In 2017 CSU delivered more than 240,000 learning hours, coached 300 leaders, and onboarded 1,100 new hires. CareSource University has been nationally recognized for seven years as one of *Training* magazine's Top 125 training organizations, ranking in the top 19 for six years. In 2017, CSU was named to the global Learning Elite, ranking 18th among worldwide organizations. Prior to CareSource, Jackie was president of Reflections on Learning, a performance-consulting firm, and worked as a senior organizational development consultant, regional human resources manager, training specialist, and manager in the financial services, retail, and transportation industries.

Jackie's instructional focus has been in the area of leadership development, designing programs including:

- Developing Your Leadership Vision
- Leading through Extraordinary Change
- Transforming Team Performance through Dialogue
- Building Sustainable Strategy with Appreciative Inquiry

Her educational background includes a BS in education from Miami University, Ohio and Luxembourg and an MS in organizational development and leadership from St. Joseph's University in Philadelphia. In addition, she has served as an adjunct faculty member at Antioch McGregor University and is a certified facilitator in a variety of training and development programs, organizational assessments, and Myers-Briggs profiling. She also serves as a team leader facilitating business strategy sessions in countries around the world including Ecuador, Jordan, Guinea, and Senegal.

This chapter will cover several concepts that deal with how leaders develop and shape organizations. An understanding of the concepts in this chapter is essential for leaders who need to pull people together to accomplish the essential work of a business in a consistent process over time. We will address the essential ideas.

## 7.1 Organizational Structures and Design

### 1. What are mechanistic versus organic organizational structures?

First, an organizational structure is a system for accomplishing and connecting the activities that occur within a work organization. People rely on structures to know what work they should do, how their work supports or relies on other employees, and how these work activities fulfill the purpose of the organization itself.

Second, organizational design is the process of setting up organizational structures to address the needs of an organization and account for the complexity involved in accomplishing business objectives.

Next, organizational change refers to the constant shifts that occur within an organizational system—for example, as people enter or leave the organization, market conditions shift, supply sources change, or adaptations are introduced in the processes for accomplishing work. Through managed change, leaders in an organization can intentionally shape how these shifts occur over time.

Finally, organizational development (OD) is the label for a field that specializes in change management. OD specialists draw on social science to guide change processes that simultaneously help a business achieve its objectives while generating well-being for employees and sustainable benefits for society. An understanding of OD practices is essential for leaders who want to maximize the potential of their organizations over a long period of time.

Together, an understanding of these concepts can help managers know how to create and direct organizations that are positioned to successfully accomplish strategic goals and objectives.<sup>1</sup>

To understand the role of organizational structure, consider the experience of Justin, a young manager who worked for a logistics and transportation company. Their success at leading change in the United States gave their leaders the confidence that Justin could handle a challenging assignment: organize a new supply chain and distribution system for a company in Northern Europe. Almost overnight, Justin was responsible for hiring competent people, forming them into a coherent organization, training them, and establishing the needed infrastructure for sustained success in this new market.

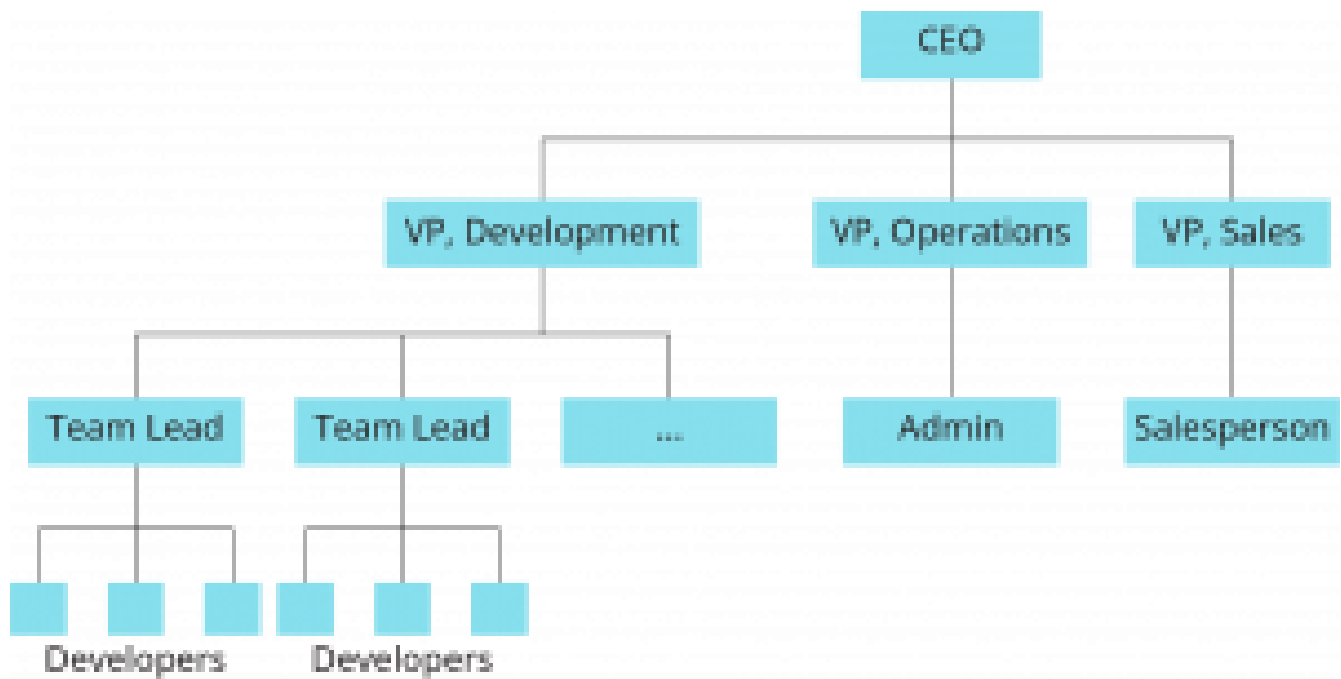
If you were given this assignment, what would you do? How would you organize your employees? How would you help them understand the challenge of setting up a new organization and system? These are the kinds of questions that require an understanding of organizational structure, organizational design, organizational change, and organizational development.

One of the first issues Justin will need to address deals with how they will organize the system. “The decisions about the structure of an organization are all related to the concept of organizational design. There are two fundamental forms of structure to remember when designing an organization.

To address these questions, we need to be familiar with two fundamental ways of building an organization.

The formal organization is an officially defined set of relationships, responsibilities, and connections that exist across an organization. The traditional organizational chart, as illustrated in **Exhibit 7.1** is perhaps the most common way of depicting the formal organization. The typical organization has a hierarchical form with clearly defined roles and responsibilities.



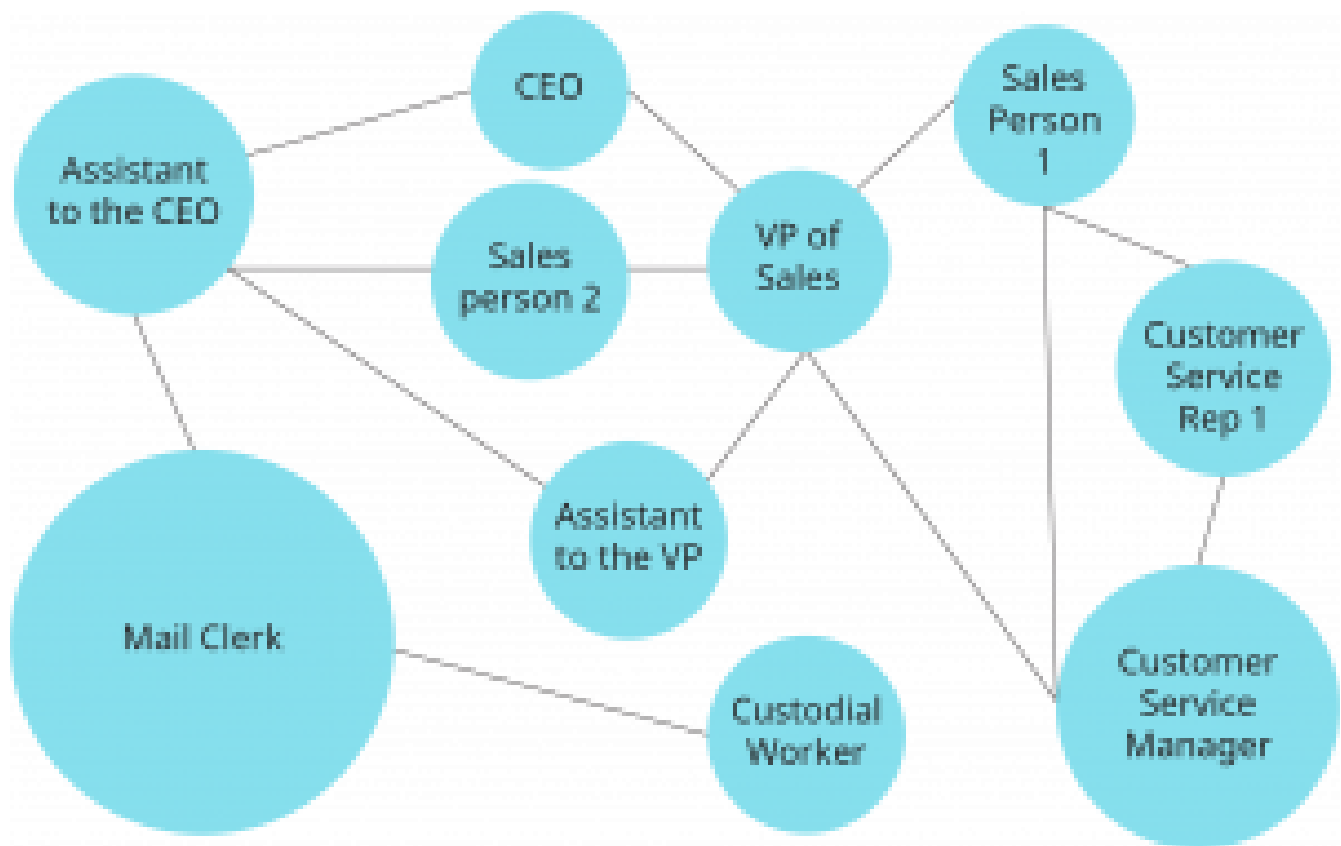


**Exhibit 7.1 Formal Organizational Chart** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

When Justin sets up the formal organization, they will need to design the administrative responsibilities and communication structures that should function within an organizational system. The formal systems describe how flow of information and resources should occur within an organization. To establish the formal organization, they will identify the essential functions that need to be part of the system, and they will hire people to fill these functions. They will then need to help employees learn their functions and how these functions should relate to one another.

The informal organization is sometimes referred to as the invisible network of interpersonal relationships that shape how people actually connect with one another to carry out their activities. The informal organization is emergent, meaning that it is formed through the common conversations and relationships that often naturally occur as people interact with one another in their day-to-day relationships. It is usually complex, impossible to control, and has the potential to significantly influence an organization's success.

As depicted in **Exhibit 7.2**, the informal organization can also be mapped, but it is usually very different than the formal organization. The chart you see in this example is called a network map, because it depicts the relationships that exist between different members of a system. Some members are more central than others, and the strength of relationships may vary between any two pairs or groups of individuals. These relationships are constantly in flux, as people interact with new individuals, current relationships evolve, and the organization itself changes over time.<sup>2</sup>



**Exhibit 7.2 Informal Organizational Chart** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The informal organization in Justin's design will form as people begin interacting with one another to accomplish their work. As this occurs, people will begin connecting with one another as they make sense of their new roles and relationships. Usually, the informal organization closely mirrors the formal organization, but often it is different. People quickly learn who the key influencers are within the system, and they will begin to rely on these individuals to accomplish the work of the organization. The informal organization can either help or hinder an organization's overall success.

In sum, the formal organization explains how an organization *should* function, while the informal organization is how the organizational *actually* functions. Formal organization will come as Justin hires and assigns people to different roles. They can influence the shape of the informal organization by giving people opportunities to build relationships as they work together. Both types of structures shape the patterns of influence, administration, and leadership that may occur through an organizational system.

As we continue our discussion of structure and design, we will next examine different ways of understanding formal structure.

## Types of Formal Organizational Structures

Now, Justin will need to choose and implement an administrative system for delegating duties, establishing oversight, and reporting on performance. They will do this by designing a formal structure that defines the responsibilities and accountability that correspond to specific duties throughout an organizational system. In this section, we'll discuss the factors that any manager should consider when designing an organizational structure.

### *Bureaucracy*

One of the most common frameworks for thinking about these issues is called the bureaucratic model. It was developed by Max Weber, a 19th-century sociologist. Weber's central assumption was that organizations will find efficiencies when they divide the duties of labor, allow people to specialize, and create structure for coordinating their differentiated efforts, usually within a hierarchy of responsibility. He proposed five elements of bureaucracy that serve as a foundation for determining an appropriate structure: specialization, command-and-control, span of control, centralization, and formalization.<sup>3</sup>

### *Specialization*

The degree to which people are organized into subunits according to their expertise is referred to as specialization—for example, human resources, finance, marketing, or manufacturing. It may also include specialization within those functions. For instance, people who work in a manufacturing facility may be well-versed in every part of a manufacturing process, or they may be organized into specialty units that focus on different parts of the manufacturing process, such as procurement, material preparation, assembly, quality control, and the like.

### *Command-and-Control*

The next element to consider is the reporting and oversight structure of the organization. Command-and-control refers to the way in which people report to one another or connect to coordinate their efforts in accomplishing the work of the organization.

### *Span of Control*

Another question addresses the scope of the work that any one person in the organization will be accountable for, referred to as span of control. For instance, top-level leaders are usually responsible for all of the work of their subordinates, mid-level leaders are responsible for a narrower set of responsibilities, and ground-level employees usually perform very specific tasks. Each manager in a hierarchy works within the span of control of another manager at a level of the organization.

### *Centralization*

The next element to consider is how to manage the flows of resources and information in an organization, or its centralization. A highly centralized organization concentrates resources in only one or very few locations, or only a few individuals are authorized to make decisions about the use of resources. In contrast, a diffuse organization distributes resources more broadly throughout an organizational system along with the authority to make decisions about how to use those resources.

### *Formalization*

The last element of bureaucracy, formalization, refers to the degree of definition in the roles that exist throughout an organization. A highly formalized system (e.g., the military) has a very defined organization, a tightly structured

system, in which all of the jobs, responsibilities, and accountability structures are very clearly understood. In contrast, a loosely structured system (e.g., a small, volunteer nonprofit) relies heavily on the emergent relationships of informal organization.

## Mechanistic and Organic Structures

Using the principles of bureaucracy outlined above, managers like Justin have experimented with many different structures as way to shape the formal organization and potentially to capture some of the advantages of the informal organization. Generally, the application of these principles leads to some combination of the two kinds of structures that can be seen as anchors on a continuum (see **Table 7.1**).

Elements of Organizational Structure and Their Relationship to Mechanistic and Organic Forms		
Mechanistic	↔	Organic
Highly formalized	<b>Standardization</b>	Low
High/Narrow	<b>Specialization</b>	Low/Broad
Centralized	<b>Centralization</b>	Decentralized
Functional	<b>Departmentalization</b>	Divisional

**Table 7.1** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

On one end of the continuum is mechanistic bureaucratic structure. This is a strongly hierarchical form of organizing that is designed to generate a high degree of standardization and control. Mechanistic organizations are often characterized by a highly vertical organizational structure, or a “tall” structure, due to the presence of many levels of management. A mechanistic structure tends to dictate roles and procedure through strong routines and standard operating practices.

In contrast, an organic bureaucratic structure relies on the ability of people to self-organize and make decisions without much direction such that they can adapt quickly to changing circumstances. In an organic organization, it is common to see a horizontal organizational structure, in which many individuals across the whole system are empowered to make organizational decision. An organization with a horizontal structure is also known as a flat organization because it often features only a few levels of organizational hierarchy.

The principles of bureaucracy outlined earlier can be applied in different ways, depending on the context of the organization and the managers’ objectives, to create structures that have features of either mechanistic or organic structures.

For example, the degree of specialization required in an organization depends both on the complexity of the activities the organization needs to account for and on the scale of the organization. A more organic organization may encourage employees to be both specialists and generalists so that they are more aware of opportunities for innovation within a system. A mechanistic organization may emphasize a strong degree of specialization so that essential procedures or practices are carried out with consistency and predictable precision. Thus, an organization’s overall objectives drive how specialization should be viewed. For example, an organization that produces innovation needs to be more organic, while an organization that seeks reliability needs to be more mechanistic.

Similarly, the need for a strong environment of command-and-control varies by the circumstances of each organization. An organization that has a strong command-and-control system usually requires a vertical, tall organizational administrative structure. Organizations that exist in loosely defined or ambiguous environments need to distribute decision-making authority to employees, and thus will often feature a flat organizational structure.

The span of control assigned to any specific manager is commonly used to encourage either mechanistic or organic bureaucracy. Any manager’s ability to attend to responsibilities has limits; indeed, the amount of work anyone can

accomplish is finite. A manager in an organic structure usually has a broad span of control, forcing her to rely more on subordinates to make decisions. A manager in a mechanistic structure usually has a narrow span of control so that they can provide more oversight. Thus, increasing span of control for a manager tends to flatten the hierarchy while narrowing span of control tends to reinforce the hierarchy.

Centralization addresses assumptions about how an organization can best achieve efficiencies in its operations. In a mechanistic structure, it is assumed that efficiencies will occur in the system if the resources and decisions flow through in a centralized way. In an organic system, it is assumed that greater efficiencies will be seen by distributing those resources and having the resources sorted by the users of the resources. Either perspective may work, depending on the circumstances.

Finally, managers also have discretion in how tightly they choose to define the formal roles and responsibilities of individuals within an organization. Managers who want to encourage organic bureaucracy will resist the idea of writing out and tightly defining roles and responsibilities. They will encourage and empower employees to self-organize and define for themselves the roles they wish to fill. In contrast, managers who wish to encourage more mechanistic bureaucracy will use tools such as standard operating procedures (SOPs) or written policies to set expectations and exercise clear controls around those expectations for employees.

When a bureaucratic structure works well, an organization achieves an appropriate balance across all of these considerations. Employees specialize in and become highly advanced in their ability to perform specific functions while also attending to broader organizational needs. They receive sufficient guidance from managers to stay aligned with overall organizational goals. The span of control given to any one manager encourages them to provide appropriate oversight while also relying on employees to do their part. The resources and decision-making necessary to accomplish the goals of the organization are efficiently managed. There is an appropriate balance between compliance with formal policy and innovative action.

## Business Structures

Aside from the considerations outlined above, organizations will often set structures according to the functional needs of the organization. A functional need refers to a feature of the organization or its environment that is necessary for organizational success. A business structure is designed to address these organizational needs. There are two common examples of functional structures illustrated here.

Product structures exist where the business organizes its employees according to product lines or lines of business. For example, employees in a car company might be organized according to the model of the vehicle that they help to support or produce. Employees in a consulting firm might be organized around a particular kind of practice that they work in or support. Where a functional structure exists, employees become highly attuned to their own line of business or their own product.

Geographic structures exist where organizations are set up to deliver a range of products within a geographic area or region. Here, the business is set up based on a territory or region. Managers of a particular unit oversee all of the operations of the business for that geographical area.

In either functional structure, the manager will oversee all the activities that correspond to that function: marketing, manufacturing, delivery, client support systems, and so forth. In some ways, a functional structure is like a smaller version of the larger organization—a smaller version of the bureaucracy that exists within the larger organization.

One common weakness of a bureaucratic structure is that people can become so focused on their own part of the organization that they fail to understand or connect with broader organizational activities. In the extreme, bureaucracy separates and alienates workers from one another. These problems can occur when different parts of an organization fail to communicate effectively with one another.

Some organizations set up a matrix structure to minimize the potential for these problems. A matrix structure describes an organization that has multiple reporting lines of authority. For example, an employee who specializes in

a particular product might have both the functional reporting line and a geographic reporting line. This employee has accountability in both directions. The functional responsibility has to do with her specialty as it correlates with the strategy of the company as a whole. However, her geographic accountability is to the manager who is responsible for the region or part of the organization in which she is currently working. The challenge is that an employee may be accountable to two or more managers, and this can create conflict if those managers are not aligned. The potential benefit, however, is that employees may be more inclined to pay attention to the needs of multiple parts of the business simultaneously.

## CONCEPT CHECK

1. What is an organizational structure?
2. What are different types of organizational structures?
3. What is organizational design?
4. What concepts should guide decisions about how to design structures?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 7.2 Organizational Change

### 2. What are the fundamental dimensions of change?

Our discussion about organizational structure to this point has focused on the forms that an organization might take and the options that are available to managers as they design structures for their organizations. However, organizations are constantly evolving. One common refrain is that “there is nothing so constant as change.” Because of this, there is no one best way to organize in all circumstances. Effective managers need to be aware of the various factors that drive the need for change. There are advantages and disadvantages of each of the various forms of organizing we have discussed. Managers need to adapt the organization so that it is ideally situated to accomplish current organizational goals. Thus, effective managers need to know how to plan and implement change to achieve organizational success.

We will begin this section by reviewing the types of changes that may occur in an organization. Then we will explore the organizational life cycle model, which explains how the structural needs of an organization evolve over time.<sup>4</sup>

### Types of Change

There are many different types of changes in organizations. The first, consistent with what we talked about so far in this chapter, is structural change. This has to do with the changes in the overall formal relationships within an organization. Examples of structural change include reorganizing departments or business units, adding employee positions, or revising job roles and assignments. These changes should be made to support broader objectives such as to centralize or decentralize operations, empower employees, or find greater efficiencies.

Another common type of change is technological change. Implementation of new technologies is often forced upon an organization as the environment shifts. For example, an industry upgrade in a commonly used software platform may require that employees learn new ways of working. Upgraded machinery or hardware may require employees to learn new procedures or restructure the way that they interact with one another. The advent of web-based cloud technologies is an example from the last decade and an example of ways in which new forms of collaboration are becoming more available. Technological change often induces structural change because it requires different ways of connecting across an organizational system.



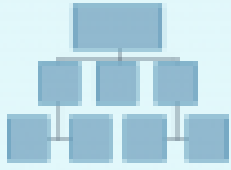
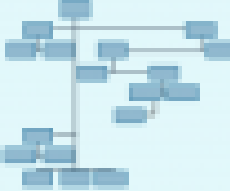
A third type of organizational change is culture change. Organizational culture refers to the common patterns of thinking and behaving within an organization. Culture is rooted in the underlying beliefs and assumptions that people hold of themselves and of the organization. These beliefs and assumptions create mindsets that shape the culture. Culture change is among the most difficult kinds of changes to create within an organizational system. It often involves reshaping and reimagining the core identity of the organization. A typical culture change process, if it is successful, requires many years to achieve.<sup>5</sup>

### The Organizational Life Cycle

Most organizations begin as very small systems that feature very loose structures. In a new venture, nearly every employee might contribute to many aspects of an organization's work. As the business grows, the workload increases, and more workers are needed. Naturally, as the organization hires more and more people, employees begin to specialize. Over time, these areas of specialization mature through differentiation, the process of organizing employees into groups that focus on specific functions in the organization. Usually, differentiated tasks should be organized in a way that makes

them complementary, where each employee contributes an essential activity that supports the work and outputs of others in the organization.

The patterns and structures that appear in an organization need to evolve over time as an organization grows or declines, through four predictable phases (see **Exhibit 7.3**). In the entrepreneurship phase, the organization is usually very small and agile, focusing on new products and markets. The founders typically focus on a variety of responsibilities, and they often share frequent and informal communication with all employees in the new company. Employees enjoy a very informal relationship, and the work assignments are very flexible. Usually, there is a loose, organic organizational structure in this phase.

	Entrepreneurship	Survival and Early Success	Sustained Success	Renewal (or Decline)
<b>Organization</b>				
<b>Extent of formal systems</b>	Minimal to nonexistent	Minimal	Basic/Developing/Maturing	Extensive
<b>Key Ideas</b>	<ul style="list-style-type: none"> <li>• Marshalling of resources</li> <li>• Lots of ideas</li> <li>• Entrepreneurial activities</li> <li>• Little planning and coordination</li> <li>• Formation of a "niche"</li> <li>• "Prime mover" has power</li> </ul>	<ul style="list-style-type: none"> <li>• Informal communication and structure</li> <li>• Sense of collectivity</li> <li>• Long hours spent</li> <li>• Sense of mission</li> <li>• Innovation continues</li> <li>• High commitment</li> </ul>	<ul style="list-style-type: none"> <li>• Formalization of rules</li> <li>• Stable structure</li> <li>• Emphasis on efficiency and maintenance</li> <li>• Conservatism</li> <li>• Institutionalized procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Elaboration (or reduction) of structure</li> <li>• Decentralization (or centralization)</li> <li>• Domain expansion (or reduction)</li> <li>• Adaptation (or stagnation)</li> <li>• Renewal (or decline)</li> </ul>

**Exhibit 7.3 Organizational Life Cycle** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The second phase, *survival and early success*, occurs as an organization begins to scale up and find continuing success. The organization develops more formal structures around more specialized job assignments. Incentives and work standards are adopted. The communication shifts to a more formal tone with the introduction of hierarchy with upper- and lower-level managers. It becomes impossible for every employee to have personal relationships with every other employee in the organization. At this stage, it becomes appropriate to introduce mechanistic structures that support the standardization and formalization required to create effective coordination across the organization.

In a third phase, *sustained success* or *maturity*, the organization expands and the hierarchy deepens, now with multiple levels of employees. Lower-level managers are given greater responsibility, and managers for significant areas of responsibility may be identified. Top executives begin to rely almost exclusively on lower-level leaders to handle administrative issues so that they can focus on strategic decisions that affect the overall organization. At this stage, the mechanistic structures of the organization are strengthened, and functional structures may be introduced. Often, tension emerges over how to find balance in the structure. Most organizations at this stage of development need to have elements of a mechanistic bureaucracy while maintaining an environment that allows for the innovation and flexibility that is a feature of an organic structure.



A transition to the fourth phase, *renewal* or *decline*, occurs when an organization expands to the point that its operations are far-flung and need to operate somewhat autonomously. Functional structures become almost essential, and subunits may begin to operate as independent businesses. Often, the tensions in the company between mechanistic and organic inclinations may be out of balance. To address these issues, the organization has to be reorganized or restructured to achieve higher levels of coordination between and among different groups or subunits. Managers may need to address fundamental questions about the overall direction and administration of the organization.

To summarize, the key insight about the organizational life cycle is that the needs of an organization will evolve over time. Different structures are needed at different stages as an organization develops. The needs of employees will also change. An understanding of the organizational life cycle provides a framework for thinking about changes that may be needed over time.

## Dimensions of Change

When considering how to assess the need for change in an organization, it can be helpful to think of three dimensions: the scope of change, the level of change, and the intentionality of change.

The first, the scope of change refers to the degree to which the required change will disrupt current patterns and routines. Incremental change refers to small refinements in current organizational practices or routines that do not challenge, but rather build on or improve, existing aspects and practices within the organization. Common incremental change practices are LEAN and Six Sigma, which are used to find relatively small changes that can generate greater efficiencies in a process. An organization can improve its product-line efficiencies by identifying small discrepancies in process, then fixing them in a systematic way. Incremental change does not typically challenge people to be at the edge of their comfort zone.<sup>6</sup>

In contrast, transformational change refers to significant shifts in an organizational system that may cause significant disruption to some underlying aspect of the organization, its processes, or structures. Transformational change can be invigorating for some employees, but also highly disruptive and stressful for others. Examples of transformational change include large systems changes and organizational restructuring. Culture change often requires transformational change to be successful.<sup>7</sup>

Finally, a strategic change is a change, either incremental or transformational, that helps align an organization's operations with its strategic mission and objectives. This kind of change is necessary for an organization to achieve the focus it needs to make needed transfer missions and work it does feel to stay competitive in the current or larger organization, larger market environment, or societal environment.

The level of change refers to the breadth of the systems that need to be changed within an organization. Individual-level change focuses on how to help employees to improve some active aspect of their performance or the knowledge they need to continue to contribute to the organization in an effective manner. Individual-level change programs include leadership development, training, and performance management. Group-level change centers on the relationships between people and usually focuses on helping people to work more effectively together. Team development, or teambuilding, is one of the most common forms of a team change process. Organization-level change is a change that affects an entire organizational system or several of its units. Strategic planning and implementation is perhaps the most common type of organization-level change. Higher-level change programs usually require changes at lower levels—an organization-level change may require change at both team and individual levels as well.

Intentionality is the final dimension of change and refers to the degree to which the change is intentionally designed or purposefully implemented. Planned change is an intentional activity or set of intentional activities that are designed to create movement toward a specific goal or end. Planned change processes often involve large groups of people and step-by-step or phase-by-phase activities that unfold over a period of time. Usually, effective leaders identify clear objectives for the change, the specific activities that will achieve those objectives, and the indicators of success.

In contrast, unplanned change is unintentional and is usually the result of informal organizing. It may or may not serve the aims of the organization as a whole. Unplanned change may be completely spontaneous, occurring simply because employees in some part of an organization want to initiate change. But sometimes it occurs as a byproduct of a planned change process. This is because it is difficult for leaders to anticipate all the consequences of a planned change effort. Employees react in unpredictable ways, technologies don't work as expected, changes in the marketplace don't happen as expected, or other actors may react in unanticipated ways.

As we will discuss below, some change models are designed to take advantage of the potential for spontaneous organizing among employees. Unplanned change can be harnessed as a positive force when employees are invited to be proactive about working toward common organizational goals.

## CONCEPT CHECK

1. What is organizational change?
2. What are the fundamental dimensions of change?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 7.3 Managing Change

### 3. How do managers deal with change?

To this point in the chapter, we have focused on factors that influence the need for change. We have also discussed how to think about the dimensions of change that may be needed. In this section, we will describe different approaches to designing and implementing change.

Change management is the process of designing and implementing change. Most leaders are responsible for some degree of change management. In addition, as indicated in the introduction, organizational development (OD) is a specialized field that focuses on how to design and manage change.<sup>8</sup>

An OD consultant is someone who has expertise in change management processes. An internal consultant is someone who works as an employee of an organization and focuses on how to create change from within that organization. An external consultant is an OD specialist hired to provide outside expertise for a short period of time, usually for a major change effort. Leaders are more effective in managing change if they understand the common practices for managing change as well as the perspectives and practices used by OD specialists.

### Basic Assumptions about Change

There are numerous models of change available to managers, and it can be difficult to discern the differences between them when creating a planned change process. Many approaches and methodologies for developing organizations and managing change have been developed and practiced during the last century. Indeed, it can be daunting and confusing to sort through and understand which models are most appropriate and relevant for a particular situation. Every model of change has its strengths and its limitations, and it is important to understand what these may be. The type of change methodology used in a particular situation should be matched to the needs of that situation.

It may be helpful to use several questions when deciding on the appropriate approach to use in a planned change process.

A first question has to do with the starting place for the change: *Is the organization in a state of deficiency that needs significant fixing, or is it in a state of high performance, where there exists a need for refining and tweaking?*

One common motivation for change is the perception that an organization may be in some state of dysfunction with significant and serious problems, somewhat like a patient in a hospital in need of serious medical attention. A dysfunctional organization may require transformational change, in which the fundamental assumptions, beliefs, and organizing ideas of the organization are thoroughly challenged and altered. This set of perceptions often leads to deficit-based change, in which leaders assume that employees will change if they know they will otherwise face negative consequences.

In contrast, leaders may perceive that an organization is highly functional, much like an Olympic athlete or highly accomplished team. A high-performing organization may require incremental change as the organization continues to build on solid fundamentals to refine and add to its capacity for high performance. This set of perceptions often leads to abundance-based change, in which leaders assume that employees will change if they can be inspired to aim for greater degrees of excellence in their work.

A second important question addresses the mechanisms of change: *What are our assumptions about how to create change?* This question is crucial, because the answers determine the preferred designs for planned change and the perceptions of the effectiveness of the change.

Top-down change approaches rely on mechanistic assumptions about the nature of an organization. In this approach, a relatively small group of individuals in the organization will design a process and instruct others throughout the

organization as to how the process of change should unfold. Most employees in the top-down approach play a passive role during the design process and are generally expected to follow the directions given to them by leaders in the organization. In other words, this approach to change relies on the formal organization to drive the legitimacy of the change.

The opposite of the top-down change approach is the emergent or bottom-up approach. This approach relies on the belief that employees will be more invested in change if they play some role in the process of designing the change. Participatory management, the inclusion of employees in the deliberations about key business decisions, is a common practice that aligns with the emergent approach to change.

The differences between top-down and bottom-up approaches can be dramatic. For example, following the top-down approach, leaders might determine that the organizational structure needs to be reconfigured to better accommodate a significant shift in its business. They might assume that they can implement the new structure and that employee routines and patterns of behavior will then change in a natural progression.

The bottom-up approach may reverse this logic. Employees might first work together to explore the tasks that are essential to a specific business problem, they might experiment with potential changes, and *then* managers might rearrange structures to match the new, emergent way of doing work. In contrast to the top-down approach, in a bottom-up process a shift in structure may be a last step.

A challenge for many managers in the bottom-up approach is a perception that they cannot directly control planned changes. Rather, they must rely on processes that draw employees together and expect that employees will respond. This requires a leap of faith, trusting that the process of involving people will lead to desirable emergent changes.

In practice, top-down and bottom-up practices often work together. For example, leaders might exercise top-down authority to define and declare what change is necessary. Then, they might design processes that engage and empower employees throughout an organization to design how the change will be brought about. Working toward a generally defined goal, employees at all levels are highly engaged in the change process from beginning to end. This approach has the effect of encourage self-organizing through the informal organization as employees make and implement decisions with minimal direction.

As a general rule of thumb, the more complex the potential change, the greater the need to involve employees in the process of planning and implementing change.

A final question addresses the mindset for change: What are our fundamental beliefs about people and change?

Again, a simplistic dichotomy is helpful for defining the approach that may be employed to create change. In the conventional mindset, leaders assume that most people are inclined to resist change and therefore they need to be managed in a way that encourages them to accept change. In this view, people in an organization may be seen as objects, sometimes even as obstacles, that need to be managed or controlled. When leaders use conventional methods, they demonstrate a tendency to assume that their perspectives are more informed sound and logical than the perspectives of employees. They will work hard to convince employees about the correctness of their decisions, relying on logic to prove the point. They may be inclined to use methods that may be seen by employees as manipulative or coercive. Some authors claim that the conventional mindset is the default, or dominant mode of change in most organizations.<sup>9</sup>

In contrast, in the positive or appreciative mindset, leaders assume that people are inclined to embrace change when they are respected as individuals with intrinsic worth, agency, and capability. In this view, employees in an organization may be seen as partners, sometimes even as champions of change, who can do significant things. When leaders use appreciative methods, they involve employees through meaningful dialogue and seek to lead with a sense of purpose. They may start the change process by highlighting the values that people may hold in common to establish an environment in which employees develop a strong sense of connection with one another. With a strong social infrastructure, they involve employees through participatory processes that allow them to develop common goals and processes for achieving significant changes.

The three questions we have raised here can lead to many variations in the way that leaders design and implement change. For example, it is possible for a change process to be deficit-based, top-down, and conventional, while another change process may be abundance-based, bottom-up, and positive. Other change processes may be mixed in their

design and delivery—for example, starting with a deficit-based perspective yet choosing to use an abundance-based design to create transformational change through a bottom-up, participatory, appreciative process. In today's business environment, it is rare to find an approach that purely fits any of these categories.

We will next turn to a discussion of common change models that may be analyzed through the three questions just raised.

## SUSTAINABILITY AND RESPONSIBLE MANAGEMENT

### *Why Is the National Hockey League Interested in Climate Change, and Why Did They Hire Kim Davis?*

Because of demographics, with most of their employees coming from northern U.S. states, Canada, and northern European countries, there was probably no organization more racially uniform than the National Hockey League. In these days of increased attention on social issues and changing demographics, the NHL needed a drastic shift in its approach to inclusivity and the social issues it addresses. Two of the best people to usher in change, they decided, were an accomplished executive untouched by old-guard hockey culture and a former player.

Kim Davis knew that she was different from many executives, managers, coaches, and players in the National Hockey League. She welcomed the challenge, and it was a major attraction that led her to accept the position. She looks like no one else holding the position of executive vice president at the NHL, which has primarily been run by (a) men and (b) White men in its over-100-year history. The league signaled a long-overdue shift in thinking when it named Davis, a Black woman, as executive vice president of social impact, growth initiatives, and legislative affairs.

In a time when the NHL is trying to adapt and become more welcoming to those who feel they don't belong or haven't been allowed to belong in the sport, the perfect person to initiate change was someone from the outside, someone free of a hockey culture that has become stale by current social standards.

Especially compared to the other major North American pro sports, hockey sometimes unfairly gets accused of being tone-deaf or at least resistant to change. The league is working hard to improve its commitment to inclusivity, with initiatives like the Declaration of Principles and Hockey Is For Everyone, but change doesn't come easy for players, coaches, administrators, and fans of the sport. Davis represents the NHL's attempt to shepherd the game through social change—internally and externally. That's been her area of expertise throughout her professional life. At JPMorgan Chase she endured nine different mergers, and her job was to help her employees prepare for change.

"Most people aren't comfortable with change, and often when they say that, what they really mean is that they are comfortable with change, but they aren't comfortable with change happening to *them*," she said. "It's all about what happens to us, so how as a leader do you help people get through that?"

"We may not be able to control that fan and that microcosm of society that is over-indexed in our sport," she said. "Over time it will change as we introduce new fans, and guess what? Even that classic model of our fans, that White male, generationally, their kids, they're not buying into that even if their parents are."

“Find another hockey executive who will touch a topic like that without tapdancing.” And that’s why Kim Davis is here. She’s the outsider turned insider, the voice of those formerly neglected. And she’s just getting started.

Regarding climate change, why did the NHL attend the historic climate change conference in Paris? As NHL President Gary Bettman states: “Our game, which is probably unique to most other professional sports, is so tied to the environment. We need cold weather; we need fresh water to play. Therefore, our game is directly impacted by climate change and fresh water scarcity. So, we developed NHL Green, a mandate to promote this type of awareness across all our organizations. Over the course of the last five years, we’ve done everything from a food recovery initiative, which was taking all the unused food that we prepare in our arenas and donating it to local food banks ... to a water restoration program. All of that culminated in the release of a sustainability report in 2014, which was the first of its kind from any U.S. pro sports league. It’s important to us.”

The NHL players are also interested. One individual is recently retired player Andrew Ference, who introduced green initiatives like the NHL Players Association Carbon Neutral Challenge. While he was a player with the Stanley Cup champion Boston Bruins, he knew that he wanted a career after retirement from the NHL and decided to attend the Harvard Business School, where he earned a certificate in Corporate Sustainability and Innovation. Since he really prioritized sustainability in his life, it was a natural progression to a second career after his retirement. Ference says, “I’ve had a lifelong passion for the environment and sustainability issues. But, before leaving the NHL, I wanted to back that up with some formal education. When I signed up for that first class, I knew in my gut it was a big moment.”

Commissioner Gary Bettman says that the next stage regarding sustainability is to “...engage more players around this issue because when we put out stuff on our social media platforms, 12 million followers on social media, that definitely gets messaging out to fans. But when you get an Andrew Ference, that’s when you get a lot more engagement. We need to educate our athletes on this issue because they grew up on frozen ponds, they get the connection between learning to play outside and environmental issues. They get it.”

Sources: Matt Larkin, “Kim Davis is the kind of Leader the NHL Needs in 2018: A Hockey Outsider,” *The Hockey News*, April 6, 2018, <http://www.thehockeynews.com/news/article/kim-davis-is-the-kind-of-leader-the-nhl-needs-in-2018-a-hockey-outsider>; Kevin Blackistone, “Why the NHL is getting involved in climate-change efforts,” *The Chicago Tribune*, January 3, 2016, <http://www.chicagotribune.com/sports/hockey/ct-nhl-climate-change-epa-20160103-story.html>; Miranda Green, “NHL Report Finds that Climate Change Hurts the Sport,” *The Hill*, March 28, 2018, <http://thehill.com/policy/energy-environment/380648-national-hockey-league-report-finds-climate-change-hurts-the-sport>; “Andrew Ference; Student Spotlight,” *Harvard University Extension- Inside Insight*, Accessed March 15, 2018, <https://www.extension.harvard.edu/inside-extension/andrew-ference>; Amalie Benjamin, “Andrew Ference Excited About New Sustainability Role,” *NHL.com*, March 13, 2017, <https://www.nhl.com/news/andrew-ference-flourishing-in-role-with-nhl-green/c-287680614>.

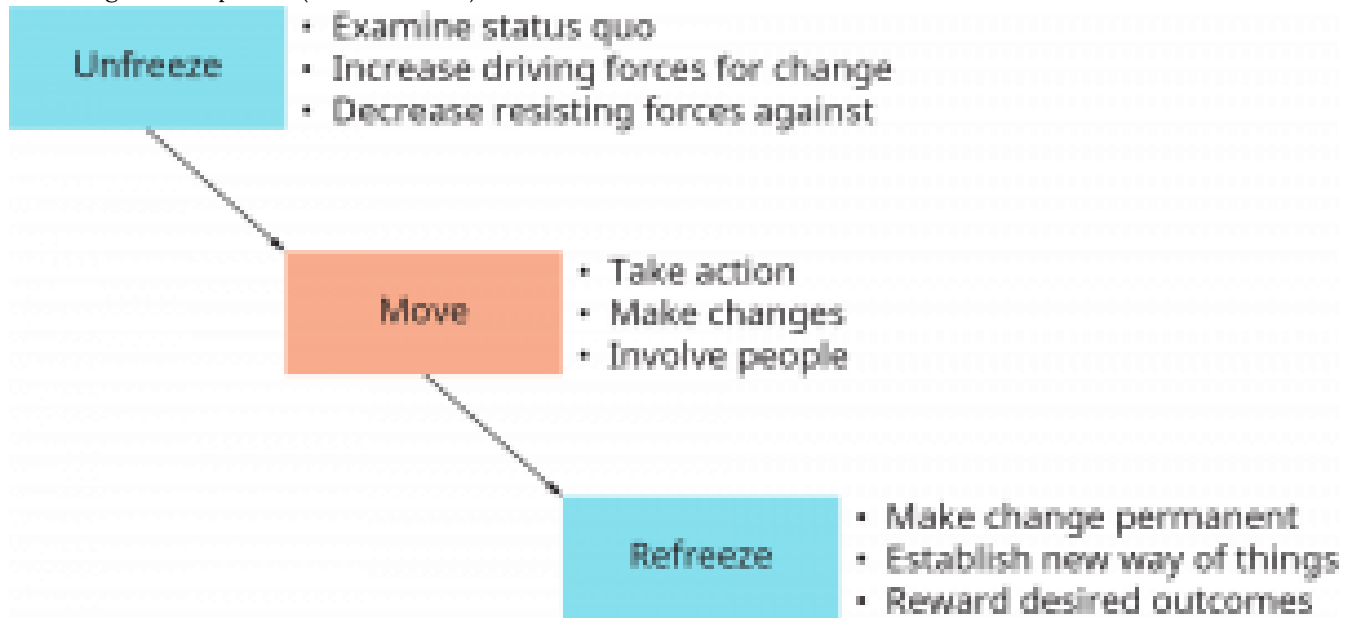
1. What types of changes that Kim Davis is addressing for the National Hockey League, such as demographics, “hockey culture,” and climate change, relate to the concepts in this chapter?
2. How are the roles of Kim Davis, Gary Bettman, and the players regarding change defined in the concepts of this chapter?

## Common Change Models

In this section, we will share four common approaches to OD and organizational change. Lewin's model and Kotter's model are common planned change processes that usually rely on the mechanisms of formal organization.<sup>10</sup> The other two models, Cooperrider's Appreciative Inquiry model<sup>11</sup> and the Olson and Eoyang Complex Adaptive Systems model,<sup>12</sup> are designed to promote informal organizing and emergent change.

### *Lewin's Change Model*

Psychologist Kurt Lewin proposed one of the first models of change. Lewin's change model shows organizational change occurring in three phases (see **Exhibit 7.4**).



**Exhibit 7.4 Summary of Kurt Lewin's Change Model** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

First, an organization must be “unfrozen” in that existing norms, routines, and practices need to be disrupted. This can be done in several ways. For example, structural changes that cause a disruption in the system can be introduced to the organization. Similarly, the introduction of a new technology or policy can cause an organization to “unfreeze.” Whatever the cause, unfreezing sets the stage for change.

Next, changes are introduced in the organization to shift the system to a new state or reality. Typically, people react to moments of disorder by creating a new form of order. As changes are introduced, managers might provide a number of interventions that help people adjust to the new norms of reality they are facing. For example, they might require employees to go through a training program, or they might hold discussion sessions or town-hall meetings with people talk about the changes and troubleshoot. The intent of this phase is to help people adjust to the expected change.

The final phase is to “refreeze” the organization. That is, leaders of the organization reinforce the new norms or practices that should accompany the change. They might adjust the resources, policies, and routines to fit the new expected norms.

Lewin's model explains a very basic process that accompanies most organizational changes. That is, many people prefer a stable, predictable organization, and they become accustomed to the routines that exist in their organizational environment. For this reason, common routines and behaviors need to be disrupted. When past routines and behaviors

are no longer available, people naturally adjust. As they react to a new reality, they establish new routines and patterns of behavior.

However, Lewin's model is most understandable when we assume that an organization is generally stable unless otherwise acted upon. That is, this model seems to fit in organizations in which any change is likely to last for a long period of time. Such a stable organizational context is increasingly rare in contemporary society.

Still, Lewin's model really describes a basic pattern of change that plays out in all organizational systems: stability gives way to instability, something shifts in the system, then stability emerges once again. An understanding of this pattern can be viewed through either deficit-based or abundance-based lenses, and it applies in either top-down or bottom-up approaches.

### *Kotter's Change Model*

Kotter's change model is one of the most widely used in organizations today. Generally, it aligns with mechanistic view of structure and thus it may be especially useful in organizations where there is a strong, hierarchical structure. This is an eight-step model, shown in **Exhibit 7.5**, that relies on a centralized, top-down process for creating planned change.



# Kotter's Model

1. Establish a sense of urgency

2. Form a powerful guiding coalition

3. Create a vision of change

4. Communicate the vision

5. Remove any obstacles

6. Create small wins

7. Consolidate improvements

8. Anchor the changes

**Exhibit 7.5 Summary of John Kotter's Change Model** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

In the first step, managers *establish a sense of urgency*. They do this by creating a narrative about why the change is necessary. Top managers often use diagnostic tools to gather data that supports the case for change. They strive to convince key organizational leaders and employees that the change is absolutely necessary. A common metaphor is to “create a burning platform,” or to make it clear that the organization cannot survive if it continues doing what it has done.

In the second step, *form a powerful guiding coalition*, managers assemble a group of influential people to help shape the planned change. Ideally, the guiding coalition should represent the areas of an organization that will be affected by the change. The guiding coalition should become ambassadors for the change as it unfolds.

In the third phase, *create a vision of change*, the manager and guiding coalition together create a vision of the expected change. They outline the scope of the change, the reason for the change, and what will be better or different as a result of the change.

The fourth step is to *communicate the vision*—reach out to all members of the organization and communicate the vision for change. Ideally, they connect with all the key areas of the organization that will be affected. They clearly explain why the change is needed and how the change should unfold. If needed, they answer questions and clarify problems.

The fifth step is to *remove any obstacles*. This step is intended to reduce the resistance to change and/or to provide the necessary resources to make the change successful. The success of this step helps to smooth the way for successful implementation.

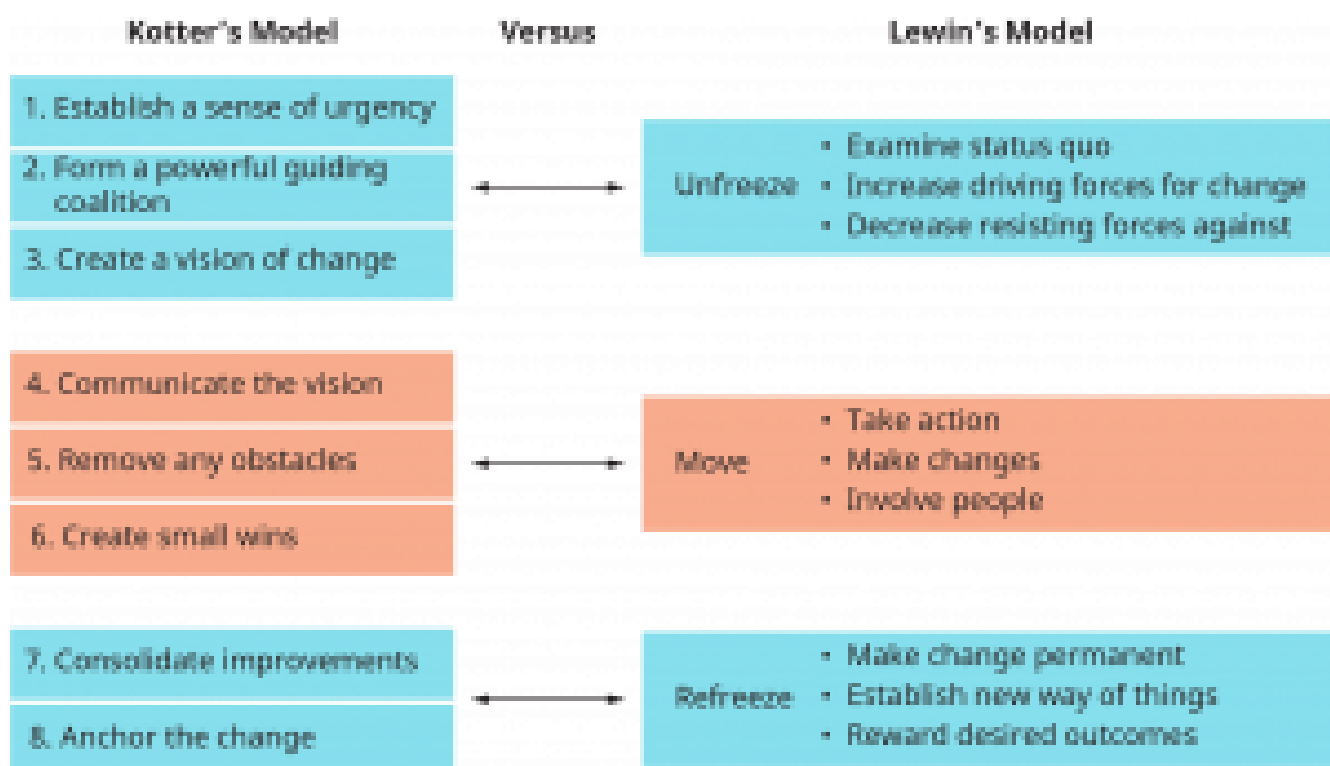
The sixth step is to *create small wins*. A very powerful way to encourage people to support changes to help them to see the path to success. Short wins signal to the organization that a change is possible and that tangible benefits will come once the change is fully implemented.

The seventh step is to *consolidate improvements*. Small changes build up over time and become big changes. As the organization successfully moves toward implementation, it is important to consolidate and solidify successes. Managers should reinforce and celebrate small wins and milestones. The unfolding success of the change helps to convince all members of the organization that the change is real and will produce its intended benefits.

The last step is to *anchor the changes*. In this step, the new norms and practices that accompany the change are standardized and refined. The mode of change moves from transformational to incremental. Refinements are implemented to fine-tune the change and to capture all the intended benefits.

Kotter's model is especially useful in situations where the desired change is reasonably predictable and where leaders are empowered to drive the change down through an organization. One challenge is that many employees may resist change if they have had no hand in shaping the plans. This is especially true if they do not fully comprehend the urgency of the change or the vision for the change. In this regard, it tends to be used when leaders hold a deficit-based view and are generally inclined to take a top-down approach from a conventional perspective. Still, where leaders need to clearly define and implement a large-scale change, Kotter's model may work very effectively.

A comparison and contrast of Lewin's and Kotter's models is illustrated in **Exhibit 7.6**.



**Exhibit 7.6 Kotter's Model versus Lewin's Model** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## Appreciative Inquiry

The Appreciative Inquiry (AI) model is a model specifically designed as an abundance-based, bottom-up, positive approach. An Appreciative Inquiry, broadly defined, can be any question-focused, participatory approach to change that creates an appreciative effective on people and organizations.<sup>13</sup> That is, the process of asking and discussing questions (inquiry) causes people to appreciate the people around them, the strengths of their organization, and the opportunities before them. Simultaneously, the process of having conversations expands the social capital of the organization, or the ability of people to work effectively together.

Developed in the 1980s by David Cooperrider at Case Western Reserve University, AI relies on the assumption that people continuously create their organizations through an emergent process that occurs in the common conversations of organizational life. These conversations are shaped by “narratives” about the reality of the organization in which people find themselves. For example, a dominant narrative might be that an organization's leaders are corrupt and intent on exploiting employees, or in contrast, that an organization's leaders are compassionate, forward-thinking, and innovative. Whatever the narrative, employees tend to justify actions that align with their views. Over time, a narrative can become a self-reinforcing reality. Based in this understanding of organizations as a socially constructed system, the key to creating change is to change the dominant narratives of an organization.

In AI, group dialogue is the primary mechanism for helping people to create new narratives.<sup>14</sup> Specifically, appreciative conversations are intense, positively framed discussions that help people to develop common ground as they work together to co-create a positive vision of an ideal future for their organization. When leaders use appreciative inquiry, they intentionally invite dialogue that generates a narrative for a positive organizational reality. This shift in narrative will inspire a shift in the actions that employees initiate in their daily work. While this approach may sound somewhat ambitious and abstract, in reality it is simply an opportunity for employees to envision the future changes they would like to see, then work together to design how they will make these changes a reality.

OD consultants have developed many different variations of AI practices that address different organizational contexts. However, most of them rely on some version of a 5-D cycle: define, discover, dream, design, destiny.

The first phase is *define*, in which the objective for change and inquiry is established. In this phase, the leaders will create a guiding group, often called a steering committee. This group should include a cross-section of perspectives that represent the different parts of the organization where change is desired. Together, they will decide on a compelling way of describing an objective that invites people to think about ideal possibilities for the organization. In this process, they might turn a problem upside down to inspire a new narrative. For example, British Airlines turned a baggage-claim problem into an exploration of excellent customer service, and Avon turned a problem with sexual harassment into an opportunity to explore what it would take to create exceptional employee engagement. By adjusting the perspective for the inquiry, each company was able to design an OD process that not only solved the original problem but also established a clear vision of what they most wanted as the positive alternative.

The second phase, *discover*, focuses on questions that explore ideal, existing examples of the desired future. The question “who are we when we are at our best?” is commonly used to encourage this exploration through dialogue among employees. For example, British Airways asked its employees to describe examples of exceptional customer service anywhere in its organization. By sharing stories of exceptional customer service, they found examples of exemplary service, even though the dominant narrative was that they had challenges in this area. Finding existing examples of the desired future—no matter how small—causes people to see that a positive alternative is possible. Such examples also provide the data for documenting the strengths of an organization and the factors that make success possible.

The third phase, *dream*, is an exploration of ideal future possibilities for the organization. The strengths and factors revealed in the discovery phase provide a foundation this discussion. Employees are invited to think creatively about what the organization might do if it were to build on its strengths. “What could be?” is a commonly used question to encourage this exploration. Many organizations have used creative techniques to encourage employees to innovate about the future. They might have employees work in groups to design prototypes of a process or write a mock newspaper article about a future successful project. The idea of the dream phase is to encourage employees to think as expansively as possible about the possibilities for change, usually in a fun and inviting way.

The fourth phase, *design*, starts with a process of prioritizing the ideas that have been developed in the dream phase. Employees might work together to brainstorm a list of all the possible areas for action that might help them to accomplish the objective. Then they use a collective process to identify the ideas that have the most promise. Usually senior leaders will add their voice to endorse the ideas that they want to encourage as actual action initiatives. Employees might be invited to join project teams that will carry out specific actions to develop and implement key actions.

The final phase, *destiny*, occurs as employees implement the plans they have developed. Project groups will continue to work on the agreed-upon action steps for a period of time. Typically, they will meet with other employee-based groups to check in, report on progress, and adjust their plans. Some organizations will also create celebrative events to commemorate key successes.

The appreciative inquiry cycle can become an intrinsic part of an organization’s culture. Some companies will go through the AI process on an annual basis as an integral part of strategic planning. Other organizations use it only as needed when major transformational changes are desired. Though the examples in this section illustrate appreciative inquiry as used to change organizations as a whole, the model can also be applied at any level of organization—for example, in work with individuals and teams.

## Complex Adaptive Systems

The final model we will review builds on the assumption that all organizations are complex adaptive systems (CAS).<sup>15</sup> That is, an organization is constantly developing and adapting to its environment, much like a living organism. A CAS approach emphasizes the bottom-up, emergent approach to the design of change, relying on the ability of people to

self-manage and adapt to their local circumstances. Before reviewing the CAS model in more depth, perhaps it would be helpful to examine a change process that is grounded in the CAS model.

One common CAS-based approach is Open Space Technology, a technique in which dozens of people may be involved.<sup>16</sup> To set the stage, let's suppose that we want to create a series of innovations to improve the culture of innovation in an organization. The first task would be to invite as many interested stakeholders as possible to participate in a discussion on various topics related to the culture of innovation, perhaps over a two-day period. At the beginning of the first session, a leader in the organization might greet the participants and invite them to be part of an open-ended exploration of ideas and solutions. A facilitator would then distribute a single sheet of paper and a marker to each participant. She would ask each person to propose a topic or question for discussion, explaining that the purpose of this exercise is to attract other people to join a discussion.

Then she will go around the room, giving each person in turn up to 30 seconds to propose a topic or question and describe the significance and urgency of the idea. The go-around continues until a variety of topics are identified. Next, the facilitator works with participants to define a list of topics for discussion. The facilitator then designates times and locations for discussions on those topics. Finally, participants "vote with their feet" to choose groups that they want to join for discussion. Typically, each discussion in an Open Space meeting will include an exploration of key questions, actions related to those questions, and proposals for resolving key questions.

As shown by this example, this approach is similar to AI in that it focuses on creating the conditions for people to self-organize in ways that align with the overall objectives of an organizational system. However, one big difference is that it relies less on step-by-step processes for creating change and more on principles that can be applied in many variations to shape the conditions for change in an organization.

The CAS approach provides a useful perspective on how organic organizational structures emerge and develop through the informal organization. An understanding of CAS, therefore, provides leaders with the key knowledge they need to influence the direction of the informal organization, even if they cannot directly control it.

To use the CAS approach, it is essential to understand a few key features about how self-organizing occurs among employees.<sup>17</sup> To begin, the direction of any organization is emergent and requires involvement from many people. Yet, when people react to change, their exact behaviors may be unknowable, unpredictable, and uncontrollable. Most often, people react to change based on the perceptions of the people in their immediate circle of relationships within the organization. Every person in an organization is both influencing others and being influenced by others. This means that a key locus of change must involve the relationships that people have with one another. From the perspective of CAS, a change in the nature or patterns of interpersonal relationships in an organization will lead to changes in the outcomes of that organization. Leaders, in this regard, should think of themselves as facilitators of relationships and as supporters of employees who are constantly engaged in self-organizing to create needed changes.

So, how can a leader (as a facilitator) influence the way in which self-organizing occurs? For starters, a leader needs to pay attention to the key conditions that allow for informal self-organizing to occur. There are three basic questions to consider.

First, to what degree do people feel empowered to act as change agents in the system? Self-organizing originates in the people who comprise the organization. If they view themselves as agents who have discretion to act, they are more likely to take initiative, engaging in nondirected activities that may benefit the organization. Do people feel empowered as agents of the organization? If not, interventions may be designed to help people understand their own capacities and competencies.

Second, *how connected are people to one another* in the organization? Relationships are the building blocks of all informal organizational activities. The more connected people feel to one another, the more likely they are to work with others in self-directed activity. Do people feel like they have high-quality relationships with coworkers? Are people regularly connecting with other individuals that they do not know very well? If the answers to these questions are negative, then interventions can be designed to strengthen the quality and configurations of connections within and across an organization.

Third, to what extent are *flows* of information and energy passing through the connections that exist between people? Both informal and formal feedback loops provide a mechanism whereby people receive information about what is

working and or not in their activities. Do people quickly receive information about breakdowns or successes in the system? Is the emotional energy in the system generating a positive dynamic that encourages people to be engaged? Again, if the answers to these questions are negative, then processes or initiatives should be designed that will help people to communicate more effectively across their relationships.

Aside from examining these basic conditions for self-organizing, the CAS approach assumes that every organizational outcome is the product of an indeterminable number of variables. No one cause produces a single outcome. For instance, the accurate delivery of a product to a customer is caused by a whole system of interrelated factors, each influencing the other. Therefore, where broad changes in outcomes are desired, the whole system of interrelated factors needs to be engaged at once. The preferred method of doing this is to engage broad groups of stakeholders simultaneously, using dialogue and conversation to help people develop their sense of agency, their connections with others, and the processes that need to be adjusted to create desired changes in outcomes. Appreciative inquiry is one method that works especially well to accomplish all these impacts.

In addition, leaders may also influence the structures that shape patterns of self-organizing. From a CAS perspective, a structure is anything that causes people to engage in a particular pattern of activity. Structures can be physical, such as the work environment, or they can be assumptions or beliefs that are broadly held, such as the ideas about bureaucracy we discussed earlier in this chapter. To create change, leaders can change the structures that are producing current patterns of organization.

There are three ways in which self-organizing structures can be altered.<sup>18</sup> First, a leader can influence the boundary conditions that establish the limits for emergent activity. Boundary conditions define the degree of discretion that is available to employees for self-directed action. Giving employees more responsibility, empowering them to make decisions at the local level, and providing them with more discretion in the work they do are some of the ways that the boundary conditions may be expanded. The more undefined the boundaries, the more self-organizing can be expected.

Second, self-organizing is altered through the introduction of disturbances to the system. Sometimes this can be as simple as helping employees learn about the tensions that exist within an organization around existing patterns of self-organizing activity. For example, there are nearly always significant differences in perspective among different subgroups in an organization. Helping employees to have conversations with others who have significantly different perspectives can introduce a positive disturbance that causes people to reorganize their activities to overcome hidden structures. In manufacturing organizations, for instance, it is common for engineering and production departments to be isolated from one another. Dialogue that includes and connects the employees from such groups can help them overcome and change the structural assumptions that may cause them to self-organize in ways that antagonize the other. The conversation itself can be a catalyst for change.

One final suggestion is a reminder to pay particular attention to the flows and connections that exist among employees across an organizational system. It is essential to healthy organizing to regularly create opportunities for transformational connections, in which employees are able to learn about the perspectives of other areas of an organization. As they develop and maintain healthy connections, they will empathize with and consider those perspectives as they engage in their own self-organizing activities.

The CAS approach, as indicated earlier, provides both a perspective and a set of principles that can be used in many ways. Many methodologies build on the assumptions of the CAS approach. These include appreciative inquiry and others such as Open Space Technology, Whole Systems Change, Future Search, and more. In this section, we have barely scratched the surface of the variety of practices that can be used to catalyze change.

## Planning a Change Management Process

The perspectives we have reviewed in this section provide a very brief menu of the options that are available to leaders as they consider how to manage change. In reality, many of these can be used together, and they should not be considered as mutually exclusive. For example, Kotter's model can be seen as an overall framework for designing a

long-term change process. The Open Space or appreciative inquiry models can be used in certain parts of the Kotter process—for example, in the creation of a guiding coalition or creating a vision for the change.

Moreover, there are many, many practices and methodologies that may align in different ways to the framework of questions provided in this section. These can be used in different combinations to design change processes that meet the needs of a particular context.

## CONCEPT CHECK

1. What are organizational development (OD) and change management?
2. What questions may be used to guide OD and change management?
3. What are the common models of OD and change management?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Key Terms

## **abundance-based change**

Leaders assume that employees will change if they can be inspired to aim for greater degrees of excellence in their work.

## **appreciative conversations**

Intense, positively framed discussions that help people to develop common ground as they work together to cocreate a positive vision of an ideal future for their organization.

## **Appreciative Inquiry model**

A model specifically designed as an abundance-based, bottom-up, positive approach.

## **boundary conditions**

Define the degree of discretion that is available to employees for self-directed action.

## **bureaucratic model**

Max Weber's model that states that organizations will find efficiencies when they divide the duties of labor, allow people to specialize, and create structure for coordinating their differentiated efforts within a hierarchy of responsibility.

## **centralization**

The concentration of control of an activity or organization under a single authority.

## **change agents**

People in the organization who view themselves as agents who have discretion to act.

## **change management**

The process of designing and implementing change.

## **command-and-control**

The way in which people report to one another or connect to coordinate their efforts in accomplishing the work of the organization.

## **Complex Adaptive Systems (CAS)**

A model that views organizations as constantly developing and adapting to their environment, much like a living organism.

## **conventional mindset**

Leaders assume that most people are inclined to resist change and therefore need to be managed in a way that encourages them to accept change.

## **culture change**

Involves reshaping and reimagining the core identity of the organization.

## **deficit-based change**

Leaders assume that employees will change if they know they will otherwise face negative consequences.

## **differentiation**

The process of organizing employees into groups that focus on specific functions in the organization.

## **disturbances**

Can cause tension amongst employees, but can also be positive and a catalyst for change.

## **emergent or bottom-up approach**

Organizations exist as socially constructed systems in which people are constantly making sense of and enacting an organizational reality as they interact with others in a system.

## **entrepreneurship**

The process of designing, launching, and running a new business.

## **flat organization**

A horizontal organizational structure in which many individuals across the whole system are empowered to make



organizational decisions.

**formal organization**

A fixed set of rules of organizational procedures and structures.

**formalization**

The process of making a status formal for the practice of formal acceptance.

**geographic structures**

Occur when organizations are set up to deliver a range of products within a geographic area or region.

**group-level change**

Centers on the relationships between people and focuses on helping people to work more effectively together.

**horizontal organizational structure**

Flat organizational structure in which many individuals across the whole system are empowered to make organizational decisions.

**incremental change**

Small refinements in current organizational practices or routines that do not challenge, but rather build on or improve, existing aspects and practices within the organization.

**individual-level change**

Focuses on how to help employees to improve some active aspect of their performance or the knowledge they need to continue to contribute to the organization in an effective manner.

**informal organization**

The connecting social structure in organizations that denotes the evolving network of interactions among its employees, unrelated to the firm's formal authority structure.

**intentionality**

The degree to which the change is intentionally designed or purposefully implemented.

**Kotter's change model**

An overall framework for designing a long-term change process.

**level of organization**

The breadth of the systems that need to be changed within an organization.

**Lewin's change model**

Explains a very basic process that accompanies most organizational changes.

**managed change**

How leaders in an organization intentionally shape shifts that occur in the organization when market conditions shift, supply sources change, or adaptations are introduced in the processes for accomplishing work over time.

**matrix structure**

An organizational structure that groups people by function and by product team simultaneously.

**mechanistic bureaucratic structure**

Describes organizations characterized by (1) centralized authority, (2) formalized procedures and practices, and (3) specialized functions. They are usually resistant to change.

**OD consultant**

Someone who has expertise in change management processes.

**organic bureaucratic structure**

Used in organizations that face unstable and dynamic environments and need to quickly adapt to change.

**organization development (OD)**

Techniques and methods that managers can use to increase the adaptability of their organization.

**organization-level change**

A change that affects an entire organizational system or several of its units.

**Organizational change**

The movement that organizations take as they move from one state to a future state.

**organizational design**

The process by which managers define organizational structure and culture so that the organization can achieve its goals.

**organizational development (OD)**

Specialized field that focuses on how to design and manage change.

**organizational structure**

The system of task and reporting relationships that control and motivate colleagues to achieve organizational goals.

**participatory management**

Includes employees in deliberations about key business decisions.

**planned change**

An intentional activity or set of intentional activities that are designed to create movement toward a specific goal or end.

**positive or appreciative mindset**

Leaders assume that people are inclined to embrace change when they are respected as individuals with intrinsic worth, agency, and capability.

**Product structures**

Occurs when businesses organize their employees according to product lines or lines of business.

**scope of change**

The degree to which the required change will disrupt current patterns and routines.

**span of control**

The scope of the work that any one person in the organization will be accountable for.

**specialization**

The degree to which people are organized into subunits according to their expertise—for example, human resources, finance, marketing, or manufacturing.

**strategic change**

A change, either incremental or transformational, that helps align an organization's operations with its strategic mission and objectives.

**structural change**

Changes in the overall formal relationships, or the architecture of relationships, within an organization.

**technological change**

Implementation of new technologies often forces organizations to change.

**top-down change**

Relies on mechanistic assumptions about the nature of an organization.

**transformational change**

Significant shifts in an organizational system that may cause significant disruption to some underlying aspect of the organization, its processes, or its structures.

**unplanned change**

An unintentional activity that is usually the result of informal organizing.

**vertical organizational structure**

Organizational structures found in large mechanistic organizations; also called “tall” structures due to the presence of many levels of management.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Summary of Learning Outcomes

## 10.1 Organizational Structures and Design

1. What are mechanistic versus organic organizational structures?

The organizational structure is designed from both the mechanistic and the organic points of view, and the structure depends upon the extent to which it is rigid or flexible. Flexible structures are also viewed as more humanistic than mechanistic structures. The mechanistic organizational structure is similar to Max Weber's bureaucratic organization. Organic structures are more flexible in order to cope with rapidly changing environments. These structures are more effective if the environment is dynamic, requiring frequent changes within the organization in order to adjust to change. It is also considered to be a better form of organization when employees seek autonomy, openness, change, support for creativity and innovation, and opportunities to try new approaches.

All organizations need structures to accomplish their work, and they need an ability to change in order to sustain and renew themselves over time

## 10.2 Organizational Change

2. What are the fundamental dimensions of change?

It is often said that the only constant is change. Managers need to have the ability to understand the dimensions of change, know what drives change, and know how to implement changes to meet and exceed organizational goals. The three types of change are structural, technological, and culture changes. Managers need to understand change as organizations evolve and grow over time.

One of the key responsibilities of management is to design organizational structures that will allow an organization to accomplish its primary objectives. The structure should always match the need for coordination. Often, managers cannot tell what form the organization should take until they experience the informal organization that determines how work is actually accomplished. Only then can they understand how to draw on the concepts of bureaucracy to appropriately design a structure that will maximize the likelihood of organizational success.

## 10.3 Managing Change

3. How do managers deal with change?

As an organization grows and matures, change becomes necessary to its sustained viability. Thus, another key responsibility for most leaders is the task of designing and managing change. We have reviewed several questions that should be considered when designing a change process, and we have explored several approaches that may be used to guide the development of organizational change.

The field of knowledge about how to change and develop organizations is vast and can be somewhat confusing to the novice learner. The material presented in this chapter provides an overview of key ideas, but there is so much more to

learn. Should you wish to become an influential leader of change, it is important to learn more about this very important field of research and practice.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Chapter Review Questions

1. What is an organizational structure?
2. What are different types of organizational structures?
3. What is organizational design?
4. What concepts should guide decisions about how to design structures?
5. What is organizational change?
6. What are the fundamental dimensions of change?
7. What are organizational development (OD) and change management?
8. What questions may be used to guide OD and change management?
9. What are the common models of OD and change management?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Management Skills Application Exercises

1. Refer to **Exhibit 7.2**, **Exhibit 7.3**, and **Exhibit 7.5** for this exercise. Pick a business that you are familiar with, and draw their existing organizational chart. You may be able to infer much of the information from their website or through a short interview with someone in their organization. After completing this task, construct an alternative organizational chart and comment on why it may be more effective than the current organizational structure and what risks that new structure may have.
2. You have been assigned the task of working with a company that had a traditional, functional organizational structure with sales, marketing, product development, finance and accounting, and operations teams each reporting to a VP, who then reported to the CEO. The company wants to move to a matrix organization that will retain the efficiencies of the functional organization but also groups employees by product teams. You have been asked to comment on how to manage this change and how to communicate and respond to employee concerns. Specifically, you need to address: What are the desired impacts or benefits of this project on the organization? What are the emotions that your employees may have about this organizational change? How could the employee emotions impact the organization or its operations? How can the organization manage these emotions, or in what ways do you think they should manage these emotions to get desired outcome?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Managerial Decision Exercises

1. Place yourself in the position of a CEO who is contemplating a reorganization of your company and has received conflicting opinions from two of your trusted reports. Presently you are a wholesaler with 45 regional warehouses who acquires products from manufacturers and distributes them to retailers and service establishments. You have over 100,000 SKUs (stock keeping unit) ranging from ACE bandages to Ziploc bags. You have 825 field-based sales representatives who represent all the products within a geographic area.

One of the ideas that has been brought up by the vice president of marketing is to specialize the salesforce into three groups, fashion retail, general retail, and services. Basically, individual sales representatives would be able to specialize with greater expertise and product knowledge to better serve customers. The vice president of sales fears that many of her salespeople will leave due to the expanded geography that this change would require.

What process would you take to address the concerns of your managers? How would you implement the plan? What customer considerations would you need to address?

2. You have recently accepted the position of director for a full-service retirement home that has three components. The first component is for retired individuals and married couples who can still manage on their own but appreciate the amenities such as medical care and having other residents that they interact with through planned activities. The second is for residents who are still relatively healthy but do need assistance for specific tasks such as mobility and the like. The third section is for individuals with chronic health issues and palliative care patients.

You have learned during the interview process that the facility has performance and morale issues and that the previous director had a rigid structure, did not allow workers from different roles to interact, and wanted all decisions to be directed to her. This has led to dramatic staff turnover and a larger number of empty units compared to other facilities.

As the incoming new director, you will need to address the staff, and your new assistant asks whether you would like to address the staff in one large room or in smaller meeting rooms with employees from the different functional units. She also asks how to handle the workers who are from different shifts. Make your communication decisions, and write up an opening statement to make to the employees before you open the meeting to questions.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Critical Thinking Case

## *Danny Meyer Leads His Company through the Challenges of Eliminating Tips*

What happens when your CEO wants to remove the tip structure from your restaurant? Do you complain about the new prices as a customer? Do you worry about your paychecks as a server?

Danny Meyer, CEO of Union Square Hospitality (home to some of the most successful New York restaurants), discovered these answers when he began eliminating the tip structure in most of his restaurants. He had seen firsthand the largest negative impact of a tipping culture: employees stuck in front-line positions with no chance to advance to management without taking significant pay cuts.

Meyer began by first involving the affected employees in town-hall talks. These town halls happened months before any publicity was released. Meyer then hosted town halls with customers to explain the importance of fair wages for all his employees at the restaurant, not just the few who served the food. The transition period for each restaurant to eliminate tips was usually three to six months.

As a result of eliminating the tip structure in most of his restaurants, Meyer has been able to increase the pay structure for cooks at those locations, which enables him to fill more cook positions and address a common industry shortage. Meyer has also been able to hire employees with a purpose to deliver exceptional hospitality. Meyer encourages his employees to take care of each other first, and to then take care of the customer, which creates a virtuous cycle of hospitality.

Meyer constantly uses feedback from his employees even after the tip structure was eliminated. He wants to ensure that each employee feels their voice is heard and understood. Employees continue to have access to town-hall meetings and internal feedback channels to offer honest feedback.

### Critical Thinking Questions

1. What type of change is this: transformational or incremental? Why?
2. What level(s) of change is Meyer aiming for in this case?
3. What models are consistent with Meyer's process for designing and implementing change?

Sources: Mark Matousek, "Danny Meyer Banned Tipping at his Restaurants- But Employees Say it has Led to Lower Pay and High Turnover," *Business Insider*, October 20, 2017, <http://www.businessinsider.com/danny-meyers-no-tip-policy-struggles-2017-10>; Loren Feldman, "Danny Meyer On Eliminating Tipping: 'It Takes a Year to Get The Math Right,'" *Forbes*, January 14, 2018, <https://www.forbes.com/sites/lorenfeldman/2018/01/14/danny-meyer-on-eliminating-tipping-it-takes-a-year-to-get-the-math-right/#189bd5c8431f>; Elizabeth Dunn, "The Limitations of American Restaurants' No-Tipping Experience," *The New Yorker*, February 24, 2018, <https://www.newyorker.com/culture/annals-of-gastronomy/the-limitations-of-american-restaurants-no-tipping-experiment>.

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## 8 - MANAGING TEAMS

### Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. What is the benefit of working in teams, and what makes teams effective?
2. How do teams develop over time?
3. What are some key considerations in managing teams?
4. What are the benefits of conflict for a team?
5. How does team diversity enhance decision-making and problem-solving?
6. What are some challenges and best practices for managing and working with multicultural teams?

### EXPLORING MANAGERIAL CAREERS

*Eva Hartmann, Trellis LLC*

Eva Hartmann has nearly 20 years of experience as a strategic, results-driven, innovative leader with significant expertise in human resources strategy, talent and leadership development, and organizational effectiveness. She has worked in a variety of industries, from manufacturing to Fortune 500 consulting. Eva is a transformational change agent who has developed and led strategic human capital programs and talent initiatives in multiple challenging environments globally. Eva is passionate about enhancing both individual and organizational performance.

Eva began her career in one of the large “Big 6” management consulting firms at the time, and she happily returned several years ago to consulting. She is the founder and president of Trellis LLC, a human capital consulting and staffing firm in Richmond, Virginia.

Prior to Trellis, Eva was the global human resources leader for a large global manufacturer of plastic film products and was responsible for the HR strategy and operations of a \$600 million global division. In this role, Eva led a global team of HR managers in North and South America, Europe, and Asia to support global HR initiatives to drive business results and build human capital and performance across the division.

Eva has also held a variety of leadership and managerial roles in both human resources and quality functions at several nationally and globally recognized companies, including Wachovia Securities, Genworth Financial, Sun Microsystems, and Andersen Consulting (now Accenture).

Eva holds an MBA from the College of William and Mary in Williamsburg, Virginia, and a BA in anthropology from the University of Virginia in Charlottesville, Virginia. She is also an adjunct faculty member with the University of Richmond Robins School of Business. Eva currently serves on the board of the Society of Human Resource Management (SHRM) of Richmond, Virginia.

Much of the work that is performed today in organizations requires a focus on teamwork. The ability to work successfully as a team member, as well as the ability to lead teams, is an ultimate advantage within the workforce. Teams themselves must be managed, in addition to managing just the individuals, to be successful. We've all heard the quote originally coined by Aristotle that states that "the whole is greater than the sum of its parts." This captures the nature of the team perfectly—there is such a synergy that comes from a team that the individuals alone are not able to create. This chapter details the importance of and benefits that you may derive from working as a team, as well as some of the ways we can make our teams more successful.

## 8.1 Teamwork in the Workplace

### 1. What is a team, and what makes a team effective?

Teamwork has never been more important in organizations than it is today. Whether you work in a manufacturing environment and utilize self-directed work teams, or if you work in the “knowledge economy” and derive benefits from collaboration within a team structure, you are harnessing the power of a team.

A team, according to Katzenbach and Smith in their *Harvard Business Review* (HBR) article “The Discipline of Teams,” is defined as “people organized to function cooperatively as a group.”<sup>1</sup> The five elements that make teams function are:

- Common commitment and purpose
- Specific performance goals
- Complementary skills
- Commitment to how the work gets done
- Mutual accountability

A team has a specific purpose that it delivers on, has shared leadership roles, and has both individual and mutual accountabilities. Teams discuss, make decisions, and perform real work together, and they measure their performance by assessing their collective work products. This is very different from the classic working group in an organization (usually organized by functional area) in which there is a focused leader, individual accountabilities and work products, and a group purpose that is the same as the broader organizational mission. Think of the finance organization or a particular business unit in your company—these are, in effect, larger working groups that take on a piece of the broader organizational mission. They are organized under a leader, and their effectiveness is measured by its influence on others within the business (e.g., financial performance of the business.)

So, what makes a team truly effective? According to Katzenbach and Smith’s “Discipline of Teams,” there are several practices that the authors have observed in successful teams. These practices include:

Establish urgency, demanding performance standards, and direction. Teams work best when they have a compelling reason for being, and it is thus more likely that the teams will be successful and live up to performance expectations. We’ve all seen the teams that are brought together to address an “important initiative” for the company, but without clear direction and a truly compelling reason to exist, the team will lose momentum and wither.

Select members for their skill and skill potential, not for their personality. This is not always as easy as it sounds for several reasons. First, most people would prefer to have those with good personalities and positive attitudes on their team in order to promote a pleasant work environment. This is fine, but make sure that those individuals have the skill sets needed (or the potential to acquire/learn) for their piece of the project. The second caveat here is that you don’t always know what skills you need on a project until you really dig in and see what’s going on. Spend some time up front thinking about the purpose of the project and the anticipated deliverables you will be producing, and think through the specific types of skills you’ll need on the team.

Pay particular attention to first meetings and actions. This is one way of saying that first impressions mean a lot—and it is just as important for teams as for individuals. Teams will interact with everyone from functional subject-matter experts all the way to senior leadership, and the team must look competent and be perceived as competent. Keeping an eye on your team’s level of emotional intelligence is very important and will enhance your team’s reputation and ability to navigate stakeholders within the organization.

Set some clear rules of behavior. I have been through many meetings and team situations in which we have rushed through “ground rules” because it felt like they were obvious—and everyone always came up with the same list. It is so critical that the team takes the time up front to capture their own rules of the road in order to keep the team in

check. Rules that address areas such as attendance, discussion, confidentiality, project approach, and conflict are key to keeping team members aligned and engaged appropriately.

Set and seize upon a few immediate performance-oriented tasks and goals. What does this mean? Have some quick wins that make the team feel that they're really accomplishing something and working together well. This is very important to the team's confidence, as well as just getting into the practices of working as a team. Success in the larger tasks will come soon enough, as the larger tasks are really just a group of smaller tasks that fit together to produce a larger deliverable.

Challenge the group regularly with fresh facts and information. That is, continue to research and gather information to confirm or challenge what you know about your project. Don't assume that all the facts are static and that you received them at the beginning of the project. Often, you don't know what you don't know until you dig in. I think that the pace of change is so great in the world today that new information is always presenting itself and must be considered in the overall context of the project.

Spend lots of time together. Here's an obvious one that is often overlooked. People are so busy that they forget that an important part of the team process is to spend time together, think together, and bond. Time in person, time on the phone, time in meetings—all of it counts and helps to build camaraderie and trust.

Exploit the power of positive feedback, recognition, and reward. Positive reinforcement is a motivator that will help the members of the team feel more comfortable contributing. It will also reinforce the behaviors and expectations that you're driving within the team. Although there are many extrinsic rewards that can serve as motivators, a successful team begins to feel that its own success and performance is the most rewarding.

Collaboration is another key concept and method by which teams can work together very successfully. Bringing together a team of experts from across the business would seem to be a best practice in any situation. However, Gratton and Erickson, in their article *Eight Ways to Build Collaborative Teams*, found that collaboration seems to decrease sharply when a team is working on complex project initiatives. In their study, they examined 55 larger teams and identified those with strong collaboration skills, despite the level of complexity. There were eight success factors for having strong collaboration skills:

- “Signature” relationship practices
- Role models of collaboration among executives
- Establishment of “gift” culture, in which managers mentor employees
- Training in relationship skills
- A sense of community
- Ambidextrous leaders—good at task and people leadership
- Good use of heritage relationships
- Role clarity and task ambiguity<sup>2</sup>

As teams grow in size and complexity, the standard practices that worked well with small teams don't work anymore. Organizations need to think about how to make collaboration work, and they should leverage the above best practices to build relationships and trust.

## CONCEPT CHECK

1. What is the definition of a team?

2. Name some practices that can make a team more successful.

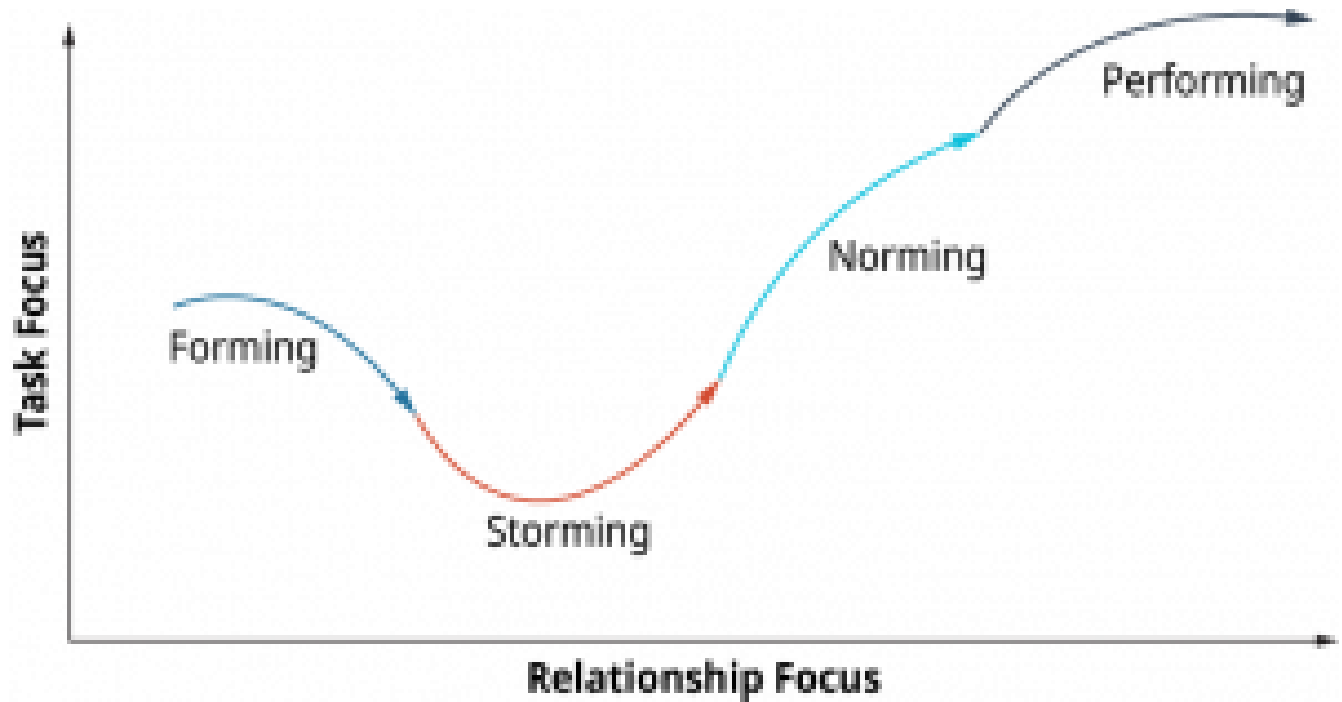
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## 8.2 Team Development Over Time

### 2. How do teams develop over time?

If you have been a part of a team—as most of us have—then you intuitively have felt that there are different “stages” of team development. Teams and team members often start from a position of friendliness and excitement about a project or endeavor, but the mood can sour and the team dynamics can go south very quickly once the real work begins. In 1965, educational psychologist Bruce Tuckman at Ohio State University developed a four-stage model to explain the complexities that he had witnessed in team development. The original model was called Tuckman's Stages of Group Development, and he added the fifth stage of “Adjourning” in 1977 to explain the disbanding of a team at the end of a project. The four stages of the Tuckman model are:<sup>3</sup>

- Forming
- Storming
- Norming
- Performing



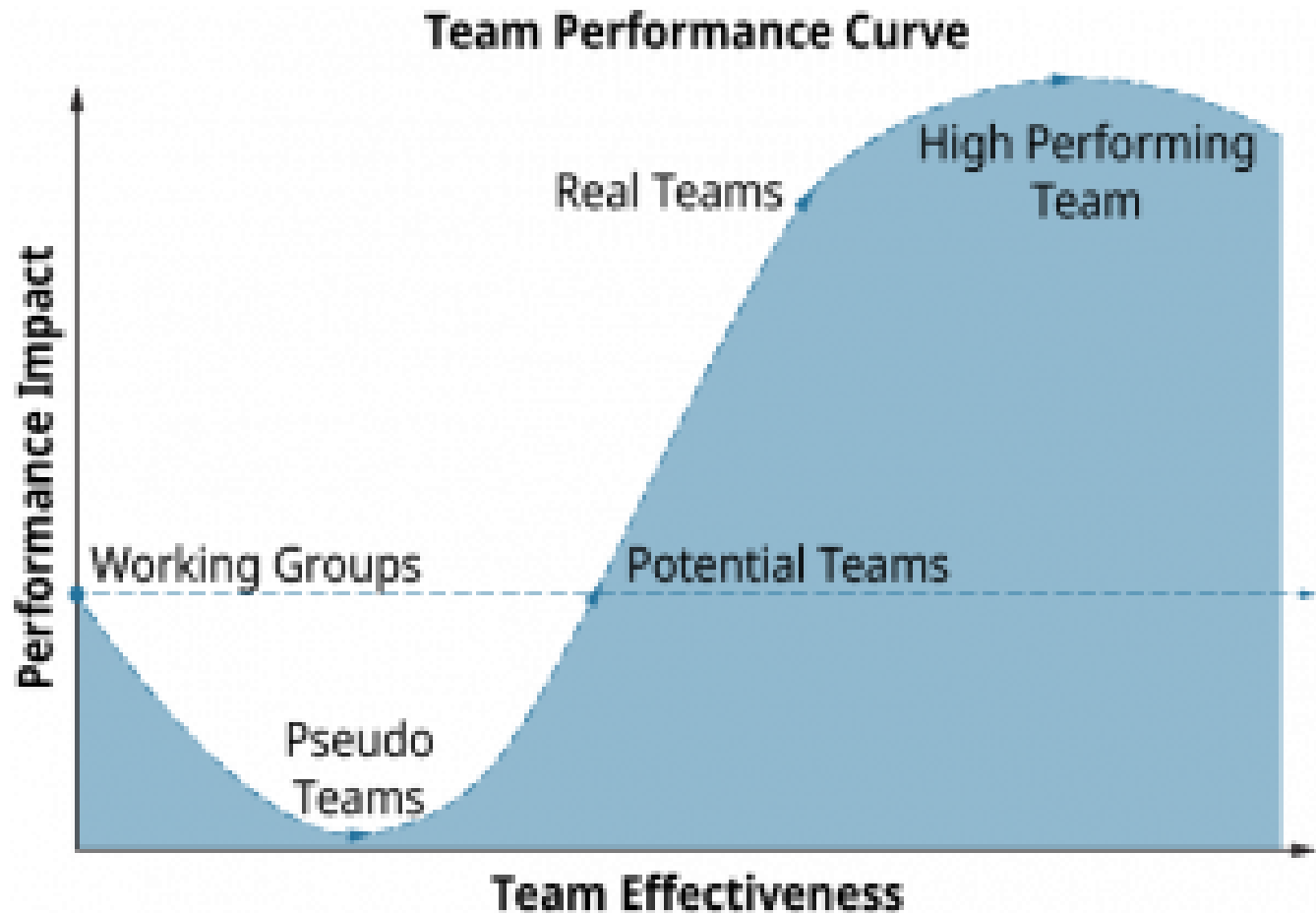
**Exhibit 8.1 Tuckman's Model of Team Development** Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license

The Forming stage begins with the introduction of team members. This is known as the “polite stage” in which the team is mainly focused on similarities and the group looks to the leader for structure and direction. The team members at this point are enthusiastic, and issues are still being discussed on a global, ambiguous level. This is when the informal pecking order begins to develop, but the team is still friendly.

The Storming stage begins as team members begin vying for leadership and testing the group processes. This is known as the “win-lose” stage, as members clash for control of the group and people begin to choose sides. The attitude about the team and the project begins to shift to negative, and there is frustration around goals, tasks, and progress.

After what can be a very long and painful Storming process for the team, slowly the Norming stage may start to take root. During Norming, the team is starting to work well together, and buy-in to group goals occurs. The team is establishing and maintaining ground rules and boundaries, and there is willingness to share responsibility and control. At this point in the team formation, members begin to value and respect each other and their contributions.

Finally, as the team builds momentum and starts to get results, it is entering the Performing stage. The team is completely self-directed and requires little management direction. The team has confidence, pride, and enthusiasm, and there is a congruence of vision, team, and self. As the team continues to perform, it may even succeed in becoming a high-performing team. High-performing teams have optimized both task and people relationships—they are maximizing performance and team effectiveness. Katzenberg and Smith, in their study of teams, have created a “team performance curve” that graphs the journey of a team from a working group to a high-performing team. The team performance curve is illustrated in **Exhibit 8.2**



**Exhibit 8.2 Team Performance Curve** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The process of becoming a high-performance team is not a linear process. Similarly, the four stages of team development in the Tuckman model are not linear, and there are also factors that may cause the team to regress to an earlier stage of development. When a team member is added to the group, this may change the dynamic enough and be disruptive enough to cause a backwards slide to an earlier stage. Similarly, if a new project task is introduced that causes confusion or anxiety for the group, then this may also cause a backwards slide to an earlier stage of development. Think of your own experiences with project teams and the backslide that the group may have taken when another team member was introduced. You may have personally found the same to be true when a leader or project sponsor changes the scope or adds a new project task. The team has to re-group and will likely re-Storm and re-Form before getting back to Performing as a team.

## CATCHING THE ENTREPRENEURIAL SPIRIT

### *Starting the Startup Team*

Nothing is more exciting than a startup business. The enthusiasm is high, and people are excited about the new venture and the prospects that await. Depending on the situation, there may be funding that the startup has received from investors, or the startup could be growing and powering itself organically. Either way, the startup faces many different questions in the beginning, which will have a tremendous impact on its growth potential and performance down the road. One of the most critical questions that faces a startup—or any business for that matter—is the question of who should be on the team. Human capital is the greatest asset that any company can have, and it is an especially critical decision in a startup environment when you have limited resources and those resources will be responsible for building the company from ground up.

In Noam Wasserman's January 2012 HBSP article "Assembling the Startup Team," Wasserman asserts:

*"Nothing can bedevil a high-potential startup more than its people problems. In research on startup performance, venture capitalists attributed 65% of portfolio company failures to problems within the startup's management team. Another study asked investors to identify problems that might occur at their portfolio companies; 61% of the problems involved team issues. These problems typically result from choices that founders make as they add team members..."*

These statistics are based on people problems in startups, and it isn't quite clear what percent of larger company failures could be directly or indirectly attributed to people and team issues. I would imagine that the percentage is also significant. The impact of people problems and team issues in a startup organization that is just getting its footing and trying to make the right connections and decisions can be very significant. If you know anyone who has a company in startup mode, you may have noticed that some of the early team members who are selected to join the team are trusted family members, friends, or former colleagues. Once a startup company grows to a certain level, then it may acquire an experienced CEO to take the helm. In any case, the startup is faced early on with important questions on how to build the team in a way that will maximize the chance of success.

In "Assembling the Startup Team," the author refers to the three Rs: relationships, roles, and rewards as being key elements that must be managed effectively in order to avoid problems in the long term. Relationships refers to the actual team members that are chosen, and there are several caveats to keep in mind. Hiring relatives or close friends because they are trusted may seem like the right idea in the beginning, but the long-term hazards (per current research) outweigh the benefits. Family and friends may think too similarly, and the team misses the benefit of other perspectives and connections. Roles are important because you have to think about the division of labor and skills, as well as who is in the right roles for decision-making. The startup team needs to think through the implications of assigning people to specific roles, as that may dictate their decision power and status. Finally, defining the rewards can be difficult for the startup team because it essentially means that they are splitting the pie—i.e., both short-term and long-term compensation. For startup founders, this can be a very difficult decision when they



have to weigh the balance of giving something away versus gaining human capital that may ultimately help the business to succeed. Thinking through the tradeoffs and keeping alignment between the “three Rs” is important because it challenges the startup team to think of the long-term consequences of some of their early decisions. It is easy to bring family and friends into the startup equation due to trust factors, but a careful analysis of the “three Rs” will help a startup leadership team make decisions that will pay off in the long term.

#### Discussion Questions

1. Why might it be a bad decision to hire someone for a key startup role based only on the fact that the person is close family or a friend? What are the potential tradeoffs to the business?
2. What does it mean for the “three Rs” to be in alignment? What is the potential risk of these not being in alignment? What could go wrong?

#### CONCEPT CHECK

1. What are the four stages of team development?
2. What can cause a team to regress in its development?

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## 8.3 Things to Consider When Managing Teams

### 3. What are some key considerations in managing teams?

For those of us who have had the pleasure of managing or leading a team, we know that it can feel like a dubious distinction. Leading a team is fulfilling—especially if the task or organizational mandate at hand is so critical to the organization that people are happy to be a part of the team that drives things forward. It can also be an exercise in frustration, as the charge is to lead a group composed of various individuals, which at various times will act both like a group and like a bunch of individuals. Managing teams is no small feat, and the most experienced managers truly understand that success ultimately depends on their ability to build a strong and well-functioning team. In J.J. Gabarro's *The Dynamics of Taking Charge* (HBS Press, 1987, pp. 85–87), he quotes a manager who had successfully worked to turn around a number of organizations:<sup>4</sup>

“People have to want to work together; they have to see how to do it. There has to be an environment for it and that takes time. It's my highest priority right now but I don't write it down anywhere because it's not like other priorities. If I told corporate that building a team was my prime goal they'd tell me, so what? They'd expect that as part of making things better.”

I love this quotation because it's so indicative of the state of most organizations today. The focus is on corporate goals and priorities—very task-driven and outcome-driven—but it is the people dynamics and how people work together in the company and in TEAMS that can make a real difference to the goals and outcome.

## MANAGERIAL LEADERSHIP

### *Who Am I Managing?*

Making the jump from individual contributor to manager is never easy, and it doesn't take long for a new manager to realize that what got him there is much different than what is needed to be successful in the future. Individual contributors that have been recently promoted would probably say that they have strong technical skills in their area, and that they were very good at doing what they were doing. In a more savvy organization that recognizes leadership competencies, individual contributors would probably say that they have strong technical skills AND that they showed some behaviors and potential to lead others. When new managers enter their new roles, they expect that they will be managing people—that is, the people on their teams. Few new managers fully realize that the challenge ahead is not just in managing their people, but in managing all the other stakeholders and constituencies that want to and need to weigh in.

One of the key challenges that faces new managers is figuring out to balance all of the multiple demands from both the team and the stakeholders and constituencies external to the team. Linda A. Hill, the Wallace Brett Donham Professor of Business Administration at Harvard Business School, states that “among all the challenges facing new managers, the need to reconcile different constituencies' expectations and interests is probably the most difficult.” She asserts that the demands that the new manager's direct reports, his peers, his boss, and the company's customers place on the new manager will cause conflict at times. Having teams of their own, new managers may think that managing their direct reports is the most important role to play, even at the exclusion of managing other stakeholders. This is incorrect. A new manager needs to “manage his other consistencies just as carefully.” (“Helping New Managers Succeed,” Lauren Keller Johnson, *HBR* 2008).

Whenever I started a new role, I always created a quick stakeholder checklist for myself. This document is essentially a list of all the stakeholders (beyond the team I am managing) with whom I need to build a relationship in order to be

successful. I listed the names of my boss, my boss's boss, my peers, and any other key influencers or internal customers from the business. This is a quick checklist of the people that I need to immediately have a “meet and greet” with and then possibly even set up a regular meeting with at a certain cadence. I have learned over the years that each of these stakeholders will have some input and impact on my success, and the quicker and more effectively I engage them in the work my team is performing, the better the chance of my team's success. Some of the questions I will ask myself when figuring out my stakeholder list include:

- Whose support will I need?
- Who needs my support? What do they need from me or my team?
- Who can keep me and my team from being successful?
- What is my ongoing influencing strategy?

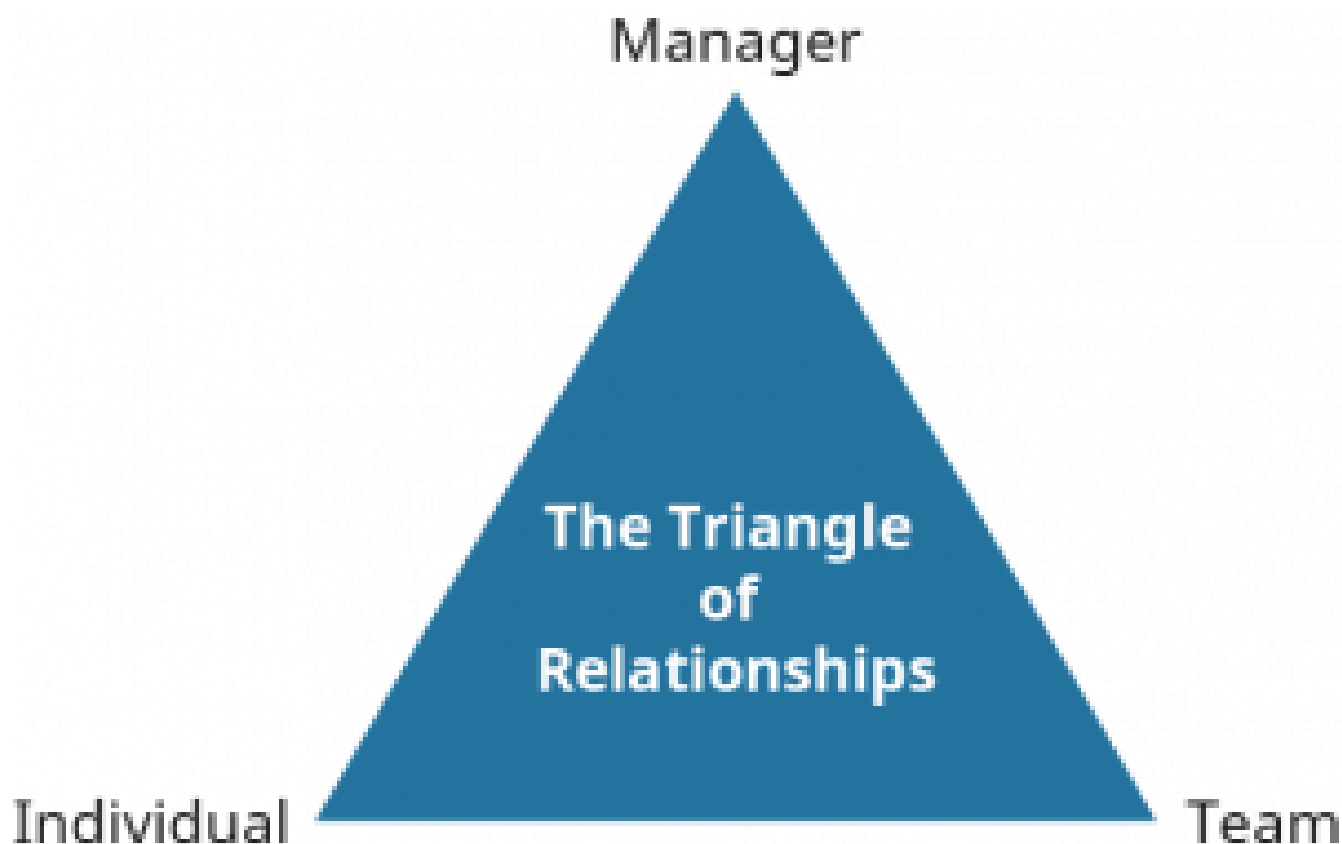
Some new managers will feel that these strategies for building stakeholder support are too “political” and they don't feel right. Trust me when I tell you that this is a necessary part of the new manager role, because now the role and the work call for greater interdependence and relation building in order to be successful. It is no longer just about individual technical skills, but more about building and managing relationships with people who will support you and your team to get your work done. So, if you are a new manager asking “Who am I managing?” ... the answer is EVERYONE.

#### Discussion Questions

1. Do you agree with the statement that “what got you there isn't what will make you successful in the future”? Why or why not?
2. Who would be on your stakeholder checklist? Which stakeholders are you already engaging and building relationships with?

In Linda A. Hill's *Harvard Business Review* article “Managing Your Team”<sup>5</sup> (HBR 1995), she discusses that managing a team means managing paradox. Paradox exists in the fact that teams have both individual and collective identities and goals. Each individual has goals and ideas as to what he wants to accomplish—on the project, in one's career, and in life. The team itself, of course, has goals and success metrics that it needs to meet in order to be successful. Sometimes these can be in conflict with each other. Competition may arise among team members, and a win-loss attitude may take place over a collaborative and problem-solving team dynamic. The team manager may need to step in to help integrate all of the individual differences to enable them to productively pursue the team goal. Therein lies the primary paradox—balancing individual differences and goals AND the collective identity and goals. Other paradoxes include:

- Fostering support AND confrontation among team members
- Focusing on performance AND learning and development
- Balancing managerial authority AND team member discretion and autonomy
- Balancing the Triangle of Relationships—manager, team, and individual



**Exhibit 8.3 The Triangle of Relationships** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Managing a team also means managing its boundaries. Managing the team's boundaries—or space between the team and its external forces, stakeholders, and pressures—is a delicate balance of strategy, stakeholder management, and organizational behavior. The team manager must serve, in part, as a buffer to these external factors so that they don't derail or distract the team from its goals. However, the manager must also understand enough about the external environment and have enough emotional intelligence to understand which forces, players, or situations must be synthesized within the team for its own benefit. Think about any medium or large-scale change initiative that you have been a part of in your career. Ideally, there is generally a vision for change and a level of sponsorship at the senior levels of the organization that is supposed to pave the way for that change to take root. The project team is officially “blessed” to kick off the team, create a charter, and identify the needed actions to drive the initiative to successful completion.

The dynamic that ensues after the kickoff is really what will determine the success of the team. There are numerous stakeholders in any organization, and many will be pro-change initiative, but others may be against the initiative—either due to lack of understanding or concerns about losing power, territory, etc. The external environment and business strategy may not be particularly well suited for a change initiative to take place, and so there may be the feeling of forces opposing the project team efforts. A strong team manager needs manage these “boundaries” with the organization to help the team navigate through and with the organizational complexities, goals, nuances, and egos that are a part of any organization. In Linda A. Hill's *Harvard Business Review* article “Exercising Influence,” she states that “managers also need to manage relationships with those who are outside their team but inside their organizations.”<sup>6</sup> To do so, they must understand the power dynamics of the larger organization and invest time and energy in building and maintaining relationship with those on who the team is dependent.” It is also, in her view, “the manager's job, at a minimum, to educate other about organizational structures, systems, or politics that interfere with the team's performance.” With all of the potential external influences on a team, managing a team's boundaries can truly mean the difference between success and failure.

The final element of managing a team is to manage the team itself—both the people elements and the process

elements, or task at hand. The process-focused elements include managing the work plan to reach the overall goal, as well as the incremental meetings and milestones that are a part of the team's journey to reach the longer-term goal. Keeping the team focused on its objectives—beginning with setting agendas all the way to managing project tasks and celebrating milestones—assures that the team will stay on track. Projects and initiatives vary in size, scope, and complexity, and so the project management tools shouldn't be prescribed in a general sense. The important takeaway here is to choose an approach and a tool that works for the culture of the team and the organization, and that helps the team understand where they are, where they need to go, and what resources are a part of that process.

In managing the team members and interpersonal dynamics, there is the important element of selecting the right team members, shaping the team's norms and culture (how are decisions made, what are our rules, how do we manage conflict, etc.), and coaching the team. Defining the right skill sets, functions, perspectives, and expertise of the members will ensure a solid foundation. Helping the team to identify and formalize the ground rules for team engagement will help manage in the face of adversity or team conflict in the future. Finally, playing a role as a supportive coach will help both the individual team members and the group entity think through issues and make progress towards goals. A coach doesn't solve the individual/team problem, but helps the team think through a solution and move forward. Teams may need guidance on how to work things out within the team, and the manager must provide feedback and hold team members accountable for their behavior and contribution. Continuous improvement is the name of the game. A team may not start out as high performing, but they can certainly achieve that goal if everyone is focused on incremental improvements to communication, collaboration, and performance.

## CONCEPT CHECK

1. Discuss the paradox(es) of a team.
2. How can a leader manage team boundaries?

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## 8.4 Opportunities and Challenges to Team Building

### 4. What are the benefits of conflict for a team?

There are many sources of **conflict** for a team, whether it is due to a communication breakdown, competing views or goals, power struggles, or conflicts between different personalities. The perception is that conflict is generally bad for a team and that it will inevitably bring the team down and cause them to spiral out of control and off track. Conflict does have some potential costs. If handled poorly, it can create distrust within a group, it can be disruptive to group progress and morale, and it could be detrimental to building lasting relationships. It is generally seen as a negative, even though constructive conflicts and constructive responses to conflicts can be an important developmental milestone for a team. Some potential benefits of conflict are that it encourages a greater diversity of ideas and perspectives and helps people to better understand opposing points of view. It can also enhance a team's problem-solving capability and can highlight critical points of discussion and contention that need to be given more thought.

Another key benefit or outcome of conflict is that a team that trusts each other—its members and members' intentions—will arise from conflict being a stronger and higher-performing team. Patrick Lencioni, in his bestselling book *The Five Dysfunctions of a Team* (2002, p. 188), writes:<sup>7</sup>

*“The first dysfunction is an absence of trust among team members. Essentially, this stems from their unwillingness to be vulnerable within the group. Team members who are not genuinely open with one another about their mistakes and weaknesses make it impossible to build a foundation for trust. This failure to build trust is damaging because it sets the tone for the second dysfunction: fear of conflict. Teams that lack trust are incapable of engaging in unfiltered and passionate debate of ideas. Instead, they resort to veiled discussions and guarded comments.”*

Lencioni also asserts that if a team doesn't work through its conflict and air its opinions through debate, team members will never really be able to buy in and commit to decisions. (This lack of commitment is Lencioni's third dysfunction.) Teams often have a fear of conflict so as not to hurt any team members' feelings. The downside of this avoidance is that conflicts still exist under the surface and may resurface in more insidious and back-channel ways that can derail a team. How can a team overcome its fear of conflict and move the team forward? Lencioni names a few strategies that teams can use to make conflict more common and productive. Mining is a technique that can be used in teams that tend to avoid conflict. This technique requires that one team member “assume the role of a ‘miner of conflict’—someone who extracts buried disagreements within the team and sheds the light of day on them. They must have the courage and confidence to call out sensitive issues and force team members to work through them.” Real-time permission is another technique to “recognize when the people engaged in conflict are becoming uncomfortable with the level of discord, and then interrupt to remind them that what they are doing is necessary.” This technique can help the group to focus on the points of conflict by coaching the team not to sweep things under the rug.

The team leader plays a very important role in the team's ability to address and navigate successfully through conflicts. Sometime a leader will have the attitude that conflict is a derailer and will try to stymie it at any cost. This ultimately leads to a team culture in which conflict is avoided and the underlying feelings are allowed to accumulate below the surface of the discussion. The leader should, by contrast, model the appropriate behavior by constructively addressing conflict and bringing issues to the surface to be addressed and resolved by the team. This is key to building a successful and effective team.

There are a variety of individual responses to conflict that you may see as a team member. Some people take the constructive and thoughtful path when conflicts arise, while others may jump immediately to destructive behaviors. In *Managing Conflict Dynamics: A Practical Approach*, Capobianco, Davis, and Kraus (2005) recognized that there are both constructive and destructive responses to conflict, as well as active and passive responses that we need to recognize. In the event of team conflict, the goal is to have a constructive response in order to encourage dialogue, learning, and resolution.<sup>8</sup> Responses such as perspective taking, creating solutions, expressing emotions, and reaching out are considered active and constructive responses to conflict. Reflective thinking, delay responding, and adapting are

considered passive and constructive responses to conflict. See **Exhibit 8.4** for a visual of the constructive responses, as well as the destructive responses, to conflict.

	Constructive	Destructive
Active	<ul style="list-style-type: none"><li>• Perspective taking</li><li>• Creating solutions</li><li>• Expressing emotions</li><li>• Reaching out</li></ul>	<ul style="list-style-type: none"><li>• Winning</li><li>• Displaying anger</li><li>• Demeaning others</li><li>• Retaliating</li></ul>
Passive	<ul style="list-style-type: none"><li>• Reflective thinking</li><li>• Delay responding</li><li>• Adapting</li></ul>	<ul style="list-style-type: none"><li>• Avoiding</li><li>• Yielding</li><li>• Hiding emotions</li><li>• Self-criticizing</li></ul>

**Exhibit 8.4 Responses to Conflict** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

In summary, conflict is never easy for an individual or a team to navigate through, but it can and should be done. Illuminating the team about areas of conflict and differing perspectives can have a very positive impact on the growth and future performance of the team, and it should be managed constructively.

CONCEPT CHECK

1. What are some techniques to make conflict more productive?
2. What are some destructive responses to conflict?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 8.5 Team Diversity

### 5. How does team diversity enhance decision-making and problem-solving?

Decision-making and problem-solving can be much more dynamic and successful when performed in a diverse team environment. The multiple diverse perspectives can enhance both the understanding of the problem and the quality of the solution. As I reflect on some of the leadership development work that I have done in my career, I can say from experience that the team activities and projects that intentionally brought diverse individuals together created the best environments for problem-solving. Diverse leaders from a variety of functions, from across the globe, at varying stages of their careers and experiences with and outside of the company had the most robust discussions and perspectives.

**Diversity** is a word that is very commonly used today, but the importance of diversity and building diverse teams can sometimes get lost in the normal processes of doing business. Let's discuss why we need to keep these principles front of mind.

In the *Harvard Business Review* article “Why Diverse Teams are Smarter” (Nov. 2016), David Rock and Heidi Grant support the idea that increasing workplace diversity is a good business decision.<sup>9</sup> A 2015 McKinsey report on 366 public companies found that those in the top quartile for ethnic and racial diversity in management were 35% more likely to have financial returns above their industry mean, and those in the top quartile for gender diversity were 15% more likely to have returns above the industry mean. Similarly, in a global analysis conducted by Credit Suisse, organizations with at least one female board member yielded a higher return on equity and higher net income growth than those that did not have any women on the board.

Additional research on diversity has shown that diverse teams are better at decision-making and problem-solving because they tend to focus more on facts, per the Rock and Grant article.<sup>10</sup> A study published in the *Journal of Personality and Social Psychology* showed that people from diverse backgrounds “might actually alter the behavior of a group's social majority in ways that lead to improved and more accurate group thinking.” It turned out that in the study, the diverse panels raised more facts related to the case than homogenous panels and made fewer factual errors while discussing available evidence. Another study noted in the article showed that diverse teams are “more likely to constantly reexamine facts and remain objective. They may also encourage greater scrutiny of each member's actions, keeping their joint cognitive resources sharp and vigilant. By breaking up workforce homogeneity, you can allow your employees to become more aware of their own potential biases—entrenched ways of thinking that can otherwise blind them to key information and even lead them to make errors in decision-making processes.” In other words, when people are among homogeneous and like-minded (nondiverse) teammates, the team is susceptible to groupthink and may be reticent to think about opposing viewpoints since all team members are in alignment. In a more diverse team with a variety of backgrounds and experiences, the opposing viewpoints are more likely to come out and the team members feel obligated to research and address the questions that have been raised. Again, this enables a richer discussion and a more in-depth fact-finding and exploration of opposing ideas and viewpoints in order to solve problems.

Diversity in teams also leads to greater innovation. A Boston Consulting Group article entitled “The Mix that Matters: Innovation through Diversity” explains a study in which BCG and the Technical University of Munich conducted an empirical analysis to understand the relationship between diversity in managers (all management levels) and innovation. The key findings of this study show that:<sup>11</sup>

- The positive relationship between management diversity and innovation is statistically significant—and thus companies with higher levels of diversity derive more revenue from new products and services.
- The innovation boost isn't limited to a single type of diversity. The presence of managers who are either female or are from other countries, industries, or companies can cause an increase in innovation.
- Management diversity seems to have a particularly positive effect on innovation at complex companies—those that have multiple product lines or that operate in multiple industry segments.



- To reach its potential, gender diversity needs to go beyond tokenism. In the study, innovation performance only increased significantly when the workforce included more than 20% women in management positions. Having a high percentage of female employees doesn't increase innovation if only a small number of women are managers.
- At companies with diverse management teams, openness to contributions from lower-level workers and an environment in which employees feel free to speak their minds are crucial for fostering innovation.

When you consider the impact that diverse teams have on decision-making and problem-solving—through the discussion and incorporation of new perspectives, ideas, and data—it is no wonder that the BCG study shows greater innovation. Team leaders need to reflect upon these findings during the early stages of team selection so that they can reap the benefits of having diverse voices and backgrounds.

### CONCEPT CHECK

1. Why do diverse teams focus more on data than homogeneous teams?
2. How are diversity and innovation related?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 8.6 Multicultural Teams

### 6. What are some challenges and best practices for managing and working with multicultural teams?

As globalization has increased over the last decades, workplaces have felt the impact of working within multicultural teams. The earlier section on team diversity outlined some of the highlights and benefits of working on diverse teams, and a multicultural group certainly qualifies as diverse. However, there are some key practices that are recommended to those who are leading multicultural teams so that they can parlay the diversity into an advantage and not be derailed by it.

People may assume that communication is the key factor that can derail multicultural teams, as participants may have different languages and communication styles. In the *Harvard Business Review* article “Managing Multicultural Teams,” the authors point out four key cultural differences that can cause destructive conflicts in a team.<sup>12</sup> The first difference is *direct versus indirect communication*. Some cultures are very direct and explicit in their communication, while others are more indirect and ask questions rather than pointing out problems. This difference can cause conflict because, at the extreme, the direct style may be considered offensive by some, while the indirect style may be perceived as unproductive and passive-aggressive in team interactions.

The second difference that multicultural teams may face is *trouble with accents and fluency*. When team members don't speak the same language, there may be one language that dominates the group interaction—and those who don't speak it may feel left out. The speakers of the primary language may feel that those members don't contribute as much or are less competent. The next challenge is when there are *differing attitudes toward hierarchy*. Some cultures are very respectful of the hierarchy and will treat team members based on that hierarchy. Other cultures are more egalitarian and don't observe hierarchical differences to the same degree. This may lead to clashes if some people feel that they are being disrespected and not treated according to their status. The final difference that may challenge multicultural teams is *conflicting decision-making norms*. Different cultures make decisions differently, and some will apply a great deal of analysis and preparation beforehand. Those cultures that make decisions more quickly (and need just enough information to make a decision) may be frustrated with the slow response and relatively longer thought process.

These cultural differences are good examples of how everyday team activities (decision-making, communication, interaction among team members) may become points of contention for a multicultural team if there isn't adequate understanding of everyone's culture. The authors propose that there are several potential interventions to try if these conflicts arise. One simple intervention is adaptation, which is working with or around differences. This is best used when team members are willing to acknowledge the cultural differences and learn how to work with them. The next intervention technique is structural intervention, or reorganizing to reduce friction on the team. This technique is best used if there are unproductive subgroups or cliques within the team that need to be moved around. Managerial intervention is the technique of making decisions by management and without team involvement. This technique is one that should be used sparingly, as it essentially shows that the team needs guidance and can't move forward without management getting involved. Finally, exit is an intervention of last resort, and is the voluntary or involuntary removal of a team member. If the differences and challenges have proven to be so great that an individual on the team can no longer work with the team productively, then it may be necessary to remove the team member in question.

There are some people who seem to be innately aware of and able to work with cultural differences on teams and in their organizations. These individuals might be said to have cultural intelligence. Cultural intelligence is a competency and a skill that enables individuals to function effectively in cross-cultural environments. It develops as people become more aware of the influence of culture and more capable of adapting their behavior to the norms of other cultures. In the *IESE Insight* article entitled “Cultural Competence: Why It Matters and How You Can Acquire It” (Lee and Liao, 2015), the authors assert that “multicultural leaders may relate better to team members from different cultures and resolve conflicts more easily.”<sup>13</sup> Their multiple talents can also be put to good use in international negotiations.” Multicultural

leaders don't have a lot of "baggage" from any one culture, and so are sometimes perceived as being culturally neutral. They are very good at handling diversity, which gives them a great advantage in their relationships with teammates.

In order to help employees become better team members in a world that is increasingly multicultural, there are a few best practices that the authors recommend for honing cross-cultural skills. The first is to "broaden your mind"—expand your own cultural channels (travel, movies, books) and surround yourself with people from other cultures. This helps to raise your own awareness of the cultural differences and norms that you may encounter. Another best practice is to "develop your cross-cultural skills through practice" and experiential learning. You may have the opportunity to work or travel abroad—but if you don't, then getting to know some of your company's cross-cultural colleagues or foreign visitors will help you to practice your skills. Serving on a cross-cultural project team and taking the time to get to know and bond with your global colleagues is an excellent way to develop skills. In my own "past life," I led a global human resources organization, and my team included employees from China, India, Brazil, Hungary, the Netherlands, and the United States. We would have annual meetings as a global HR team, and it was so rewarding to share and learn about each other's cultures. We would initiate the week with a gift exchange in a "show and tell" format from our various countries, so that everyone would learn a little bit more about the cultures in which our fellow colleagues were working. This type of interaction within a global team is a great way to facilitate cross-cultural understanding and communication, and to sharpen everyone's cultural intelligence.

## MANAGING CHANGE

### *Understanding Our Global Colleagues*

If you are a part of a global team, there are so many challenges that confront you even before you talk about people dynamics and cultural differences. You first may have to juggle time zone differences to find an adequate meeting time that suits all team members. (I used to have a team call with my Chinese colleagues at 8 p.m. my time, so that I could catch them at 8 a.m. in China the next day!) Language challenges can also pose a problem. In many countries, people are beginning to learn English as one of the main business languages. However, as I have experienced, people don't always speak their language the same way that you might learn their language in a book. There are colloquialisms, terms, and abbreviations of words that you can't learn in a classroom—you need to experience how people speak in their native countries.

You also need to be open-minded and look at situations from the perspective of your colleagues' cultures, just as you hope they will be open-minded about yours. This is referred to as cultural intelligence. Whenever I would travel globally to visit my colleagues in other countries, I would see foods, traditions, situations, and behaviors that were very "foreign" to me. Although my first response to experiencing these might be to think "wow, that's strange," I would try to think about what some of my global colleagues find "foreign" when they come to visit me in the United States. For example, my travel to China would put me in contact with chicken feet, a very popular food in China and one that I dislike immensely. Whenever I was offered chicken feet, I would turn them down in the most polite way possible and would take another food that was offered instead. I started to wonder about what my Chinese colleagues thought about the food when they'd come to visit me in the United States. Every year, I would host a global HR meeting in the United States, and a bit part of that meeting was the camaraderie and the sharing of various meals together.

When I asked my Chinese colleagues what foods they thought were unpleasant, they mentioned cheese and meat. I was surprised about the meat, and when I asked, they said that it wasn't the meat itself necessarily, but it was the giant portions of meat that Americans will eat that, to them, is pretty unappetizing. Again, it is so important to check yourself and your own culture every so often, and to think about those elements that we take for granted (e.g., gigantic meat portions) and try to look at them from the eyes of another culture. It really makes us smarter and better partners to our global colleagues around the world.

In the HBR article “Getting Cross-Cultural Teamwork Right,” the author states that three key factors—mutual learning, mutual understanding, and mutual teaching—build trust with cross-cultural colleagues as you try to bridge cultural gaps. With mutual learning, global colleagues learn from each other and absorb the new culture and behaviors through listening and observation. In mutual understanding, you try to understand the logic and cultural behaviors of the new culture to understand why people are doing what they do. This, of course, requires suspending judgment and trying to understand and embrace the differences. Finally, mutual teaching involves instructing and facilitating. This means trying to bridge the gap between the two cultures and helping yourself and others see where different cultures are coming from in order to resolve misunderstandings.

Understanding and finding common ground with your global colleagues isn't easy, and it takes patience and continuous improvement. In the end, however, I think that you will find it one of the most rewarding and enlightening things you can do. The more we work to close the multicultural “gap” and make it a multicultural advantage, the better off we will be as professionals and as people.

#### Discussion Questions

1. What are some multicultural experiences that you've had in which you feel that there was a very wide gap between you and an individual from another culture? How did you handle it?
2. Has economic globalization helped people to bridge these cultural gaps? Why or why not?

Once you have a sense of the different cultures and have started to work on developing your cross-cultural skills, another good practice is to “boost your cultural metacognition” and monitor your own behavior in multicultural situations. When you are in a situation in which you are interacting with multicultural individuals, you should test yourself and be aware of how you act and feel. Observe both your positive and negative interactions with people, and learn from them. Developing “cognitive complexity” is the final best practice for boosting multicultural skills. This is the most advanced, and it requires being able to view situations from more than one cultural framework. In order to see things from another perspective, you need to have a strong sense of emotional intelligence, empathy, and sympathy, and be willing to engage in honest communications.

In the *Harvard Business Review* article “Cultural Intelligence,” the authors describe three sources of cultural intelligence that teams should consider if they are serious about becoming more adept in their cross-cultural skills and understanding. These sources, very simply, are head, body, and heart. One first learns about the beliefs, customs, and taboos of foreign cultures via the **head**. Training programs are based on providing this type of overview information—which is helpful, but obviously isn't experiential. This is the cognitive component of cultural intelligence. The second source, the **body**, involves more commitment and experimentation with the new culture. It is this physical component (demeanor, eye contact, posture, accent) that shows a deeper level of understanding of the new culture and its physical manifestations. The final source, the **heart**, deals with a person's own confidence in their ability to adapt to and deal well with cultures outside of their own. Heart really speaks to one's own level of emotional commitment and motivation to understand the new culture.

The authors have created a quick assessment to diagnose cultural intelligence, based on these cognitive, physical, and emotional/motivational measures (i.e., head, body, heart).

Please refer to **Table 8.1** for a short diagnostic that allows you to assess your cultural intelligence.

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**Assessing Your Cultural Intelligence**

Give your responses using a 1 to 5 scale where 1 means that you strongly disagree and 5 means that you strongly agree with the statement.

Before I interact with people from a new culture, I wonder to myself what I hope to achieve.

If I encounter something unexpected while working in a new culture, I use that experience to build new ways to approach other cultures in the future.

I plan on how I am going to relate to people from a different culture before I meet with them.

When I come into a new cultural situation, I can immediately sense whether things are going well or if things are going wrong.

Add your total from the four questions above.

Divide the total by 4. This is your **Cognitive Cultural Quotient**.

It is easy for me to change my body language (posture or facial expression) to suit people from a different culture.

I can alter my expressions when a cultural encounter requires it.

I can modify my speech style by changing my accent or pitch of voice to suit people from different cultures.

I can easily change the way I act when a cross-cultural encounter seems to require it.

Add your total from the four questions above.

Divide the total by 4. This is your **Cognitive Physical Quotient**.

I have confidence in my ability to deal well with people from different cultures than mine.

I am certain that I can befriend people of different cultural backgrounds than mine.

I can adapt to the lifestyle of a different culture with relative ease.

I am confident in my ability to deal with an unfamiliar cultural situation or encounter.

Add your total from the four questions above.

Divide the total by 4. This is your **Emotional/Motivational Cognitive Quotient**.

Generally, scoring below 3 in any one of the three measures signals an area requiring improvement. Averaging over 4 displays strength in cultural intelligence.

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Adapted from "Cultural Intelligence," Earley and Mosakowski, *Harvard Business Review*, October 2004

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**Table 8.1**

Cultural intelligence is an extension of emotional intelligence. An individual must have a level of awareness and understanding of the new culture so that they can adapt to the style, pace, language, nonverbal communication, etc. and work together successfully with the new culture. A multicultural team can only find success if its members take the time to understand each other and ensure that everyone feels included. Multiculturalism and cultural intelligence are traits that are taking on increasing importance in the business world today.<sup>14</sup> By following best practices and avoiding the challenges and pitfalls that can derail a multicultural team, a team can find great success and personal fulfillment well beyond the boundaries of the project or work engagement.

## CONCEPT CHECK

1. What are some of the challenges of a multicultural team?
2. Explain the cultural intelligence techniques of head, body, and heart.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Key Terms

**adaptation**

Technique of working with or around differences

**boundaries**

Lines that make the limits of an area; team boundaries separate the team from its external stakeholders

**cognitive complexity**

The ability to view situations from more than one cultural framework

**collaboration**

The action of working with someone to produce or create something

**cultural intelligence**

A skill that enables individuals to function effectively in cross-cultural environments

**emotional intelligence**

The capability of individuals to recognize their own emotions and others' emotions

**exit**

Technique of last resort—removal of a team member

**Forming**

The first stage of team development—the positive and polite stage

**ground rules**

Basic rules or principles of conduct that govern a situation or endeavor

**head, body, and heart**

Techniques for becoming more adept in cross-cultural skills—learning about cultures (head), physical manifestations of culture (body), and emotional commitment to new culture (heart)

**knowledge economy**

The information society, using knowledge to generate tangible and intangible values

**managerial intervention**

Technique of making decisions by management and without team involvement

**mining**

To delve in to extract something of value; a technique for generating discussion instead of burying it

**Norming**

The third stage of team development—when team resolves its differences and begins making progress

**paradox**

A self-contradictory statement or situation

**Performing**

The fourth stage of team development—when hard work leads to the achievement of the team's goal

**real-time permission**

A technique for recognizing when conflict is uncomfortable, and giving permission to continue

**Storming**

The second stage of team development—when people are pushing against the boundaries

**structural intervention**

Technique of reorganizing to reduce friction on a team

**working group**

Group of experts working together to achieve specific goals; performance is made up of the individual results of all members

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



# Summary of Learning Outcomes

## 10.1 Teamwork in the Workplace

### 1. What is a team, and what makes teams effective?

A team is defined as “people organized to function cooperatively as a group.” Some of the characteristics of a team are that it has a common commitment and purpose, specific performance goals, complementary skills, commitment to how the work gets done, and mutual accountability.

Some of the practices that make a team effective are that they have a sense of urgency and direction; they set clear rules of behavior; they spend lots of time together; and they utilize feedback, recognition, and reward.

## 10.2 Team Development Over Time

### 2. How do teams develop over time?

Teams go through different stages of team development, which were coined in 1977 as Tuckman's Stages of Group Development by educational psychologist Bruce Tuckman. Tuckman's model includes these four stages: Forming, Storming, Norming, and Performing. A fifth stage, Adjourning, was added later to explain the disbanding and closure of a team at the end of a project.

Forming begins with team members being happy and polite as they get to know each other and understand the work they'll do together. Storming starts once the work is underway and the team is getting to know each other, and conflicts and project stress begins to seep in. During Norming, the team starts to set rules of the road and define how they want to work together. Performing means that the team is underway and is having some successes and gaining traction. This is definitely not a linear process. Teams can regress to earlier stages if there are changes in team members or work orders that cause disruption and loss of momentum and clarity.

## 10.3 Things to Consider When Managing Teams

### 3. What are some key considerations in managing teams?

Managing a team is often more complex than people would admit. Although a team and the team leader may be focused on the task or project work, it is actually the people dynamics and how the team works together that will make a real difference to the goals and outcomes. Managers need to remember that most of their time will be spent managing the people dynamics—not the tasks.

Managing teams also means a certain amount of paradox. A team has both individual and collective goals that need to be managed effectively. A manager needs to foster both team supportiveness and the ability to engage in conflict and confrontation. A team manager also needs to help the team with its boundaries and act as a buffer, a stakeholder manager, or a strategist when the situation calls for each. Exercising influence with key stakeholder groups external to the project group is one of the most critical functions in managing a team.

## 10.4 Opportunities and Challenges to Team Building

### 4. What are the benefits of conflict for a team?

Conflict during team interactions can feel like it derails progress, but it is one of the most important experiences that a team can have together. A team that can productively work through conflict will end up stronger, building more trust and being more open to sharing opinions. Team members will feel safe buying in and committing to decision-making as a team.

One of the other key benefits of conflict is that it encourages a greater diversity of ideas and perspectives, and it helps people to better understand opposing points of view. If a team doesn't work through conflict well and doesn't feel comfortable with the sharing and debating of ideas, it loses the opportunity to effectively vet ideas and potential solutions. The result is that the decision or solution will be limited, as team members haven't fully shared their concerns and perspectives.

## 10.5 Team Diversity

### 5. How does team diversity enhance team decision-making and problem-solving?

Decision-making and problem-solving is so much more dynamic and successful when performed in a diverse team environment. Much like the benefits of conflict, diversity can bring forward opposing points of view and different perspectives and information that might not have been considered if the team were more homogeneous. Diverse teams are thus made “smarter” by bringing together an array of information, sources, and experiences for decision-making.

Other research on diversity indicates that diverse teams excel at decision-making and problem-solving because they tend to focus more on facts. Studies indicate that diverse team members may actually sway the team's behavior to focus more on proven data—possibly because of the prospect of having to explain and back up one's perspectives if a conflict should erupt on the team. In a more homogenous team, there is more risk of “groupthink” and the lack of challenging of ideas.

## 10.6 Multicultural Teams

### 6. What are some challenges and best practices for managing and working with multicultural teams?

With the increase in globalization over the years, teams have seen the addition of multicultural individuals on their teams, who bring with them their own diverse backgrounds and perspectives. There are very positive aspects that result from the added diversity, as discussed in the previous questions. There are also challenges that we need to be aware of when we are managing these teams.

Challenges can arise from communication styles and accents, but can also appear in the form of decision-making norms and attitudes toward hierarchy. There are some team manager interventions that are best practices for addressing these challenges. There are also some best practices for building the cultural intelligence that will make the team more adept at understanding and dealing with differences among cultures.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Chapter Review Questions

1. What are the key differences between a team and a working group?
2. At what stage of team development does the team finally start to see results?
3. What can cause a team to digress to an earlier stage of team development?
4. What can a team leader do to manage the team's boundaries?
5. How does managing conflict help a team learn and grow?
6. What are some strategies to make conflict more productive?
7. Why are diverse teams better at decision-making and problem-solving?
8. Why do diverse teams utilize data more often than homogeneous teams?
9. What are some of the challenges that multicultural teams face?
10. What are the key sources of cultural intelligence?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Management Skills Application Exercises

1. Do you agree with Katzenbach and Smith's key practices that make teams effective? Why or why not? Which of these practices have you personally experienced? Are there any additional practices that you would add?
2. Have you ever been part of a team that made it through all four stages of team development? In which stage did the team remain the longest? In which stage did the team remain the shortest amount of time? What did you learn?
3. Why do you think it is so important to manage a team's boundaries? How can external stakeholders impact the function and performance of the team? Why is emotional intelligence such an important skill to have when managing a team?
4. In your experience, have you ever been in a situation in which conflict became a negative thing for a team? How was the conflict handled? How can a team manager ensure that conflict is handled constructively?
5. What is the difference between cultural intelligence and emotional intelligence? How can the cultural intelligence of a team improve performance? Have you ever been on a multicultural team that was high on cultural intelligence? How about a team that was low on cultural intelligence? What were the impacts?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Managerial Decision Exercises

1. You are a manager of a team that is taking a long time to move through the Storming stage. There are two individuals on the team that seem to be unproductive when dealing with conflict and are holding the team back. What would you do to help the team move through conflict management and begin Norming and Performing?
2. One of your direct reports on your team is very focused on his own personal development. He is a strong employee individually, but hasn't had as much experience working in a team environment on a project. He wants to do well, but isn't exactly sure how to work within this context. How would you instruct him?
3. You are leading a team responsible for a very important strategic initiative at your company. You have launched the project, and your team is very motivated and excited to move forward. You have the sense, however, that your sponsor and some other stakeholders are not fully engaged. What do you do to engage them?
4. You are the project manager of a cross-functional team project that was just approved. You have been given several good team members who are from different functions, but many of them think similarly and are unlikely to question each other on team decisions. You have the choice of keeping a homogeneous team that will probably have few team issues or building a diverse team that may well engage in conflict and take much longer to come to decisions. What choice would you make? What other information would you want to know to make the decision?
5. You are the director of a multicultural team with employees across the globe. Your team rarely has the opportunity to meet in person, but you have been given the budget to bring everyone together for a week-long global team meeting and team building. How would you structure the time together? What are some of the activities you would suggest to build stronger relationships among team members?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Critical Thinking Case

## *Diverse Teams Hold Court*

Diverse teams have been proven to be better at problem-solving and decision-making for a number of reasons. First, they bring many different perspectives to the table. Second, they rely more on facts and use those facts to substantiate their positions. What is even more interesting is that, according to the *Scientific American* article “How Diversity Makes Us Smarter,” simply “being around people who are different from us makes more creative, diligent, and harder-working.”

One case in point is the example of jury decision-making, where fact-finding and logical decision-making are of utmost importance. A 2006 study of jury decision-making, led by social psychologist Samuel Sommers of Tufts University, showed that racially diverse groups exchanged a wider range of information during deliberation of a case than all-White groups did. The researcher also conducted mock jury trials with a group of real jurors to show the impact of diversity on jury decision-making.

Interestingly enough, it was the mere presence of diversity on the jury that made jurors consider the facts more, and they had fewer errors recalling the relevant information. The groups even became more willing to discuss the role of race case, when they hadn't before with an all-White jury. This wasn't the case because the diverse jury members brought new information to the group—it happened because, according to the author, the mere presence of diversity made people more open-minded and diligent. Given what we discussed on the benefits of diversity, it makes sense. People are more likely to be prepared, to be diligent, and to think logically about something if they know that they will be pushed or tested on it. And who else would push you or test you on something, if not someone who is different from you in perspective, experience, or thinking. “Diversity jolts us into cognitive action in ways that homogeneity simply does not.”

So, the next time you are called for jury duty, or to serve on a board committee, or to make an important decision as part of a team, remember that one way to generate a great discussion and come up with a strong solution is to pull together a diverse team.

### Critical Thinking Questions

1. If you don't have a diverse group of people on your team, how can you ensure that you will have robust discussions and decision-making? What techniques can you use to generate conversations from different perspectives?
2. Evaluate your own team at work. Is it a diverse team? How would you rate the quality of decisions generated from that group?

Sources: Adapted from Katherine W. Phillips, “How Diversity Makes Us Smarter,” *Scientific American*, October 2014, p. 7–8.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# 9 - MANAGING HUMAN RESOURCE SYSTEMS

## Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. What is the human resource management process, and how are human resource needs determined?
2. How do firms recruit applicants?
3. How do firms select qualified applicants?
4. What types of training and development do organizations offer their employees?
5. How are performance appraisals used to evaluate employee performance?
6. What are the types of compensation and methods for paying workers?
7. What is a labor union and how is it organized, what is collective bargaining, and what are some of the key negotiation issues?
8. How are grievances between management and labor resolved, and what tactics are used to force a contract settlement?
9. What are the key laws and federal agencies affecting human resource management and labor relations?
10. What trends and issues are affecting human resource management and labor relations?

## EXPLORING BUSINESS CAREERS

*Andrea Herran, Human Resources Consultant*

In college, Andrea Herran studied business administration and minored in psychology. Always interested in a business career, she initially took psychology simply because it was interesting. Little did she know how applicable that minor would become. As a human resources (HR) consultant, she often benefits from her psychology background. “Studying human behavior really gave me the background necessary to put myself in the position of others, to see things from their point of view, which has definitely been helpful in my career in human resources.”

Herran started out as an administrative assistant in the HR department of a hotel, and her career has run the gamut of human resources over the 25 years since she graduated from college. She has been an employment coordinator, focusing on employee recruitment and selection, and a personnel manager, where she learned the skills necessary to maintain and evaluate employees. As a training manager, she sharpened her talent for developing, coordinating, and even administering staff training. Eventually, she became the director of human resources for companies both in the United States and abroad. Indeed, beyond the United States, she has worked in Mexico, Argentina, and South Africa.

Andrea worked her way up in the corporate world, but entrepreneurship was more consistent with her desire for a fast-paced, changing environment, both in terms of what she does and who she works with, so she made the move to consulting. “Consulting allows me to draw upon all my human resources skills. I have

opened five HR departments in my career, so I bring my full experience to bear on the challenges each company has.”

Today, Andrea’s passion is working with small businesses, entrepreneurs, managers, and owners as an advisor to “uncomplicate the people side of your business.” As the principal of Focus HR Consulting, she advises firms how to set up human resource programs and ensure legal compliance. She also provides leadership coaching and training and mentors employees. She has worked in several industries, including hospitality (hotels and restaurants), advertising, professional services, logistics, technology, and manufacturing.

When Andrea was hired by Aquion Water Treatment Products, she was tasked with updating the company’s HR policies and procedures. The company’s performance reviews were very task-oriented versus behavior-oriented. Instead of determining whether a task was completed, behavior-oriented reviews seek to evaluate not only whether the person completed the task but also how they did so, especially examining the interactions involved in the task. Is an employee punctual at returning consumer request calls? How do they relate to customers? As a manager, do they express thoughts clearly? “By evaluating specific behaviors, you create an environment with clearly set qualifications for advancement and opportunities for targeted employee development. Without this, the *human* aspect of human resources can be overlooked.”

Andrea has never looked back on her choice to become an entrepreneur, and she believes her varied employment history was a key to her success. “Anyone interested in this field should experience as many possibilities within human resources as possible. You leave school with the theory, but only through experience do you really get to see what the potential of such a career is.”

Sources: “About Us,” <http://focushr.biz>, accessed February 8, 2018; “Member Spotlight: Andrea Herran,” <http://www.centerforguiltfreesuccess.com>, accessed February 8, 2018; Insureon blog, “5 HR Pros Reveal the Secret to Hiring the Right Employees the First Time,” <http://www.insureon.com>, June 3, 2016.

This chapter looks at the role of human resources within an organization, from the general processes of developing and planning to the more specific tasks of employee evaluation and compensation.

Human resource management and labor relations involve acquisition, development, use, and maintenance of a human resource mix (people and positions) to achieve strategic organizational goals and objectives. Successful human resource management is based on a company’s ability to attract and hire the best employees, equip them with the knowledge and skills they need to excel, compensate them fairly, and motivate them to reach their full potential and perform at high levels. Today’s business environment presents numerous challenges to effectively managing employees:

- Technology continues to advance, which places great importance on knowledge workers, especially when demand outstrips the supply of high-talent individuals.
- Global business operations involve rapid data transfer and necessitate accelerated decision-making by executive and technical employees.
- The workforce is increasingly more diversified and multicultural, which places increased emphasis on communication and cultural understanding.
- Work, life, and family priorities are more difficult to balance as dual-worker families populate the labor force.
- Employment and labor laws continue to greatly influence employee recruitment and hiring, compensation decisions, and employee retention and turnover in both union and nonunion organizations.

Each day, human resource experts and front-line supervisors deal with these challenges while sharing responsibility for



attracting and retaining skilled, motivated employees. Whether faced with a large or small human resources problem, supervisors need some understanding of difficult employee-relations issues, especially if there are legal implications.

In this chapter, you will learn about the elements of the human resource management process, including human resource planning and job analysis and design, employee recruitment and selection, training and development of employees, performance planning and evaluation, and compensation of the workforce. The chapter also describes labor unions and their representation of millions of American workers in construction, manufacturing, transportation, and service-based industries.

# 9.1 Achieving High Performance through Human Resources Management

## 1. What is the human resource management process, and how are human resource needs determined?

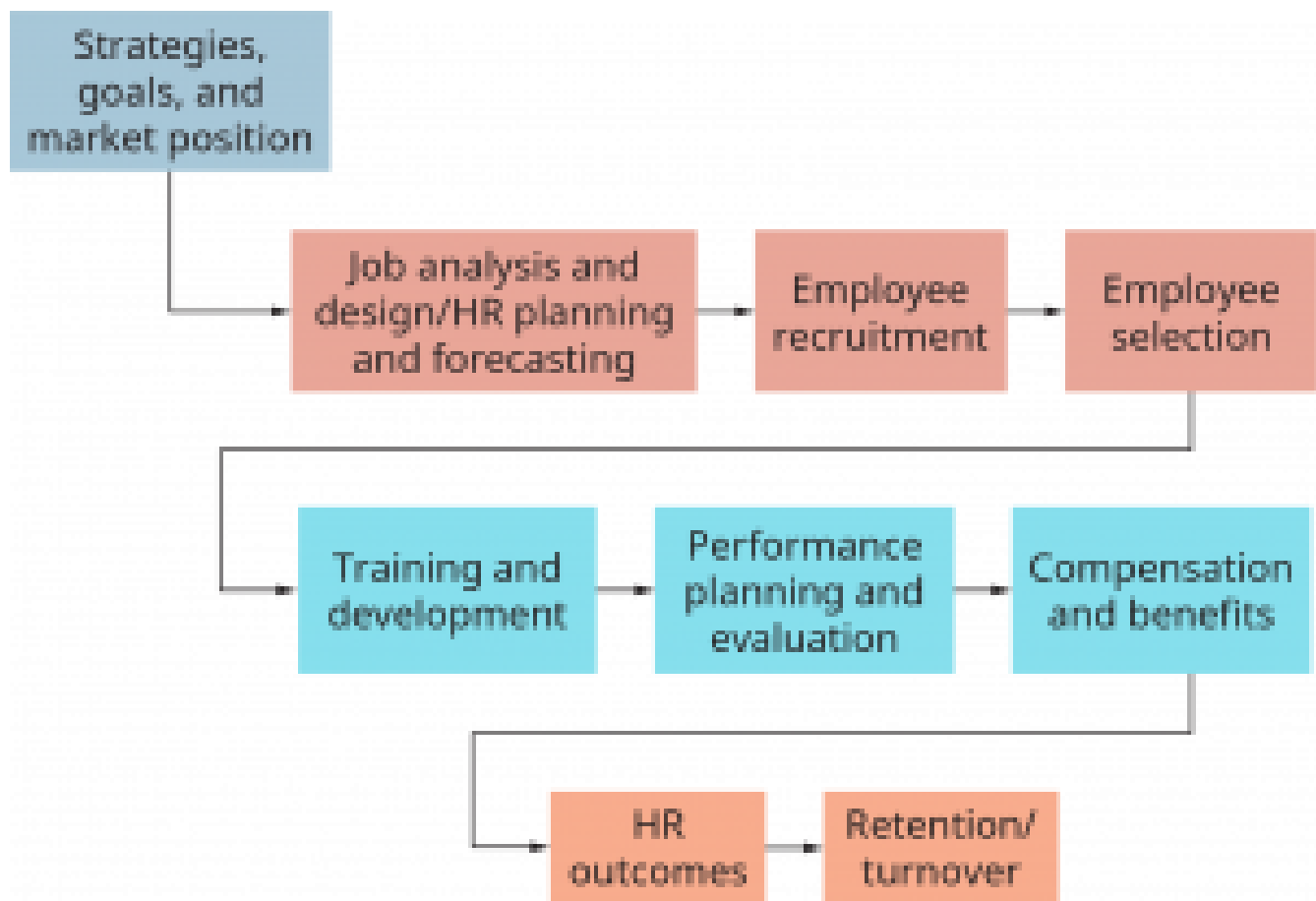
Human resource (HR) management is the process of hiring, developing, motivating, and evaluating employees to achieve organizational goals. The goals and strategies of the firm's business model form the basis for making human resource management decisions. HR practices and systems comprise the firm's human resource decision support system that is intended to make employees a key element for gaining competitive advantage. To this end, the HR management process contains the following sequenced activities:

- Job analysis and design
- Human resource planning and forecasting
- Employee recruitment
- Employee selection
- Training and development
- Performance planning and evaluation
- Compensation and benefits

The human resource management process shown in **Exhibit 9.1** encourages the development of high-performance employees. The process is sequential because employees can't be trained and paid until selected and placed in jobs, which follows recruitment, which is preceded by human resource planning and job analysis and design. Good HR practices used along this sequence foster performance improvement, knowledge and skill development, and loyal employees who desire to remain with the organization.

## HR Planning and Job Analysis and Design

Two important, and somewhat parallel, aspects of the human resource management process are determining employee needs of the firm and the jobs to be filled. When Alcon Labs gained approval from the Food and Drug Administration for sales of a new contact lens disinfectant solution in its Opti-Free product line, it had to determine if additional sales representatives were needed and whether new sales positions with different knowledge and skill requirements should be established.<sup>1</sup> Human resource planning at Alcon means having the right number of people, with the right training, in the right jobs, to meet its sales goals for the new product. Once the need for sales representatives is determined, human resource specialists assess the skills of the firm's existing employees to see whether new people must be hired or current people can be trained. See **Exhibit 9.1** for a representation of the human resource management process.



**Exhibit 9.1 Human Resource Management Process** (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

Human resource planners must know what skills different jobs require. Information about a specific job typically begins with a job analysis, which is a study of the tasks required to do a job well. This information is used to specify the essential skills, knowledge, and abilities required for the job. When Hubert Joly started as the CEO at Best Buy, the retailer was facing serious financial pressures. The threat of online competition from Amazon was real. Joly was also facing a staffing issue with a lot of turnover. He and his team instituted a plan to keep and promote staff as a core competency that would differentiate Best Buy from online retailers.<sup>2</sup> Also, a key HR responsibility is that jobs are examined to make any changes in job duty and task responsibilities. The tasks and responsibilities of a job are listed in a job description. The skills, knowledge, and abilities a person must have to fill a job are spelled out in a job specification. These two documents help human resource planners find the right people for specific jobs. A sample job description and specification is shown in **Table 9.1**

## HR Planning and Forecasting

Forecasting an organization's human resource needs, known as an *HR demand forecast*, is an essential aspect of HR planning. This process involves two forecasts: (1) determining the number of people needed by some future time (in one year, for example) and (2) estimating the number of people currently employed by the organization who will be available to fill various jobs at some future time; this is an *internal supply forecast*.

---

## Job Description and Specification

**Position:** College Recruiter Reports to: Vice President of Human

**Location:** Corporate Offices **Resources Classification:** Salaried/Exempt

### Job Summary:

Member of HR corporate team. Interacts with managers and department heads to determine hiring needs for college graduates. Visits 20 to 30 college and university campuses each year to conduct preliminary interviews of graduating students in all academic disciplines. Following initial interviews, works with corporate staffing specialists to determine persons who will be interviewed a second time. Makes recommendations to hiring managers concerning best-qualified applicants.

### Job Duties and Responsibilities:

Estimated time spent and importance:

15%	Working with managers and department heads, determines college recruiting needs.
10%	Determines colleges and universities with degree programs appropriate to hiring needs to be visited.
15%	Performs college relations activities with numerous colleges and universities.
25%	Visits campuses to conduct interviews of graduating seniors.
15%	Develops applicant files and performs initial applicant evaluations.
10%	Assists staffing specialists and line managers in determining who to schedule for second interviews.
5%	Prepares annual college recruiting report containing information and data about campuses, number interviewed, number hired, and related information.
5%	Participates in tracking college graduates who are hired to aid in determining campuses that provide the most outstanding employees.

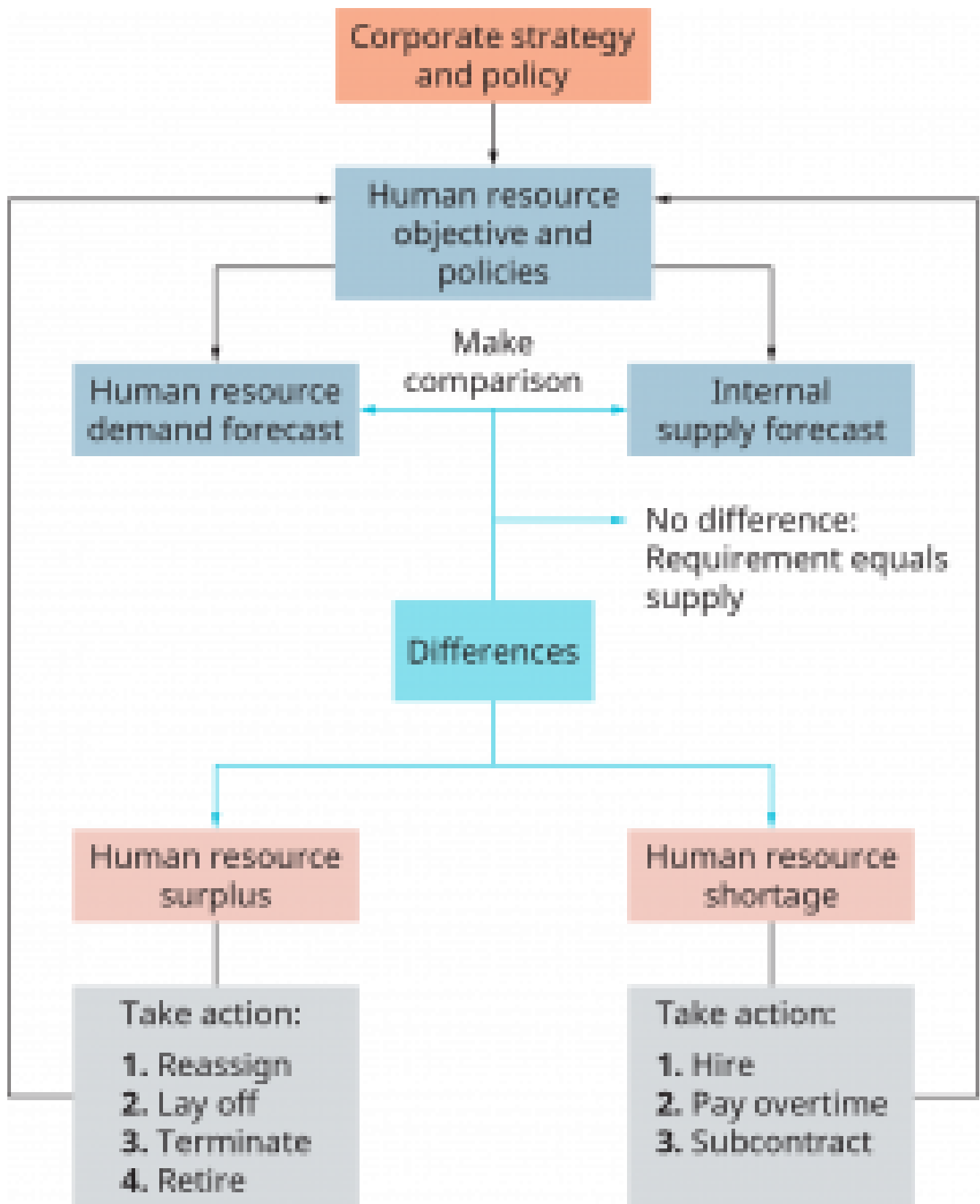
### Job Specification (Qualifications):

Bachelor's degree in human resource management or a related field. Minimum of two years of work experience in HR or department that annually hires college graduates. Ability to perform in a team environment, especially with line managers and department heads. Very effective oral and written communication skills. Reasonably proficient in Excel, Word, and Windows computer environment and familiar with PeopleSoft software.

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**Table 9.1**

The Advancement Planning process at Best Buy involved reducing the turnover that occurs in most retail environments. The company has achieved a second-place ranking, behind only Costco, and its general managers' tenure at a store averages five years. The performance of managers at Best Buy is reviewed to identify people who can fill vacancies and be promoted, a process known as succession planning.<sup>3</sup> If Best Buy has a temporary shortage of sales professionals, at the holiday shopping season, for example, they can hire an experienced contractor or interim executive as a temporary or contingent worker, someone who wants to work but not on a permanent, continuous basis. **Exhibit 9.2** summarizes the process of planning and forecasting an organization's personnel needs.



**Exhibit 9.2 Human Resource Planning Process** (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

## CONCEPT CHECK

1. Define human resource management.
2. Distinguish between job analysis, job description, and the job specification.
3. Describe the human resource management process.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 9.2 Employee Recruitment

### 2. How do firms recruit applicants?

When a firm creates a new position or an existing one becomes vacant, the firm starts looking for people with qualifications that meet the requirements of the job. Two sources of job applicants are the internal and external labor markets. The internal labor market consists of employees currently employed by the firm; the external labor market is the pool of potential applicants outside the firm.

### Internal Labor Market

Internal recruitment can be greatly facilitated by using a human resource information system that contains an employee database with information about each employee's previous work experience, skills, education and certifications, job and career preferences, performance, and attendance. Promotions and job transfers are the most common results of internal recruiting. BNSF Railway, Walmart, Boeing, Ritz-Carlton Hotels, and most other firms, large and small, promote from within and manage the upward mobility of their employees.

### External Labor Market

The external labor market consists of prospects to fill positions that cannot be filled from within the organization. Recruitment is the process of attracting qualified people to form an applicant pool. Numerous methods are used to attract applicants, including print, radio, web, and television advertising. Hospitality and entertainment firms, such as Ritz-Carlton Hotels and Six Flags, frequently use job fairs to attract applicants. A job fair, or *corporate open house*, is usually a one- or two-day event at which applicants are briefed about job opportunities, given tours, and encouraged to apply for jobs. For firms needing accountants, engineers, sales managers, and others for professional and scientific positions, college recruiting is very common. These firms (Deloitte, Cisco Systems, Salesforce.com, and thousands of others) schedule job fairs and on-campus interviews with graduating seniors.

### Online Recruiting and Job Search

The internet, social media, and specialized software have completely changed the employee recruitment process. Dozens of companies such as Monster.com, Indeed, StartWire, and Glassdoor enable applicants to search for job openings, post their résumés, and apply for jobs that companies have posted. Most companies provide links to their company website and to the career page on their site so applicants can learn about the company culture, listen to or read testimonials from employees about what it is like to work for the company, and search for additional openings that may interest them.

Large firms may receive thousands of online applications per month. To review and evaluate thousands of online résumés and job applications, firms depend on software to scan and track applicant materials using key words to match skills or other requirements for a particular job. Social media has also changed how companies search for applicants and verify applicant information.

## MANAGING CHANGE

### *Social Networking and Employee Recruitment*

Referrals and professional networking are commonly used methods of identifying job prospects, particularly for managerial, professional, and technical positions. Several software applications and social networks facilitate employee referrals, reference checking, and hiring based on networks of personal relationships. ExecuNet and ExecRank are just two of the many career sites that allow members to search for contacts and network with other professionals in their fields.

LinkedIn is the most popular social network for professionals. It is a giant database of contacts with profiles that provide an overview of a person's past and present professional experience, skills, professional referrals, and affiliations with business and professional associations. A member can search through an extended network of contacts based on his or her professional acquaintances. The basis for a search can be job, job title, company, geography, zip code, or membership in a professional organization. LinkedIn uses the concept that there are no more than six degrees of separation between two people, or one person can be linked to any other individual through no more than six other people. With more than 530 million members worldwide, LinkedIn's extensive platform is an ideal network for both recruiters and those looking to make their next career move.

LinkedIn, like other social networks, is based on voluntary participation, and members consent to being networked. Nevertheless, important questions can be raised regarding privacy concerns and use of one's social network.

#### **Critical Thinking Questions**

1. Social networks can easily generate a name for an HR recruiting target, but how can the hiring firm convert the target into a candidate who is interested in the job?
2. A social network like LinkedIn is an excellent tool that can be used to build a personal brand and find a new job. In what ways could a job seeker potentially *harm* their career opportunities on a social networking site?

Sources: "About ExecuNet," <https://www.execunet.com>, accessed February 8, 2018; "LinkedIn Statistics," <https://expandedramblings.com>, accessed February 8, 2018; "Social Recruiting Tips," <https://www.betterteam.com>, January 24, 2018; Susan M. Heathfield, "Use LinkedIn for Recruiting Employees," *The Balance*, <https://www.thebalance.com>, April 7, 2017.

## Recruitment Branding

Recruitment branding involves presenting an accurate and positive image of the firm to those being recruited. Carbone Smolan Agency (CSA) is a New York-based image consulting firm that assists in developing a recruitment branding strategy.<sup>4</sup> The materials developed by CSA comprise a *realistic job preview*, which informs job candidates about



organizational realities of the job and the firm so they can more accurately evaluate jobs and firm expectations concerning work assignments, performance standards, promotional opportunities, company culture, and many other characteristics of the job.

### CONCEPT CHECK

1. What are the two sources of job applicants?
2. What are some methods firms use to recruit applicants?
3. What is meant by recruitment branding?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

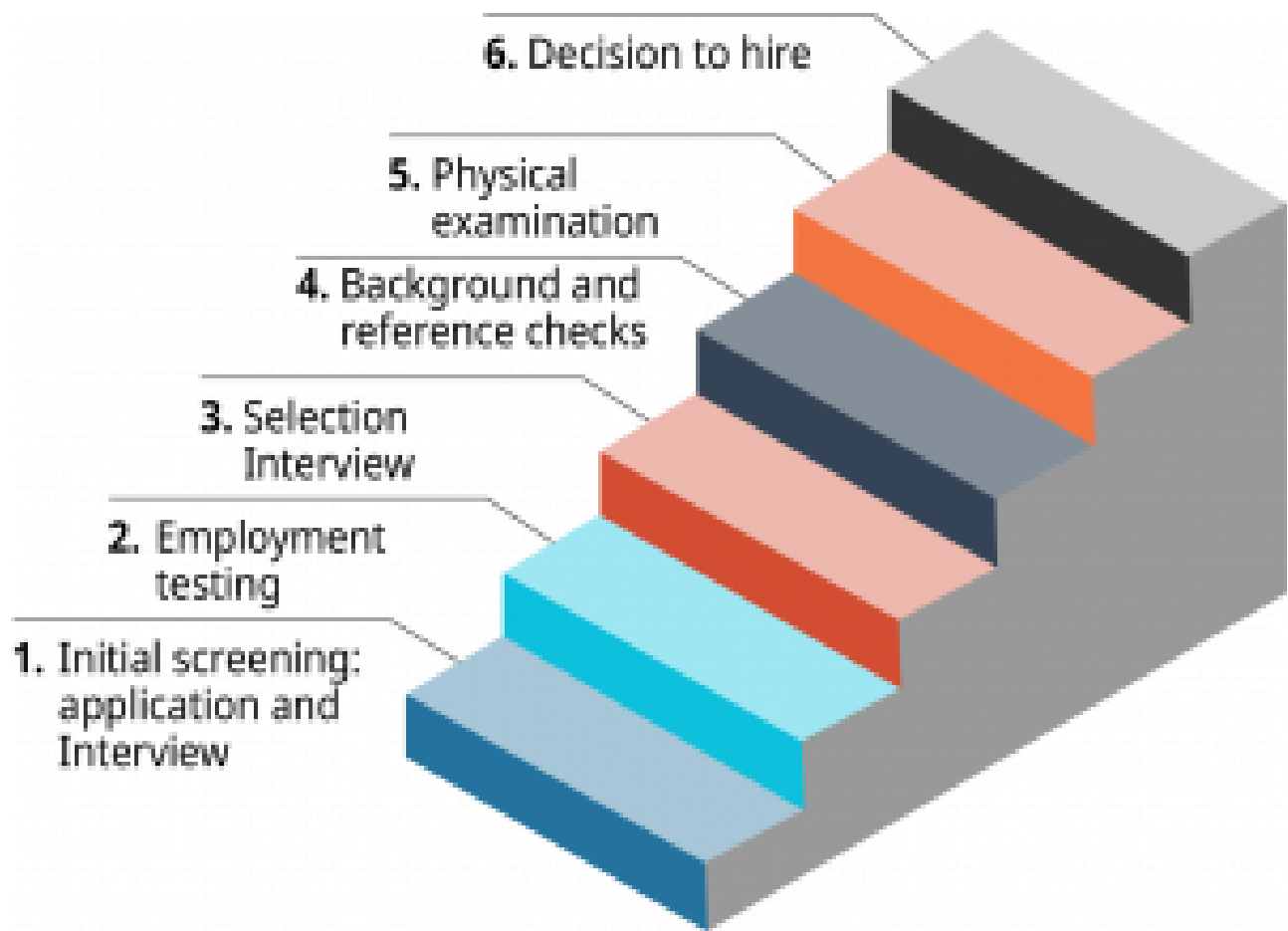
## 9.3 Employee Selection

### 3. How do firms select qualified applicants?

After a firm has attracted enough job applicants, employment specialists begin the selection process. Selection is the process of determining which people in the applicant pool possess the qualifications necessary to be successful on the job. The steps in the employee selection process are shown in **Exhibit 9.3**. An applicant who can jump over each step, or hurdle, will very likely receive a job offer; thus, this is known as the successive hurdles approach to applicant screening. Alternatively, an applicant can be rejected at any step or hurdle. Selection steps or hurdles are described below:

1. *Initial screening.* During initial screening, an applicant completes an application form and/or submits a résumé, and has a brief interview of 30 minutes or less. The job application includes information about educational background, previous work experience, and job duties performed.
2. *Employment testing.* Following initial screening, the applicant may be asked to take one or more tests, such as the Wonderlic Personnel Tests. Wonderlic offers a suite of pre-employment tests for each phase of the hiring process. Used individually or together, the tests can assess cognitive ability (ability to learn, adapt, and solve problems), motivation potential (attitude, behavior performance, and productivity), and knowledge and skills (math, verbal, data entry, software proficiency).<sup>5</sup>

HR Senior Vice President Martha LaCroix of the Yankee Candle Company uses personality assessments to make sure that prospective employees will fit the firm's culture. LaCroix was helped by Predictive Index (PI) Worldwide in determining Yankee Candle's best- and worst-performing store managers for developing a best practice behavioral profile of a top-performing store manager.<sup>6</sup> The profile was used for personality testing and to develop interview questions that reveal how an applicant may behave in certain work situations.



**Exhibit 9.3 Steps of the Employee Selection Process** (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

3. *Selection interview.* The tool most widely used in making hiring decisions is the selection interview, an in-depth discussion of an applicant's work experience, skills and abilities, education, and career interests. For managerial and professional positions, an applicant may be interviewed by several persons, including the line manager for the position to be filled. This interview is designed to determine a person's communication skills and motivation. During the interview, the applicant may be presented with realistic job situations, such as dealing with a disgruntled customer, and asked to describe how they would handle the problem. Carolyn Murray of W.L. Gore & Associates (maker of Gore-Tex, among other products) listens for casual remarks that may reveal the reality behind applicant answers to her questions. Using a baseball analogy, Murray gives examples of how three job candidates struck out with her questions. See [Table 9.2](#)

Striking Out at the Interview Game		
The Pitch (Question to Applicant)	The Swing (Applicant's Response)	The Miss (Interviewer's Reaction to Response)
"Give me an example of a time when you had a conflict with a team member."	"Our leader asked me to handle all of the FedExing for our team. I did it, but I thought that FedExing was a waste of my time."	"At Gore, we work from a team concept. Her answer shows that she won't exactly jump when one of her teammates needs help."
"Tell me how you solved a problem that was impeding your project."	"One of the engineers on my team wasn't pulling their weight, and we were closing in on a deadline. So I took on some of their work."	"The candidate may have resolved the issue for this particular deadline, but they did nothing to prevent the problem from happening again."
"What's the one thing that you would change about your current position?"	"My job as a salesman has become boring. Now I want the responsibility of managing people."	"He's probably not maximizing his current territory, and he is complaining. Will he find his next role 'boring' and complain about that role, too?"

**Table 9.2**

4. *Background and reference check.* If applicants pass the selection interview, most firms examine their background and check their references. In recent years, an increasing number of employers, such as American Airlines, Disney, and Microsoft, are carefully researching applicants' backgrounds, particularly their legal history, reasons for leaving previous jobs, and even creditworthiness.
5. *Physical exams and drug testing.* A firm may require an applicant to have a medical checkup to ensure they are physically able to perform job tasks. Drug testing is common in the transportation and health care industries. Southwest Airlines, BNSF Railway, Texas Health Resources, and the U.S. Postal Service use drug testing for reasons of workplace safety, productivity, and employee health.
6. *Decision to hire.* If an applicant progresses satisfactorily through all the selection steps (or jumps all of the selection hurdles), a decision to hire the person is made; however, the job offer may be contingent on passing a physical exam and/or drug test. The decision to hire is nearly always made by the manager of the new employee.

An important aspect of employee recruitment and selection involves treating job applicants as valued customers; in fact, some applicants may be customers of the firm.

# CUSTOMER SATISFACTION AND QUALITY

## *Puttin' on the Ritz—For Potential Employees*

Your meeting with a human resource representative is often your first exposure to the company you are applying to work for, and firms must provide good customer service to applicants if they expect to hire the most qualified employees.

Companies have several opportunities to create a positive impression of their organization during these key points in the employee selection process. These include a variety of communication channels, such as:

- In-person greetings at a job fair or at the interview itself
- Phone calls to a prospective employee from a human resource professional to set up the interview and any follow-up conversations between human resources and the applicant
- E-mail correspondence to acknowledge receipt of an application and to thank applicants for submitting their job application
- A thank-you note from the employer following the second interview

A firm that is recognized for treating prospective employees especially well is Ritz-Carlton Hotels, a subsidiary of Marriott International. When the Washington D.C. Ritz-Carlton was recruiting employees to staff a new hotel, the goal was to provide applicants with a personal demonstration of the famous Ritz-Carlton service-oriented culture.

As applicants arrived, they experienced the Ritz-Carlton “warm welcome” from several employees who greeted them, wished them luck, and escorted them past a violinist and piano player to the waiting room, where beverages and snacks were available. Applicants went through a standardized screening questionnaire, and those who passed went on to a professionally developed structured interview. Individuals were then personally escorted to the “fond farewell,” where they were thanked, given Ritz-Carlton chocolates, and escorted out of the hotel. The goal of Ritz-Carlton managers is to give applicants the same experience they would expect to receive as a customer staying in the hotel. Every applicant receives a personal, formal thank-you note for coming to the job fair, and those who are considered for positions but later rejected receive another note. Ritz-Carlton wants to make a good impression because an applicant could be a future Ritz-Carlton hotel guest, or the son or daughter of a guest.

Ritz-Carlton continues to show exemplary service during the employee orientation process. Every employee must go through seven days of training before ever working in a Ritz-Carlton. Two full days of the orientation are indoctrination in the Ritz-Carlton values and philosophy. The goal is to create a significant emotional experience for new employees during their first few days. This happens the moment new employees arrive for training at 6:00 a.m. and see senior leaders lined up outside the doors of the hotel, clapping and cheering as they greet them. The message is clear: *You are important and we will treat you exactly as we want you to treat customers.*

The leadership team is involved in facilitating the program, sending a powerful message about the importance of consensual commitment. “For these next few days, we will orient you to who we are—our heart, our soul, our goals, our vision, our dreams—so you can join us, and not just work for us.”

Horst Schultz, former president and COO of the Ritz-Carlton, first implemented the motto “We Are Ladies and Gentlemen Serving Ladies and Gentlemen” in the mid-1980s, and the motto is still at the heart of the company’s values today. In an address to employees, Schultz said, “You are not servants. We are not servants. Our profession is service. We are Ladies and Gentlemen, just as the guests are, who we respect as Ladies and Gentlemen. We are Ladies and Gentlemen and should be respected as such.”

#### Critical Thinking Questions

1. What are the benefits of an employer treating a job applicant like a customer? Are there costs associated with treating applicants poorly?
2. What is the Ritz-Carlton motto? How does it teach both applicants and employees about the company’s values?

Sources: “Gold Standards,” <http://www.ritzcarlton.com>, accessed February 8, 2018; “Lifetime Learning Opportunities,” <http://www.marriott.com>, accessed February 8, 2018; Justin Hoffman, “Secrets of the Ritz-Carlton’s ‘Legendary’ Customer Service,” <https://www.psafinancial.com>, May 8, 2014; Sandra J. Sucher and Stacy McManus, “The Ritz-Carlton Hotel Company,” Harvard Business School Case #601-163, March 2001; revised September 2005.

## CONCEPT CHECK

1. Describe the employee selection process.
2. What are some of the ways that prospective employees are tested?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

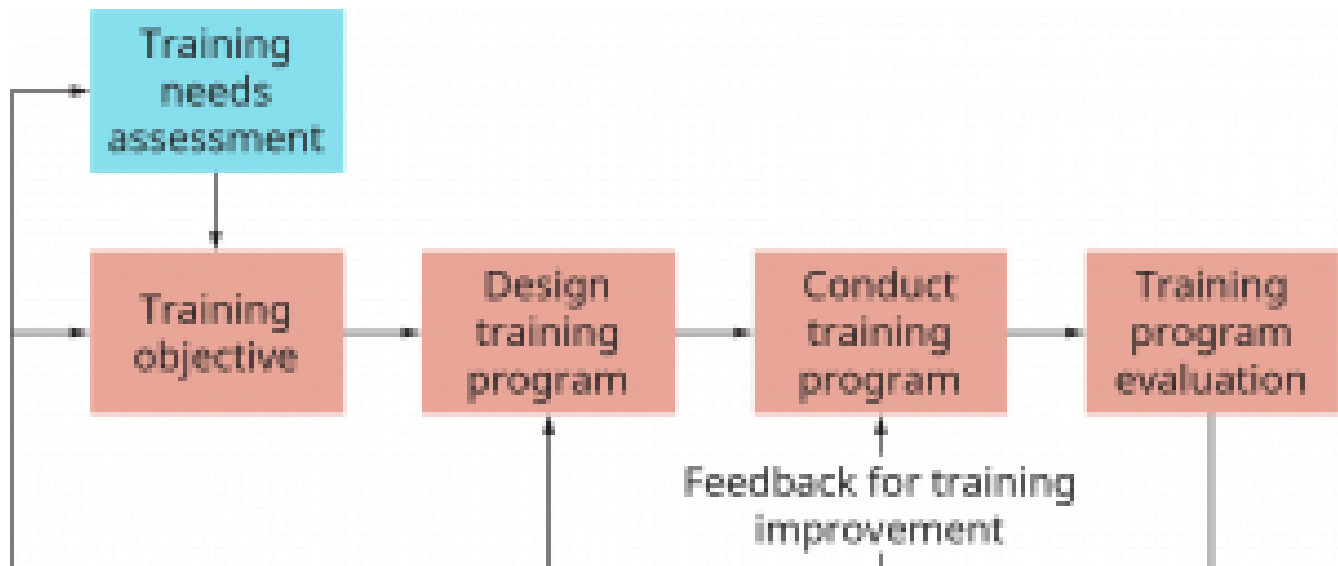
## 9.4 Employee Training and Development

### 4. What types of training and development do organizations offer their employees?

To ensure that both new and experienced employees have the knowledge and skills to perform their jobs successfully, organizations invest in training and development activities. Training and development involves learning situations in which the employee acquires additional knowledge or skills to increase job performance. Training objectives specify performance improvements, reductions in errors, job knowledge to be gained, and/or other positive organizational results. The process of creating and implementing training and development activities is shown in **Exhibit 9.4**. Training is done either on the job or off the job.

### On-the-Job Training

New-employee training is essential and usually begins with orientation, which entails getting the new employee ready to perform on the job. Formal orientation (often a half-day classroom program) provides information about the company history, company values and expectations, policies, and the customers the company serves, as well as an overview of products and services. More important, however, is the specific job orientation by the new employee's supervisor concerning work rules, equipment, and performance expectations. This second briefing tends to be more informal and may last for several days or even weeks.



**Exhibit 9.4 Employee Training and Development Process** (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

Beyond employee orientation, job training takes place at the job site or workstation and is directly related to the job. This training involves specific job instruction, coaching (guidance given to new employees by experienced ones), special project assignments, or job rotation. Job rotation is the reassignment of workers to several different jobs over time. At Walmart, management trainees rotate through three or more merchandizing departments, customer service, credit, and even the human resource department during the first year or two on the job.

Two other forms of on-the-job training are apprenticeship and mentoring. An apprenticeship usually combines specific on-the-job instruction with classroom training. It may last as long as four years and can be found in the skilled trades of carpentry, plumbing, and electrical work. Mentoring involves a senior manager or other experienced employee providing job- and career-related information to a mentee. Inexpensive and providing instantaneous feedback, mentoring is becoming increasingly popular with many firms, including FedEx, Merrill Lynch, Dow Chemical, and Bank of America. Whereas mentoring is typically conducted through ongoing face-to-face interactions between mentor and mentee, technology now allows for a long-distance mentoring relationship. Dow Chemical uses e-mail and video conferencing to facilitate long-distance mentoring between persons who are working in different countries. For a mentee whose second language is English, writing e-mail messages in English helps the individual become fluent in English, which is a requirement of all Dow Chemical employees regardless of location and country of origin.<sup>8</sup>

## EXPANDING AROUND THE GLOBE

### *Employees on the (International) Move*

Working abroad at one of the thousands of American or foreign multinational firms can be exciting and look good on your résumé. But is an international job assignment a step up the ladder to a more rewarding career path or a potential minefield of professional and family risk? The answer depends as much on an employee's family situation as his or her ambition, as well as how well the company supports and handles a transfer to an international location.

International job experience is increasingly seen as an essential leadership competency; therefore, many companies have developed robust rotational programs designed to give individuals critical global experience. According to the BGRS 2016 Global Mobility Trends Survey, providing high levels of service to relocating employees and their families is a fundamental expectation.

Brookfield Global Relocation Services (BGRS) is a talent mobility and relocation services firm that manages more than 60,000 relocations in 140 countries each year for its corporate and government clients. With 15 offices around the world, the company's staff (that speaks 40 languages) can tap into their network of 1,900 trusted suppliers to help employees and families acclimate to their new work and home environments.

Increasing numbers of recent college graduates and experienced professionals are offered opportunities for overseas work assignments ranging from a few days to 24 months or longer. But acclimating to a new country and culture, as well as a new work environment, can be daunting and involves some unique challenges.

Challenges face expatriates aside from the demands of work include:

- Choosing schools for children
- Securing housing
- Finding medical facilities
- Opening bank accounts
- Finding transportation and obtaining a driver's license



- Completing government forms
- Locating food stores
- Learning about community and entertainment offerings

With 189,000 worldwide staff and partners, KPMG International is one of the world's largest professional services and accounting firms, with a presence in 152 countries. Through programs like the KPMG Global Opportunities (GO) program, the professionals at KPMG can explore job rotation assignments, transfer to a new location, or change to a new job function or group. The company's Career Mobility Connection tool allows employees to evaluate opportunities based on their interests and to seek guidance from a transition advisor on potential career opportunities.

KPMG has developed several programs and standards to guide employees and establish consistency, whether they work in the United States or abroad. One of the most important is the KPMG Code of Conduct, which defines the values and standards by which KPMG conducts business and is intended to help guide actions and behaviors of its global workforce.

Every year, all KPMG employees and partners are required to affirm their agreement to comply with the Code of Conduct. In addition, all partners and employees are required to complete mandatory training that reinforces the principles of the Code and further builds understanding of the firm's expectations.

#### Critical Thinking Questions

1. How is KPMG's Global Code of Conduct intended to influence and guide the personal values and behaviors of its employees and partners?
2. Why must the Code of Conduct be affirmed by employees and partners every year? Why does KPMG include their partners in this program?
3. What are the top four or five job qualifications an employee should have to be considered for an overseas assignment?

Sources: Corrine Purtill, "Expat Couples Do Best When They've Moved for the Woman's Job," *Quartz at Work*, December 6, 2017; <https://work.qz.com/1134685/expat-couples-do-best-when-theyve-moved-for-the-womans-job/>; Donald Murray, "The 7 Greatest Challenges of Moving Overseas and How to Resolve Them," *International Living*, March 15, 2018, <https://internationalliving.com/the-7-greatest-challenges-of-moving-overseas-and-how-to-resolve-them/>; "KPMG's Code of Conduct," Accessed March 15, 2018, <https://home.kpmg.com/us/en/home/about/kpmgs-code-of-conduct.html>.

## Off-the-Job Training

Even with the advantages of on-the-job training, many firms recognize that it is often necessary to train employees away from the workplace. With off-the-job training, employees learn the job away from the job. There are numerous popular methods of off-the-job training. It frequently takes place in a classroom, where cases, role-play exercises, films, videos, lectures, and computer demonstrations are used to develop workplace skills.

Web-based technology is increasingly being used along with more traditional off-the-job training methods. E-learning and e-training involve online computer presentation of information for learning new job tasks. Union Pacific Railroad has tens of thousands of its employees widely dispersed across much of the United States, so it delivers training materials

online to save time and travel costs. Technical and safety training at Union Pacific are made available as programmed instruction, an online, self-paced, and highly structured training method that presents trainees with concepts and problems using a modular format. Software provided can make sure that employees receive, undergo, and complete, as well as sign off on, various training modules.<sup>9</sup>

Web-based training can also be done using a simulation, for example, a scaled-down version of a manufacturing process or even a mock cockpit of a jet airplane. American Airlines uses a training simulator for pilots to practice hazardous flight maneuvers or learn the controls of a new aircraft in a safe, controlled environment with no passengers. The simulator allows for more direct transfer of learning to the job.

## CONCEPT CHECK

1. Describe several types of on-the-job training.
2. What are the advantages of simulation training?
3. How is technology impacting off-the-job training?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 9.5 Performance Planning and Evaluation

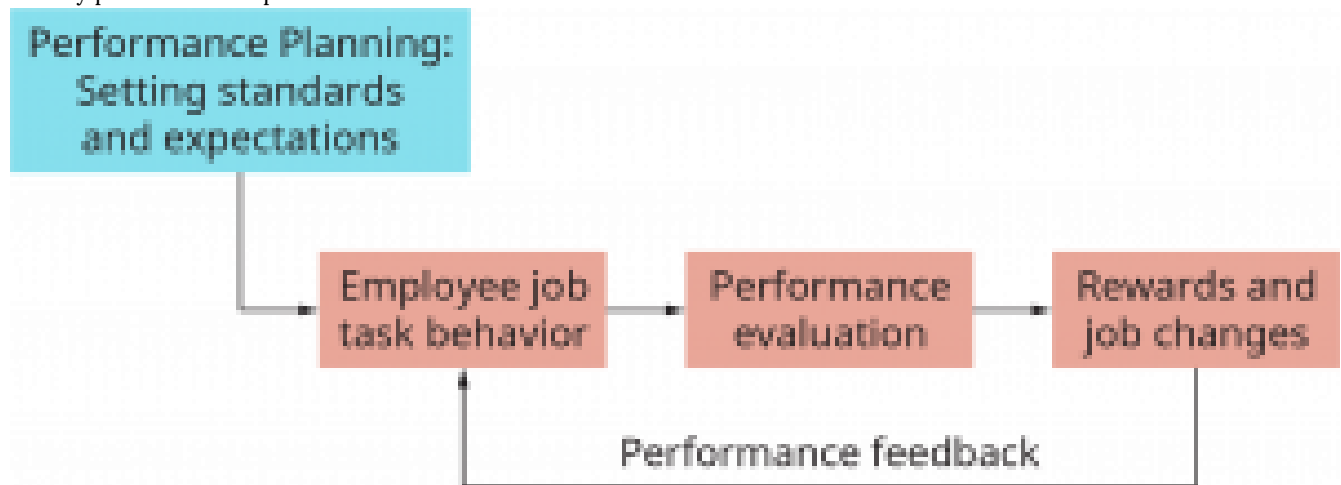
### 5. How are performance appraisals used to evaluate employee performance?

Along with employee orientation and training, new employees learn about performance expectations through performance planning and evaluation. Managers provide employees with expectations about the job. These are communicated as job objectives, schedules, deadlines, and product and/or service quality requirements. As an employee performs job tasks, the supervisor periodically evaluates the employee's efforts. A performance appraisal is a comparison of actual performance with expected performance to determine an employee's contributions to the organization and to make decisions about training, compensation, promotion, and other job changes. The performance planning and appraisal process is shown in **Exhibit 9.5** and described below.

1. The manager establishes performance standards.
2. The employee works to meet the standards and expectations.
3. The employee's supervisor evaluates the employee's work in terms of quality and quantity of output and various characteristics such as job knowledge, initiative, relationships with others, and attendance and punctuality.
4. Following the performance evaluation, reward (pay raise) and job change (promotion) decisions can be made. If work is unsatisfactory, the employee may be put on a performance improvement plan, which outlines the behaviors or performance that must be improved, the milestones and time periods to improve performance, and what will occur if performance is not improved.
5. Rewards are positive feedback and provide reinforcement, or encouragement, for the employee to continue improving their performance.

It was once common practice for performance approvals to be conducted on an annual basis, but most companies have moved away from that standard. Instead, managers are encouraged to provide employees with continuous real-time feedback so that skill development and job performance can be improved more rapidly.

Information for performance appraisals can be assembled using rating scales, supervisor logs of employee job incidents, and reports of sales and production statistics. Regardless of the source, performance information should be accurate and a record of the employee's job behavior and efforts. **Table 9.3** illustrates a rating scale for one aspect of a college recruiter's job. A rating of "9" is considered outstanding job behavior and performance; a rating of "1" is viewed as very poor to unacceptable.



**Exhibit 9.5 Performance Planning and Evaluation**

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**Example of Behavior-Based Rating Scale for Performance Appraisal****Position: College Recruiter****Job Description: Visits campuses and conducts interviews of graduating seniors**

Explanation of Rating	Performance Rating	Explanation of Rating
This recruiter plans and organizes spring-semester college-recruiting schedule to minimize travel expenses and maximize the number of colleges visited and students interviewed.	9	
	8	Even with tight travel schedules between campuses, this recruiter completes each campus report before arrival at next campus.
	7	In making plans to visit a new campus, this recruiter might not have identified two or three faculty
	6	members for obtaining pre-visit information about degree programs.
This recruiter occasionally does not check with college placement office to request student résumés two days before arrival.	5	
	4	Sometimes this recruiter's notes are incomplete concerning a student's response to interview questions.
	3	This recruiter is often several minutes late in starting interviews.
This recruiter is frequently late in sending thank-you letters to students interviewed.	2	
	1	This recruiter is always late completing campus-recruiting reports.

---

**Table 9.3****CONCEPT CHECK**

1. What are the steps in the performance planning and appraisal process?
2. What purposes do performance appraisals serve?
3. Describe some sources of information for the performance appraisal.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# 9.6 Employee Compensation and Benefits

6. What are the types of compensation and methods for paying workers?

Compensation, which includes both pay and benefits, is closely connected to performance appraisals. Employees who perform better tend to get bigger pay raises. Several factors affect an employee's pay:

- 1. *Pay structure and internal influences.* Wages, salaries, and benefits are based on skills, experience, and the level of the job. The most important high-level positions, such as president, chief information officer, and chief financial officer, are compensated at the highest rates. Likewise, different jobs of equal importance to the firm are compensated at similar rates. As the level of management responsibility increases, so does pay. For instance, if a drill-press operator and a lathe operator are considered of equal importance, they may both be paid \$21 per hour.
- 2. *Pay level and external influences.* In deciding how much to pay workers, the firm must also be concerned with the salaries paid by competitors. If competitors are paying higher wages, a firm may lose its best employees. HR professionals regularly evaluate salaries by geography, job position, and competitor and market wages. Wage and salary surveys conducted by the U.S. Chamber of Commerce and the U.S. Department of Labor can also be useful. There are also several websites such as Glassdoor that post salaries for jobs by company.

An employer can decide to pay at, above, or below the going rate. Most firms try to offer competitive wages and salaries within a geographic area or an industry. If a company pays below-market wages, it may not be able to hire skilled people. The level of a firm's compensation is determined by the firm's financial condition (or profitability), efficiency, and employee productivity, as well as the going rates paid by competitors. For example, MillerCoors Brewing Co. is considered a high-paying firm (\$29–\$33 per hour for production employees).<sup>10</sup>

## Types of Compensation or Pay

There are two basic types of compensation: direct and indirect. Direct pay is the wage or salary received by the employee; indirect pay consists of various employee benefits and services. Employees are usually paid directly on the basis of the amount of time they work, the amount they produce, the type of work performed, or some combination of skill, time, and output. An hourly rate of pay or a monthly salary is considered base pay, or an amount of pay received by the employee regardless of output level. In many jobs, such as sales and manufacturing, an employee can earn additional pay as a result of a commission or an incentive pay arrangement. The accelerated commission schedule for a salesperson shown below indicates that as sales increase the incentive becomes increasingly more attractive and rewarding; therefore, pay can function as a powerful motivator. In this example, a salesperson receives a base monthly salary of \$1,000, then earns 3 percent on the first \$50,000 of product sold, 4 percent on the next \$30,000, and 5 percent on any sales beyond \$80,000.

Base pay	\$1,000 per month
3% of 50,000	1,500
4% of 30,000	1,200
5% of 20,000	1,000
	\$4,700

Two other incentive pay arrangements are bonuses and profit-sharing. Employees may be paid bonuses for reaching certain monthly or annual performance goals or achieving a specific cost-saving objective. In this instance, employees are rewarded based on achieving certain goals.

In a profit-sharing plan, employees may receive some portion of the firm's profit. Employee profit shares are usually based on annual company financial performance and therefore are paid once a year. With either a bonus or a profit share, an important incentive pay consideration is whether the bonus or profit share is the same for all employees or whether it is differentiated by level in the organization, base pay, or some other criterion. Choice Homes, a large-scale builder of starter homes, pays an annual incentive share that is the same for everyone; the president receives the same profit share or bonus as the lowest-paid employee.

Indirect pay includes pensions, health insurance, vacation time, and many others. Some forms of indirect pay are required by law: unemployment compensation, worker's compensation, and Social Security, which are all paid in part by employers. Unemployment compensation provides former employees with money for a certain period while they are unemployed. To be eligible, the employee must have worked a minimum number of weeks, be without a job, and be willing to accept a suitable position offered by the state Unemployment Compensation Commission. Some state laws permit payments to strikers. Worker's compensation pays employees for lost work time caused by work-related injuries and may also cover rehabilitation after a serious injury. Social Security is mainly a government pension plan, but it also provides disability and survivor benefits and benefits for people undergoing kidney dialysis and transplants. Medicare (health care for seniors) and Medicaid (health care for the poor) are also part of Social Security.

Many employers also offer benefits not required by law. Among these are paid time off (vacations, holidays, sick days, even pay for jury duty), health insurance (including dental and vision), supplemental benefits (disability, life, pet insurance, legal benefits), 401K contributions, pensions and retirement savings accounts, and stock purchase options.

Some firms with numerous benefits allow employees to mix and match benefit items or select items based on individual needs. A younger employee with a family may desire to purchase medical, disability, and life insurance, whereas an older employee may want to put more benefit dollars into a retirement savings plan. Pay and benefits are obviously important elements of human resource management and are frequently studied as aspects of employee job satisfaction. Pay can be perceived as very satisfactory, or it can be a point of job dissatisfaction. In a study of job satisfaction conducted by SAP, direct compensation was the most important element of job satisfaction by employees from various companies.<sup>11</sup> As the cost of health insurance and other benefits has risen sharply over the past few years, benefits have become increasingly important to workers.

## CATCHING THE ENTREPRENEURIAL SPIRIT

### *Starbucks Perks More Than Coffee*

At Starbucks, CEO Howard Schultz understood that the single most important aspect of creating an enduring brand is its people. Schultz wanted to set Starbucks apart from other coffee shops and service businesses, and he did this by offering health benefits and stock ownership for people who work part-time. It had never been done before, and it came with a cost.

In addition to employee benefits, funding to build the brand was funneled into operations to create an experience that would enable the brand to endure and be sold profitably for many years to come. So instead of expensive marketing and advertising campaigns, the company focused on experiential marketing.

Scott Bedbury, the president of marketing of Starbucks at the time, explains. “The stores were once four white walls. There was no comfortable furniture or fireplaces or music. So we set out to create an experience in the stores and a level of brand equity that most traditionally marketed brands couldn’t touch. That meant constant creative development of products, and the look and feel in the stores. It wasn’t cheap. The first year, we spent \$100 million building out stores, which is a significant marketing budget for anyone.”

But the defining moment for the brand was the stock option and employee benefit plan. This laid the foundation for the company’s internal brand, and was Schultz’s mission from the very beginning, explains Bedbury. “When Howard took over the company, he was not a rich man and he didn’t own a house or even a car. Howard grew up poor in Brooklyn and was influenced strongly by his dad, who never got health benefits from any of his employers. This fueled Howard’s drive to create a company that put employees first. He is passionate that when it comes to customers versus employees, employees will always come first.”

But it wasn’t easy, and it took a lot of courage to present this idea to investors. Bedbury said, “When Howard tried to raise \$2.8 million to buy the company from the three founders, he made 220 presentations and he got shut down in all but 12 of them. He was seen as an idealist who was going to put an unnecessary burden on the bottom line by offering benefits to part-time employees who viewed this as a temporary job. But Howard convinced them that turnover would drop, which it did. Store manager attrition was 15 percent, part-time hourly employees was 65 percent, compared to McDonalds and Taco Bell, which were about 200–300 percent a year. That’s turning over your work force every four months, and when you do that, your service suffers and there are all kinds of problems. I don’t know why more people don’t do it. If you give up some equity to employees, they’ll reward you for that.”

#### Critical Thinking Questions

1. How can a company like Starbucks sustain its strong employee culture while continuing to grow rapidly?
2. Can a firm give its employees too much in terms of benefits and services? Explain.

Sources: Blog, MarketSmarter, <http://www.marketsmarter.com/blog>, accessed March 12, 2018; Carmine Gallo, “How Starbucks CEO Howard Schultz Inspired Us to Dream Bigger,” *Forbes*, <https://www.forbes.com>, December 2, 2016; Tanza Loudenback, “The Story Behind the Rise of Starbucks’ Howard Shultz, Who Just Gave a Raise to Every US Employee of His \$82 Billion Coffee Company,” *Business Insider*, <http://www.businessinsider.com>, July 11, 2016; Monique Reece, *Real-Time Marketing for Business Growth* (Upper Saddle River, NJ: FT Press/Pearson, 2010).

## CONCEPT CHECK

1. How does a firm establish a pay scale for its employees?
2. What is the difference between direct and indirect pay?
3. Why are health insurance and benefits so important to employees?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>



## 9.7 The Labor Relations Process

7. What is a labor union and how is it organized, what is collective bargaining, and what are some of the key negotiation issues?

Tens of thousands of American firms are unionized, and millions of U.S. workers belong to unions. Historically, the mining, manufacturing, construction, and transportation industries have been significantly unionized, but in recent years, service-based firms, including health care organizations, have been unionized.

A labor union, such as the International Brotherhood of Teamsters, is an organization that represents workers in dealing with management over disputes involving wages, hours, and working conditions. The labor relations process that produces a union-management relationship consists of three phases: union organizing, negotiating a labor agreement, and administering the agreement. In phase one, a group of employees within a firm may form a union on their own, or an established union (United Auto Workers, for example) may target an employer and organize many of the firm's workers into a local labor union. The second phase constitutes collective bargaining, which is the process of negotiating a labor agreement that provides for compensation and working arrangements mutually acceptable to the union and to management. Finally, the third phase of the labor relations process involves the daily administering of the labor agreement. This is done primarily through handling worker grievances and other workforce management problems that require interaction between managers and labor union officials.

### The Modern Labor Movement

The basic structure of the modern labor movement consists of three parts: local unions, national and international unions, and union federations. There are approximately 60,000 local unions, 75 national and international unions, and two federations. Union membership has been declining over the past three decades and is now half what it once was. The number of employed union members has declined by 2.9 million since 1983, the first year union statistics were reported. In 1983, union membership was 20.1 percent of workers, with 17.7 million union workers. In 2017, membership declined to 10.7 percent of workers, with 14.8 million members.<sup>12</sup>

A local union is a branch or unit of a national union that represents workers at a specific plant or over a specific geographic area. Local 276 of the United Auto Workers represents assembly employees at the General Motors plant in Arlington, Texas. A local union (in conformance with its national union rules) determines the number of local union officers, procedures for electing officers, the schedule of local meetings, financial arrangements with the national organization, and the local's role in negotiating labor agreements.

The three main functions of the local union are collective bargaining, worker relations and membership services, and community and political activities. Collective bargaining takes place every three or four years. Local union officers and shop stewards in the plant oversee labor relations on a day-to-day basis. A shop steward is an elected union official who represents union members to management when workers have complaints. For most union members, his or her primary contact with the union is through union officials at the local level.

A national union can range in size from a few thousand members (Screen Actors Guild) to more than a million members (Teamsters). A national union may have a few to as many as several hundred local unions. The number of national unions has steadily declined since the early twentieth century. Much of this decline has resulted from union mergers. In 1999, for example, the United Papermakers International Union (UPICU) and the Oil, Chemical and Atomic Workers Union (OCAW) agreed to merge under the new name of PACE, or Paper, Allied-Industrial, Chemical and Energy International Union. PACE has about 245,000 members.

For 50 years, one union federation (the American Federation of Labor-Congress of Industrial Organization, or AFL-

CIO) dominated the American labor movement. A federation is a collection of unions banded together to further organizing, public relations, political, and other mutually-agreed-upon purposes of the member unions. In the summer of 2005, several unions (Teamsters, Service Employees International Union, Laborers' International Union, United Farm Workers, Carpenters and Joiners, Unite Here, and the United Food and Commercial Workers Union) split from the AFL-CIO and formed a new federation named the Change to Win Coalition.<sup>13</sup> The new federation and its member unions represent more than 5.5 million union members. Change to Win Coalition member unions left the AFL-CIO over leadership disagreements and ineffective organizing strategies of the AFL-CIO; one of its primary goals is to strengthen union-organizing drives and reverse the decline in union membership.<sup>14</sup>

## Union Organizing

A nonunion employer becomes unionized through an organizing campaign. The campaign is started either from within, by unhappy employees, or from outside, by a union that has picked the employer for an organizing drive. Once workers and the union have made contact, a union organizer tries to convince all the workers to sign authorization cards. These cards prove the worker's interest in having the union represent them. In most cases, employers resist this card-signing campaign by speaking out against unions in letters, posters, and employee assemblies. However, it is illegal for employers to interfere directly with the card-signing campaign or to coerce employees into not joining the union.

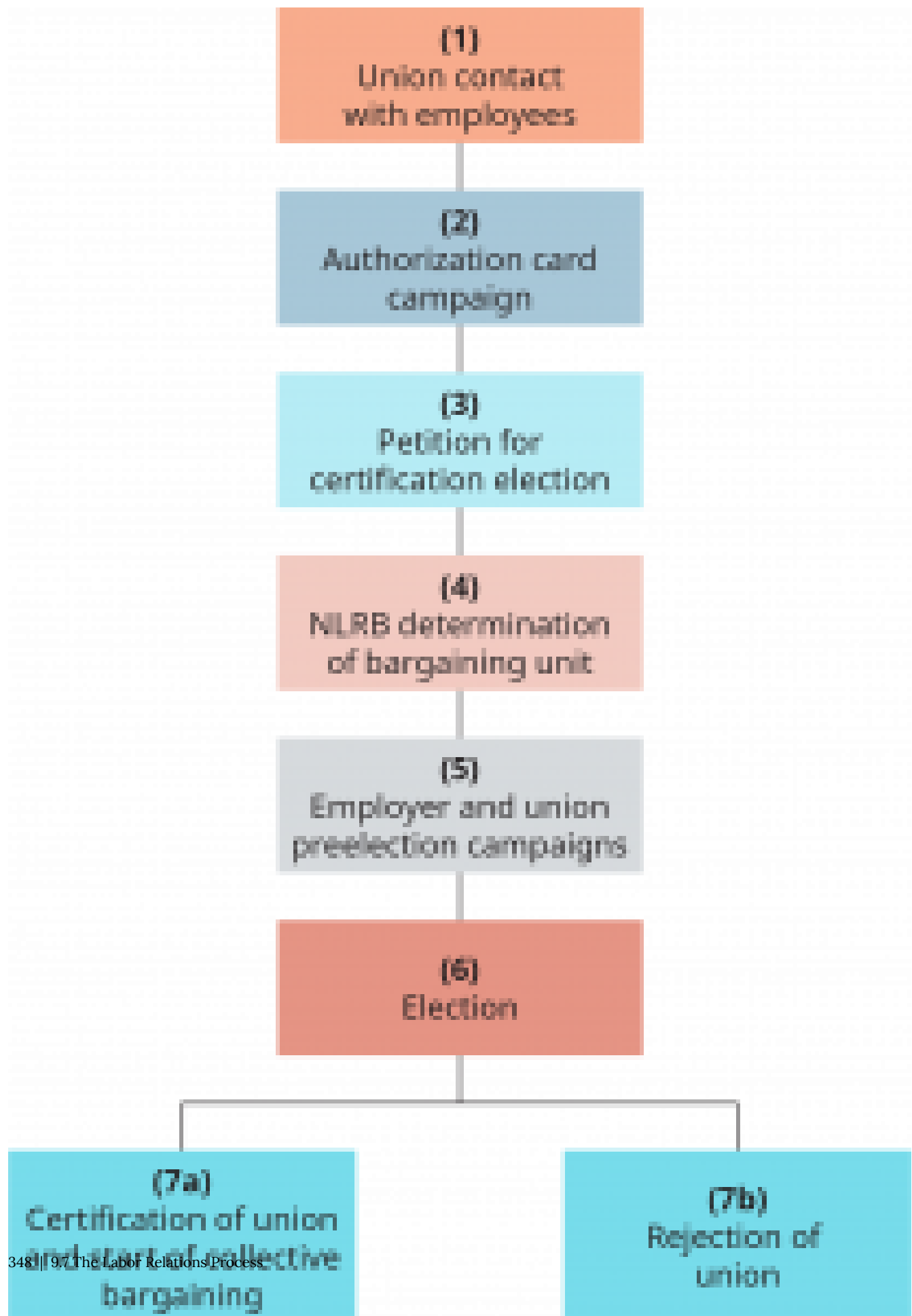
Once the union gets signed authorization cards from at least 30 percent of the employees, it can ask National Labor Relations Board (NLRB) for a union certification election. This election, by secret ballot, determines whether the workers want to be represented by the union. The NLRB posts an election notice and defines the bargaining unit—employees who are eligible to vote and who will be represented by the particular union if it is certified. Supervisors and managers cannot vote. The union and the employer then engage in a pre-election campaign conducted through speeches, memos, and meetings. Both try to convince workers to vote in their favor. **Table 9.4** lists benefits usually emphasized by the union during a campaign and common arguments employers make to convince employees a union is unnecessary.

The election itself is conducted by the NLRB. If a majority vote for the union, the NLRB certifies the union as the exclusive bargaining agent for all employees who had been designated as eligible voters. The employer then has to bargain with the union over wages, hours, and other terms of employment. The complete organizing process is summarized in **Exhibit 9.6**.

In some situations, after one year, if the union and employer don't reach an agreement, the workers petition for a decertification election, which is similar to the certification election but allows workers to vote out the union. Decertification elections are also held when workers become dissatisfied with a union that has represented them for a longer time. In recent years, the number of decertification elections has increased to several hundred per year.

Benefits Stressed by Unions in Organizing Campaigns and Common Arguments Against Unions		
Almost Always Stressed	Often Stressed	Seldom Stressed
Grievance procedures	More influence in decision-making	Higher-quality products
Job security	Better working conditions	Technical training
Improved benefits	Lobbying opportunities	More job satisfaction
Higher pay		Increased production
<b>Employer Arguments Against Unionization:</b>		
<ul style="list-style-type: none"><li>• An employee can always come directly to management with a problem; a third party (the union) isn't necessary.</li><li>• As a union member, you will pay monthly union dues of \$15 to \$40.</li><li>• Merit-based decisions (promotions) are better than seniority-based decisions.</li><li>• Pay and benefits are very similar to the leading firms in the industry.</li><li>• We meet all health and safety standards of the Federal Occupational Safety and Health Administration.</li><li>• Performance and productivity are more important than union representation in determining pay raises.</li></ul>		

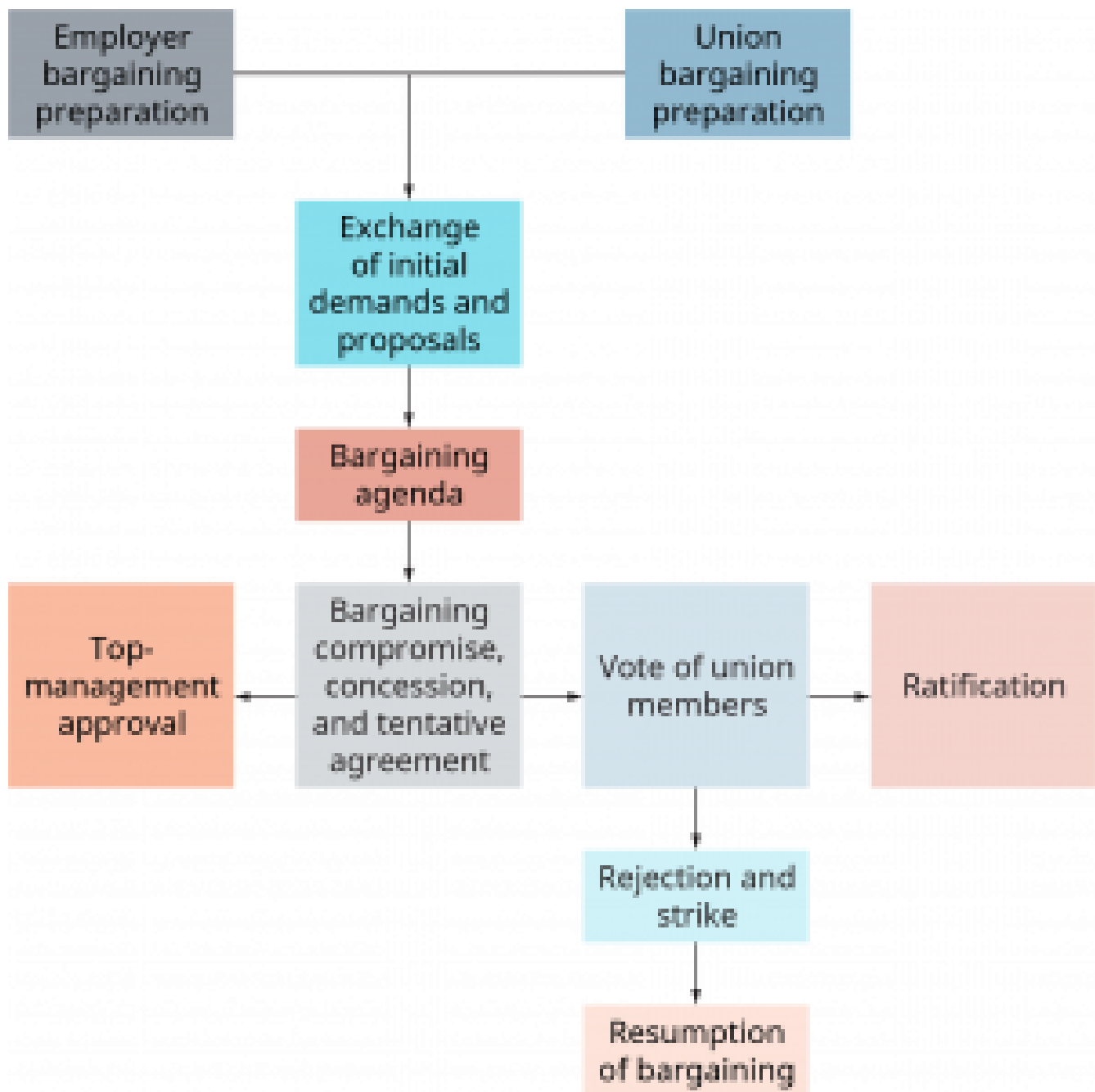
**Table 9.4**



**Exhibit 9.6 Union Organizing Process and Election** (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

## Negotiating Union Contracts through Collective Bargaining

A labor agreement, or union contract, is created through *collective bargaining*. Typically, both management and union negotiation teams are made up of a few people. One person on each side is the chief spokesperson. Bargaining begins with union and management negotiators setting a list of contract issues that will be discussed. Much of the bargaining over specific details takes place through face-to-face meetings and the exchange of written proposals. Demands, proposals, and counterproposals are exchanged during several rounds of bargaining. The resulting contract must be approved by top management and ratified by the union members. Once both sides approve, the contract is a legally binding agreement that typically covers such issues as union security, management rights, wages, benefits, and job security. The collective bargaining process is shown in **Exhibit 9.7**. We will now explore some of the bargaining issues.



**Exhibit 9.7 The Process of Negotiating Labor Agreements** (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

## Union Security

A union wants all employees to be union members. This can be accomplished by negotiating a union security clause. The most common union security arrangement is the union shop, whereby nonunion workers can be hired by the firm, but then they must join the union, normally within 30 to 60 days. An agency shop does not require employees to join the union, but to remain employees, workers must pay the union a fee (known as the agency fee) to cover the union's

expenses in representing them. The union must fairly represent all workers, including those in the bargaining unit who do not become members.

Under the Taft-Hartley Act of 1947, a state can make any and all forms of union security illegal by enacting a right-to-work law. In the 28 states that have these laws, employees can work at a unionized company without having to join the union. This arrangement is commonly known as an open shop. Workers don't have to join the union or pay dues or fees to the union.

## Management Rights

When a company becomes unionized, management loses some of its decision-making abilities. But management still has certain rights that can be negotiated in collective bargaining. One way to resist union involvement in management matters is to put a management rights clause in the labor agreement. Most union contracts have one. A typical clause gives the employer all rights to manage the business except as specified in the contract. For instance, if the contract does not specify the criteria for promotions, with a management rights clause, managers will have the right to use any criteria they wish. Another way to preserve management rights is to list areas that are not subject to collective bargaining. This list might secure management's right to schedule work hours; hire and fire workers; set production standards; determine the number of supervisors in each department; and promote, demote, and transfer workers.

## Wage and Benefits

Much bargaining effort focuses on wage adjustments and changes in benefits. Once agreed to, they remain in effect for the length of the contract. For example, in 2015, the United Auto Workers negotiated a four-year contract containing modest hourly wage increases with U.S. car manufacturers; pay hikes were about 3 percent for first and third years and 4 percent in year four.<sup>15</sup> Hourly rates of pay can also increase under some agreements when the cost of living increases above a certain level each year, say 4 percent. No cost-of-living adjustment is made when annual living cost increases are under 4 percent, which has been the case for the early years of the twenty-first century.

In addition to requests for wage increases, unions usually want better benefits. In some industries, such as steel and auto manufacturing, benefits are 40 percent of the total cost of compensation. Benefits may include higher wages for overtime work, holiday work, and less desirable shifts; insurance programs (life, health and hospitalization, dental care); payment for certain nonwork time (rest periods, vacations, holiday, sick time); pensions; and income-maintenance plans. Supplementary unemployment benefits (income-maintenance) found in the auto industry are provided by the employer and are in addition to state unemployment compensation given to laid-off workers. The unemployment compensation from the state and supplementary unemployment pay from the employer together maintain as much as 80 percent of an employee's normal pay.

## Job Security and Seniority

Wage adjustments, cost-of-living increases, supplementary unemployment pay, and certain other benefits give employees under union contracts some financial security. But most financial security is directly related to job security—the assurance, to some degree, that workers will keep their jobs. Of course, job security depends primarily on the continued success and financial well-being of the company. For example, thousands of airline employees lost their jobs after the 9/11 terrorist attack in 2001; these were employees with the least seniority.

Seniority, the length of an employee's continuous service with a firm, is discussed in about 90 percent of all labor contracts. Seniority is a factor in job security; usually, unions want the workers with the most seniority to have the most job security.

### CONCEPT CHECK

1. Discuss the modern labor movement.
2. What are the various topics that may be covered during collective bargaining?
3. Explain the differences among a union shop, agency shop, and an open shop.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



## 9.8 Managing Grievances and Conflicts

8. How are grievances between management and labor resolved, and what tactics are used to force a contract settlement?

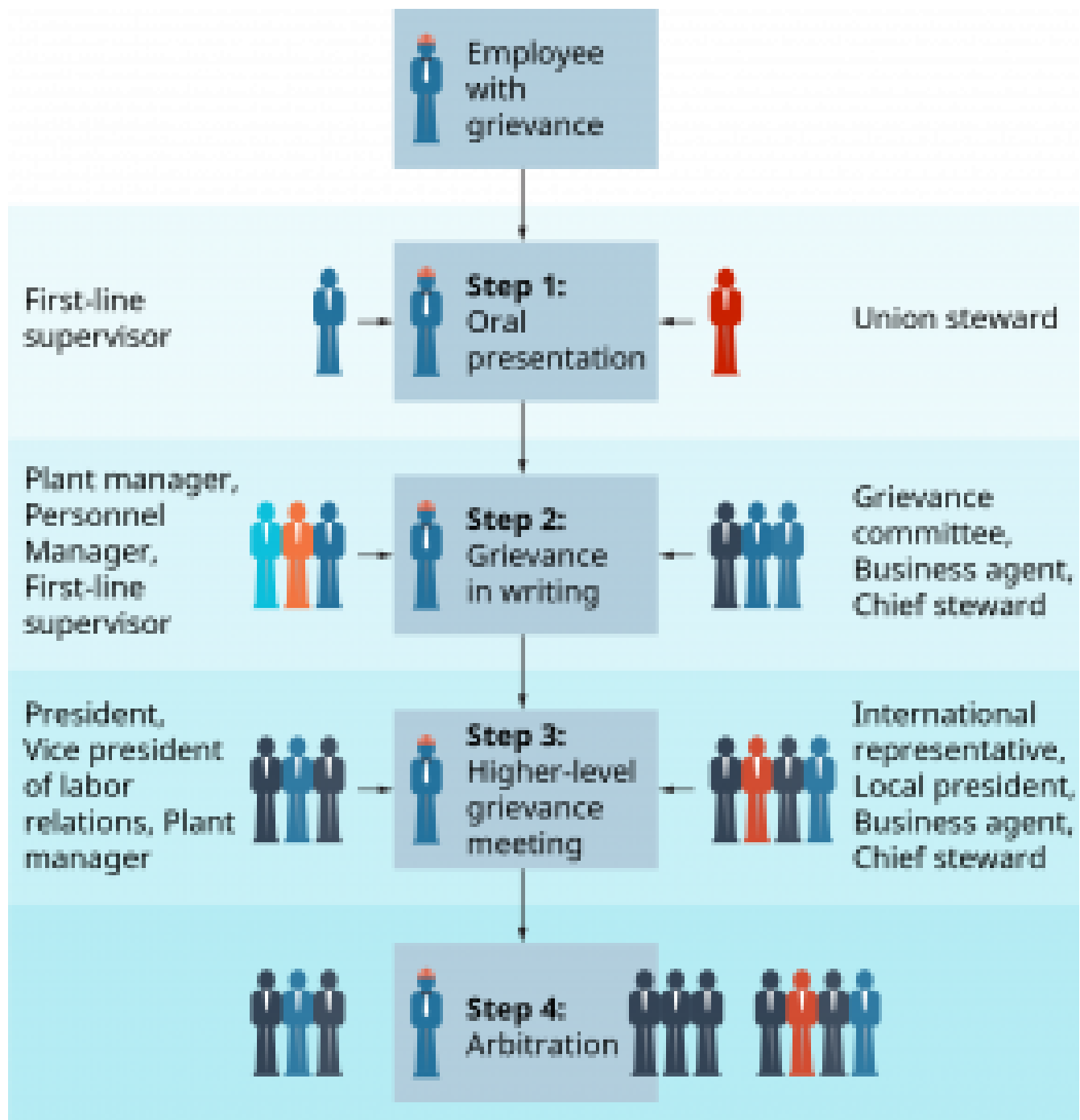
In a unionized work environment, employees follow a step-by-step process for handling grievances or disputes between management and labor. Conflicts over contracts, however, are far more challenging to resolve and may result in the union or employer imposing economic pressure, as described in this section.

### Grievance Handling and Arbitration

The union's main way of policing the contract is the grievance procedure. A grievance is a formal complaint by an employee or the union that management has violated some part of the contract. Under a typical contract, the employee starts by presenting the grievance to the supervisor, either in person or in writing. The typical grievance procedure is illustrated in **Exhibit 9.8** An example grievance is a situation in which an employee is disciplined with a one-day suspension (and loss of pay) for being late for work several times in one month.

If the problem isn't solved, the grievance is put in writing. The employee, one or more union officials, the supervisor, and perhaps the plant manager then discuss the grievance. If the matter still can't be resolved, another meeting takes place with higher-level representatives of both parties present. If top management and the local union president can't resolve the grievance, it goes to arbitration.

Arbitration is the process of settling a labor-management dispute by having a third party—a single arbitrator or a panel—make a decision. The decision is final and binding on the union and employer. The arbitrator reviews the grievance at a hearing and then makes the decision, which is presented in a document called the award. In the one-day suspension mentioned above, the arbitrator might rule that the discipline was improperly made because the employee's attendance record for the month was not accurately maintained by the firm.



**Exhibit 9.8 Typical Grievance Procedure** (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

## Tactics for Pressuring a Contract Settlement

Virtually all labor agreements specify peaceful resolution of conflicts, usually through arbitration. However, when a contract expires and a new agreement has not been reached, the union is free to strike or engage in other efforts to exert economic pressure on the employer. A **strike** occurs when employees refuse to work. The United Auto Workers union used a selective strike strategy, a strategy of conducting a strike at a critical plant that supplies parts to other plants, against General Motors. The union conducted its strike at a stamping and parts facility in Flint, Michigan, that

supplied critical parts to other plants. The 54-day strike caused the company to stop production at many of its assembly plants because parts were not available from the Flint plant. General Motors lost approximately \$2.2 billion during that dispute. Likewise, the employer can put pressure on the union through a lockout or by hiring strike replacements if the union has called a strike. For example, in 2018 aluminum producer Alcoa locked out more than 1,000 union workers from its smelter facility in Quebec, Canada, after union members went on strike.<sup>16</sup> **Table 9.5** provides a summary of union and employer pressure strategies for forcing a contract settlement.

Strategies of Unions and Employers			
Union Strategies		Employer Strategies	
<b>Strike:</b>	Employees refuse to work.	<b>Lockout:</b>	Employer refuses to let employees enter plant to work.
<b>Boycott:</b>	Employees try to keep customers and others from doing business with employer.	<b>Strike replacements:</b>	Employer uses nonunion employees to do jobs of striking union employees.
<b>Picketing:</b>	Employees march near entrance of firm to publicize their view of dispute and discourage customers.	<b>Mutual-aid pact:</b>	Employer receives money from other companies in industry to cover some of income lost because of strikes.
<b>Corporate campaign:</b>	Union disrupts stockholder meetings or buys company stock to have more influence over management.	<b>Shift production:</b>	Employer moves production to nonunion plant or out of country.

Table 9.5

CONCEPT CHECK

- Describe the grievance procedure.
- In what ways do arbitrators act like judges?
- What are some tactics for pressuring for a contract settlement?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 9.9 Legal Environment of Human Resources and Labor Relations

### 9. What are the key laws and federal agencies affecting human resource management and labor relations?

Federal laws help ensure that job applicants and employees are treated fairly and not discriminated against. Hiring, training, and job placement must be unbiased. Promotion and compensation decisions must be based on performance. These laws help all Americans who have talent, training, and the desire to get ahead. The key laws that currently impact human resource management and labor relations are listed in **Table 9.6**.

Several laws govern wages, pensions, and unemployment compensation. For instance, the Fair Labor Standards Act sets the federal minimum wage, which is periodically raised by Congress. Many minimum-wage jobs are found in service firms, such as fast-food chains and retail stores. The Pension Reform Act protects the retirement income of employees and retirees. Federal tax laws also affect compensation, including employee profit-sharing and stock purchase plans. When John F. Kennedy signed the Equal Pay Act into law in 1963, the goal was to stop the practice of paying women lower wages for the same job based on their gender. At the time, women with full-time jobs earned between 59 and 64 cents for every dollar their male counterparts earned in the same jobs. Although this law has been in place for several decades, progress has been slow. On April 17, 2012, President Barack Obama proclaimed National Equal Pay Day, noting that women who work full time earn only 77 cents for every dollar their male counterparts make. In 2016, the wage gap changed slightly, with women making 80.5 percent of what men earn.<sup>17</sup>

<b>Laws Impacting Human Resource Management</b>		
<b>Law</b>	<b>Purpose</b>	<b>Agency of Enforcement</b>
Social Security Act (1935)	Provides for retirement income and old-age health care	Social Security Administration
Wagner Act (1935)	Gives workers the right to unionize and prohibits employer unfair labor practices	National Labor Relations Board
Fair Labor Standards Act (1938)	Sets minimum wage, restricts child labor, sets overtime pay	Wage and Hour Division, Department of Labor
Taft-Hartley Act (1947)	Obligates the union to bargain in good faith and prohibits union unfair labor practices	Federal Mediation and Conciliation Service
Equal Pay Act (1963)	Eliminates pay differentials based on gender	Equal Employment Opportunity Commission
Civil Rights Act (1964), Title VII	Prohibits employment discrimination based on race, color, religion, gender, or national origin	Equal Employment Opportunity Commission
Age Discrimination Act (1967)	Prohibits age discrimination against those over 40 years of age	Equal Employment Opportunity Commission
Occupational Safety and Health Act (1970)	Protects worker health and safety, provides for hazard-free workplace	Occupational Safety and Health Administration
Vietnam Veterans' Readjustment Act (1974)	Requires affirmative employment of Vietnam War veterans	Veterans Employment Service, Department of Labor
Employee Retirement Income Security Act (1974)—also called Pension Reform Act	Establishes minimum requirements for private pension plans	Internal Revenue Service, Department of Labor, and Pension Benefit Guaranty Corporation
Pregnancy Discrimination Act (1978)	Treats pregnancy as a disability, prevents employment discrimination based on pregnancy	Equal Employment Opportunity Commission
Immigration Reform and Control Act (1986)	Verifies employment eligibility, prevents employment of illegal aliens	Employment Verification Systems, Immigration and Naturalization Service
Americans with Disabilities Act (1990)	Prohibits employment discrimination based on mental or physical disabilities	Department of Labor
Family and Medical Leave Act (1993)	Requires employers to provide unpaid leave for childbirth, adoption, or illness	Equal Employment Opportunity Commission

**Table 9.6**

Employers must also be aware of changes to laws concerning employee safety, health, and privacy. The Occupational Safety and Health Act (OSH Act) requires employers to provide a workplace free of health and safety hazards. For instance, manufacturers must require their employees working on loading docks to wear steel-toed shoes so their feet won't be injured if materials are dropped. Drug and AIDS testing are also governed by federal laws.

Another employee law that continues to affect the workplace is the Americans with Disabilities Act. To be considered disabled, a person must have a physical or mental impairment that greatly limits one or more major life activities. More than 40 million Americans, 12.6 percent of the population, were disabled in 2015, according to the U.S. Census Bureau.<sup>18</sup> Employers may not discriminate against disabled persons. They must make "reasonable accommodations" so that qualified employees can perform the job, unless doing so would cause "undue hardship" for the business. Altering work schedules, modifying equipment so a wheelchair-bound person can use it, and making buildings accessible by ramps and elevators are considered reasonable. Two companies often praised for their efforts to hire the disabled are McDonald's and DuPont.

The Family and Medical Leave Act went into effect in 1993. The law guarantees continuation of paid health benefits, plus a return to the same or equivalent job, and applies to employers with 50 or more employees. It requires these employers to provide unpaid leave of up to 12 weeks during any 12-month period to workers who have been employed for at least a year and worked at least 1,250 hours during the past year. The reasons for the leave include the birth or

adoption of a child; the serious illness of a child, spouse, or parent; or a serious illness that prevents the worker from doing the job.

According to the Bureau of Labor Statistics, only 11 percent of all private industry workers have access to paid family leave. Low-wage earners fare even worse. Only 5 percent of low-wage earners get any paid maternity leave, and nearly half will not take time off because they cannot afford to go without income. The United States continues to be one of only four countries in the world (along with Liberia, Suriname, and Papua New Guinea) that do not guarantee paid parental leave.<sup>19</sup>

The Wagner and Taft-Hartley Acts govern the relationship between an employer and union. Employees have the right to unionize and bargain collectively with the company. The employer must deal with the union fairly, bargain in good faith, and not discriminate against an employee who belongs to the union. The union must also represent all employees covered by a labor agreement fairly and deal with the employer in good faith.

Several federal agencies oversee employment, safety, compensation, and related areas. The Occupational Safety and Health Administration (OSHA) sets workplace safety and health standards, provides safety training, and inspects places of work (assembly plants, construction sites, and warehouse facilities, for example) to determine employer compliance with safety regulations.

The Wage and Hour division of the Department of Labor enforces the federal minimum-wage law and overtime provisions of the Fair Labor Standards Act. Employers covered by this law must pay certain employees a premium rate of pay (or time and one-half) for all hours worked beyond 40 in one week.

The Equal Employment Opportunity Commission (EEOC) was created by the 1964 Civil Rights Act. It is one of the most influential agencies responsible for enforcing employment laws. The EEOC has three basic functions: processing discrimination complaints, issuing written regulations, and gathering and disseminating information. An employment discrimination complaint can be filed by an individual or a group of employees who work for a company. The group may comprise a protected class, such as women, African Americans, or Hispanic Americans. The protected group may pursue a class-action complaint that may eventually become a lawsuit. As a measure to prevent employment discrimination, many employers set up affirmative action programs to expand job opportunities for women and minorities.

Even with affirmative action and other company efforts to follow the law, each year the EEOC receives tens of thousands of complaints from current or former employees. The monetary benefits that the EEOC wins for employees has grown substantially during the past 10 years. Large monetary settlements often occur when the EEOC files a class-action suit against an employer. For example, the Ford Motor Company settled sexual and racial harassment claims by more than 30 women for more than \$10 million at two Chicago-area manufacturing plants in 2017.<sup>20</sup> Also, Sears, Motorola, and AT&T have had to make large back-pay awards and to offer special training to minority employees after the court found they had been discriminated against.

The NLRB was established to enforce the Wagner Act. Its five members are appointed by the president; the agency's main office is in Washington, DC, and regional and field offices are scattered throughout the United States. NLRB field agents investigate charges of employer and union wrongdoing (or unfair labor practices) and supervise elections held to decide union representation. Judges conduct hearings to determine whether employers and unions have violated the law.

The Federal Mediation and Conciliation Service helps unions and employers negotiate labor agreements. Agency specialists, who serve as impartial third parties between the union and company, use two processes: conciliation and mediation, both of which require expert communication and persuasion. In conciliation, the specialist assists management and the union with focusing on the issues in dispute and acts as a go-between, or communication channel through which the union and employer send messages to and share information with each other. The specialist takes a stronger role in mediation by suggesting compromises to the disputing organizations.

## CONCEPT CHECK

1. Discuss the laws that govern wages, pensions, and employee compensation.
2. Describe the Americans with Disabilities Act.
3. How do the Wagner and Taft-Hartley Acts impact labor-management relations?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 9.10 Trends in Human Resource Management and Labor Relations

### 10. What trends and issues are affecting human resource management and labor relations?

Some of today's most important trends in human resource management are using employee diversity as a competitive advantage, improving efficiency through outsourcing and technology, and hiring employees who fit the organizational culture. Although overall labor union enrollment continues to decline, a possible surge in membership in service unions is anticipated.

### Employee Diversity and Competitive Advantage

American society and its workforce are becoming increasingly more diverse in terms of racial and ethnic status, age, educational background, work experience, and gender. A company with a demographic employee profile that looks like its customers may be in a position to gain a competitive advantage, which is a set of unique features of a company and its product or service that are perceived by the target market as superior to those of the competition. Competitive advantage is the factor that causes customers to patronize a firm and not the competition. Many things can be a source of competitive advantage: for Southwest Airlines it is route structure and high asset utilization; for Ritz-Carlton hotels it is very high-quality guest services; for Toyota it is manufacturing efficiency and product durability; and for Starbucks it is location, service, and outstanding coffee products. For these firms, a competitive advantage is also created by their HR practices. Many firms are successful because of employee diversity, which can produce more effective problem-solving, a stronger reputation for hiring women and minorities, greater employee diversity, quicker adaptation to change, and more robust product solutions because a diverse team can generate more options for improvement.<sup>21</sup>

In order for an organization to use employee diversity for competitive advantage, top management must be fully committed to hiring and developing women and minority individuals. An organization that highly values employee diversity is the United States Postal Service (USPS). In 1992 the Postal Service launched a diversity development program to serve as the organization's "social conscience and to increase employees' awareness of and appreciation for ethnic and cultural diversity both in the postal workplace and among customers." Twenty-five years later, 39 percent of postal service employees are minority persons: 21 percent African-American, 8 percent Hispanic, and more than 8.0 percent other minorities. In addition, women make up 40 percent of the organization's workforce.<sup>22</sup>

### Outsourcing HR and Technology

The role of the HR professional has changed noticeably over the past 20 years. One significant change has been the use of technology in handling relatively routine HR tasks, such as payroll processing, initial screening of applicants, and benefits enrollments. Large firms such as Nokia and Lockheed Martin purchase specialized software (SAP and Oracle/PeopleSoft) to perform the information-processing aspects of many HR tasks. Other firms, such as Jacobs Engineering Group (a large professional services firm), outsource—or contract out—these tasks to HR service providers such as Aon Hewitt and Workforce Solutions.

HR outsourcing is done when another firm can perform a task better and more efficiently, thus saving costs. Sometimes HR activities are outsourced because HR requirements are extraordinary and too overwhelming to execute in-house in a timely fashion. Frequently, HR activities are outsourced simply because a provider has greater expertise.



For example, media conglomerate CBS Corp. recently announced that it hired Fidelity Investments to manage its 401(k) plan, which has more than \$4 billion in assets.<sup>23</sup>

## Organizational Culture and Hiring for Fit

Regardless of general business and economic conditions, many firms are expanding operations and hiring additional employees. For many growing firms, corporate culture can be a key aspect of developing employees into a competitive advantage for the firm. Corporate culture refers to the core values and beliefs that support the mission and business model of the firm and guide employee behavior. Companies such as JetBlue, Ritz-Carlton, and Cypress frequently hire for fit with their corporate cultures. This necessitates recruitment and selection of employees who exhibit the values of the firm. Ritz-Carlton and Cypress use carefully crafted applicant questionnaires to screen for values and behaviors that support the corporate culture. JetBlue uses behavioral-based interview questions derived from its corporate values of safety, integrity, caring, fun, and passion. Southwest Airlines has non-HR employees (flight attendants, gate agents, and pilots) and even frequent flyer passengers interview applicants to screen for cultural fit as well as strong customer-service orientation.

In addition to cultural fit, firms are increasingly hiring for technical knowledge and skills fit to the job. Tech companies such as IBM, Amazon, and Microsoft receive thousands of résumés and job applications each year and continue to look for the best and the brightest when it comes to technical knowledge and skills. For example, IBM is now focusing on a skills-based approach rather than a candidate's education level and number of academic degrees. Amazon is all about the customer and looks for employees who continue to be “relentlessly curious.” Microsoft continues to raise the talent bar by embracing job applicants who have demonstrated leadership, achieved concrete results, and can prove that they love to learn.<sup>24</sup>

## More Service Workers Joining Labor Unions

Organized labor has faced tumultuous times during the last several decades due to declining union membership, loss of factory jobs, dwindling political clout, and the shifting of jobs outside the United States. With union membership now down to a little more than 10 percent of the U.S. workforce, some wonder if labor unions, who organize as a united front against poor working conditions, still have a place in the country. Mary Kay Henry, international president of Service Employees International Union (SEIU), is optimistic that unions are capable of resurgence by organizing the growing number of service workers into labor unions. The SEIU is the fastest-growing union in the nation, having jumped to 2 million members from 1.1 million a decade ago.<sup>25</sup>

Henry's goal is to focus on recruiting the country's millions of low-wage service workers, positions that are primarily filled by the working poor. These workers are disproportionately women, immigrants, and members of minority groups, which have all been traditionally more open to unionization. If these workers are successfully recruited into the SEIU, Henry believes that their wages and benefits would increase in much the same way unions brought factory workers into the middle class in the 1930s.

The SEIU believes that the service industry provides a target of opportunity, with the largest expected employment growth through 2026 in low-paid local services:

Job	Projected Growth <sup>26</sup>
Home health aides	47%
Personal care aides	39%
Food preparation	17%
Janitorial	10%

Many believe that the future of labor lies primarily in the success of recruitment efforts and in enrolling the massive numbers of employees who are in fast-growing, low-wage service jobs. For example, the SEIU was successful recently in unionizing hundreds of workers who provide services to people with disabilities in California, with an eye toward raising standards for their work and increasing hourly wages and benefits. Reversing labor's decline will be challenging, but the SEIU looks positively toward the future.<sup>27</sup>

## CONCEPT CHECK

1. How can employee diversity give a company a competitive advantage?
2. Explain the concept of hiring for fit.
3. Why does the service industry provide an opportunity for labor union growth?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Key Terms

**affirmative action programs**

Programs established by organizations to expand job opportunities for women and minorities.

**agency shop**

Workers don't have to join a union but must pay union dues.

**apprenticeship**

A form of on-the-job training that combines specific job instruction with classroom instruction.

**arbitration**

Settling labor-management disputes through a third party. The decision is final and binding.

**collective bargaining**

Negotiating a labor agreement.

**competitive advantage**

A set of unique features of an organization that are perceived by customers and potential customers as significant and superior to the competition.

**conciliation**

Negotiation process in which a specialist in labor-management negotiations acts as a go-between for management and the unions and helps focus on the problems.

**contingent worker**

Person who prefers temporary employment, either part-time or full-time.

**Equal Employment Opportunity Commission (EEOC)**

Processes discrimination complaints, issues regulations regarding discrimination, and disseminates information.

**federation**

A collection of unions banded together to achieve common goals.

**grievance**

A formal complaint by a union worker that management has violated the contract.

**human resource (HR) management**

The process of hiring, developing, motivating, and evaluating employees to achieve organizational goals.

**human resource planning**

Creating a strategy for meeting current and future human resource needs.

**incentive pay**

Additional pay for attaining a specific goal.

**job analysis**

A study of the tasks required to do a particular job well.

**job description**

The tasks and responsibilities of a job.

**job fair**

An event, typically one or two days, held at a convention center to bring together job seekers and firms that are searching for employees.

**job rotation**

Reassignment of workers to several different jobs over time so that they can learn the basics of each job.

**job specification**

A list of the skills, knowledge, and abilities a person must have to fill a job.

**labor union**

An organization that represents workers in dealing with management.

**local union**

Branch of a national union that represents workers in a specific plant or geographic area.

**management rights clause**

Clause in a labor agreement that gives management the right to manage the business except as specified in the contract.

**mediation**

Negotiation process in which a specialist facilitates labor-management contract discussions and suggests compromises.

**mentoring**

A form of on-the-job training in which a senior manager or other experienced employee provides job- and career-related information to a mentee.

**Occupational Safety and Health Administration (OSHA)**

Sets workplace safety and health standards and assures compliance.

**open shop**

Workers do not have to join the union or pay union dues.

**orientation**

Presentation to get the new employee ready to perform his or her job.

**performance appraisal**

A comparison of actual performance with expected performance to assess an employee's contributions to the organization.

**programmed instruction**

A form of computer-assisted off-the-job training.

**protected classes**

The specific groups who have legal protection against employment discrimination; include women, African-Americans, Native Americans, and others.

**recruitment**

The attempt to find and attract qualified applicants in the external labor market.

**recruitment branding**

Presenting an accurate and positive image of the firm to those being recruited.

**right-to-work law**

State laws that an employee does not have to join a union.

**selection**

The process of determining which persons in the applicant pool possess the qualifications necessary to be successful on the job.

**selection interview**

An in-depth discussion of an applicant's work experience, skills and abilities, education, and career interests.

**selective strike strategy**

Strike at a critical plant that typically stops operations system-wide.

**shop steward**

An elected union official that represents union members to management when workers have complaints.

**simulation**

A scaled-down version or mock-up of equipment, processes, or a work environment.

**succession planning**

Examination of current employees to identify people who can fill vacancies and be promoted.

**training and development**

Activities that provide learning situations in which an employee acquires additional knowledge or skills to increase job performance.

**unemployment compensation**

Government payment to unemployed former workers.

**union shop**

Nonunion workers can be hired but must join the union later.

**worker's compensation**

Pay for lost work time due to employment-related injuries.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>

# Summary of Learning Outcomes

## 8.1 Achieving High Performance through Human Resources Management

1. What is the human resource management process, and how are human resource needs determined?

The human resource management process consists of a sequence of activities that begins with the job analysis and HR planning; progresses to employee recruitment and selection; then focuses on employee training, performance appraisal, and compensation; and ends when the employee leaves the organization.

Creating a strategy for meeting human resource needs is called human resource planning, which begins with the job analysis. Job analysis is a process of studying a job to determine its tasks and duties for setting pay, determining employee job performance, specifying hiring requirements, and designing training programs. Information from the job analysis is used to prepare a job description, which lists the tasks and responsibilities of the job. A job specification describes the skills, knowledge, and abilities a person needs to fill the job described in the job description. By examining the human resource demand forecast and the internal supply forecast, human resource professionals can determine if the company faces a personnel surplus or shortage.

## 8.2 Employee Recruitment

2. How do firms recruit applicants?

When a job vacancy occurs, most firms begin by trying to fill the job from within the ranks of their own employees, known as the internal labor market. If a suitable internal candidate is not available, the firm turns to the external labor market. Firms use local media to recruit nontechnical, unskilled, and nonsupervisory workers. To locate highly trained recruits, employers use college recruiters, executive search firms, job fairs, and company websites to promote job openings. During the job search process, firms present an accurate and positive image of the company to those being recruited, called recruitment branding.

## 8.3 Employee Selection

3. How do firms select qualified applicants?

The selection process helps identify the candidates in the applicant pool who possess the best qualifications for the open position. Typically, an applicant submits an application or résumé and then receives a short, structured interview. If an applicant makes it past the initial screening, he or she may be asked to take an aptitude, personality, or skills test. The next step is the selection interview, which is an in-depth discussion of the applicant's work experience, skills and abilities, education, and career interests. If the applicant passes the selection interview, most firms conduct background checks and talk with their references. Physical exams and drug testing may also be part of the selection process.

## 8.4 Employee Training and Development

### 4. What types of training and development do organizations offer their employees?

Training and development programs are designed to increase employees' knowledge, skills, and abilities in order to foster job performance improvements. Formal training (usually classroom in nature and off-the-job) takes place shortly after being hired. Development programs prepare employees to assume positions of increasing authority and responsibility. Job rotation, executive education programs, mentoring, and special-project assignments are examples of employee development programs.

## 8.5 Performance Planning and Evaluation

### 5. How are performance appraisals used to evaluate employee performance?

A performance appraisal compares an employee's actual performance with the expected performance. Performance appraisals serve several purposes, but are typically used to determine an employee's compensation, training needs, and advancement opportunities.

## 8.6 Employee Compensation and Benefits

### 6. What are the types of compensation and methods for paying workers?

Direct pay is the hourly wage or monthly salary paid to an employee. In addition to the base wage or salary, direct pay may include bonuses and profit shares. Indirect pay consists of various benefits and services. Some benefits are required by law and include unemployment compensation, worker's compensation, and Social Security. Many employers also offer benefits not required by law. These include paid vacations and holidays, pensions, health and other insurance, employee wellness programs, and college tuition reimbursement.

## 8.7 The Labor Relations Process

### 7. What is a labor union and how is it organized, what is collective bargaining, and what are some of the key negotiation issues?

A labor union is an organization that represents workers in dealing with management over disputes involving wages, hours, and working conditions. A company is unionized through an organizing drive that begins either inside, with a small group of existing employees, or outside, with an established union that targets the employer. When the union gets signed authorization cards from 30 percent of the firm's employees, the NLRB conducts a union certification election. A majority vote is needed to certify the union as the exclusive bargaining agent. The union and the employer then begin collective bargaining and have one year in which to reach an agreement.

Collective bargaining is the process of negotiating, administering, and interpreting labor agreements. Both union and management negotiators prepare a bargaining proposal. The two sides meet and exchange demands and ideas. Bargaining consists of compromises and concessions that lead to a tentative agreement. Top management then

approves or disapproves the agreement for the management team. Union members vote to either approve or reject the contract. The key issues included in a union contract are wage increases, fringe benefits, and job security.

## 8.8 Managing Grievances and Conflicts

8. How are grievances between management and labor resolved, and what tactics are used to force a contract settlement?

In most labor agreements, the grievance procedure consists of three or four steps. In the initial step, the employee files a grievance; this is an oral and/or written presentation to the supervisor and may involve a union steward as representative of the grievant. Steps two and three involve meetings of the employee, one or more union officials, the appropriate supervisor, and one or more management officials. If the grievance is not resolved at step three, either party (union or management) can request that an arbitrator, or neutral third party, hear and decide the grievance. The arbitrator reviews the grievance at a hearing and then makes the decision, which is presented in a document called the award.

When a union contract expires and a new agreement has not been reached, the union may impose economic pressure on the firm. These tactics may take the form of strikes, boycotts, picketing, or corporate campaigns. Similarly, employers may implement lockouts, hire replacements, or move production to another facility to place pressure on a union to accept a new contract.

## 8.9 Legal Environment of Human Resources and Labor Relations

9. What are the key laws and federal agencies affecting human resource management and labor relations?

A number of federal laws (listed in **Table 9.6**) affect human resource management. Federal law prohibits discrimination based on age, race, gender, color, national origin, religion, or disability. The Americans with Disabilities Act bans discrimination against disabled workers and requires employers to change the work environment to accommodate the disabled. The Family and Medical Leave Act requires employers, with certain exceptions, to provide employees up to 12 weeks of unpaid leave a year. The leave can be for the birth or adoption of a child or due to serious illness of the worker or a family member.

Federal agencies that deal with human resource administration are the EEOC, OSHA, the Office of Federal Contract Compliance Programs (OFCCP), and the Wage and Hour Division of the Department of Labor. The EEOC and OFCCP are primary agencies for the enforcement of employment discrimination laws, OSHA enforces safety regulations, and the Wage and Hour Division enforces the minimum wage and related laws. Many companies employ affirmative action and safety officers to ensure compliance with antidiscrimination and workplace safety laws. The Wagner and Taft-Hartley Acts govern the union-management relationship, in part through the functions performed by the National Labor Relations Board. The law gives workers the right to form and join labor unions and obligates the employer to deal with the union fairly.

## 8.10 Trends in Human Resource Management and Labor Relations

10. What trends and issues are affecting human resource management and labor relations?



Human resource managers recognize that diverse workforces create an environment that nurtures creative decision-making, effective problem-solving, more agility in adapting to change, and a strong competitive advantage. Therefore, firms are becoming committed to recruiting and hiring a diverse workforce. To maximize efficiency, many firms are outsourcing HR functions and using technology to reduce costs and improve efficiency. Firms are also striving to hire employees who possess qualities that match those of the corporate culture. Although labor unions have faced declining membership in the last several decades, enrollment of service workers into labor unions may increase as low-wage earners seek improved working conditions, pay, and health benefits.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Preparing for Tomorrow's Workplace Skills

1. Would an overseas job assignment be good for your career development? If you think so, what country would you prefer to live and work in for two or three years, and what type of job would you like to have in that country? (Resources)
2. The benefits package of many employers includes numerous items such as health insurance, life insurance, 401(k) plan, paid vacations, tuition reimbursement, employee price discounts on products of the firm, and paid sick leave. At your age, what are the three or four most important benefits? Why? Twenty years from now, what do you think will be your three or four most important benefits? Why? (Resources)
3. Assume you have been asked to speak at a local meeting of human resource and labor relations professionals. The topic is whether union membership will increase or decline in the next 50 years. Take either the increase or the decline position and outline your presentation. (Information)
4. Go to the government documents section in your college or university library, and inspect publications of the Department of Labor (DOL), including *Employment and Earnings*, *Compensation and Working Conditions*, *Monthly Labor Review*, *Occupational Outlook Handbook*, and *Career Guide to Industries*. Alternatively, go to the DOL Bureau of Labor Statistics website at <http://stats.bls.gov>. Access the most recent DOL publications and locate the following information. (Information)
  - Number of persons in the American workforce
  - Unemployment rate for last year
  - Demographic characteristics of the American workforce: race, ethnic status, age, marital status, and gender
  - Occupations where there are projected shortages for the next five or 10 years
  - Union membership by major industry category: manufacturing, banking and finance, health care, business and personal services, sports and entertainment, and any other area of interest to you
5. Assume you are a director of labor relations for a firm faced with a union certification election in 30 days. Draft a letter to be sent to your employees in which you urge them to vote “no union”; be persuasive in presenting your arguments against the union. (Information)
6. Using the internet, research articles featuring a recent strike or a labor contract settlement. Report to your class the specifics of the strike or settlement. (Technology, Resources)
7. **Team Activity** Select two teams of five. One team will take the position that employees are simply a business expense to be managed. The second team will argue that employees are an asset to be developed to enable the firm to gain a competitive advantage. The remainder of the class will judge which team provided the stronger argument. (Interpersonal)
8. Have you or a family member ever been a union member? If so, name the union and describe it in terms of membership size, membership characteristics, strike history, recent bargaining issues, and employers under union contracts. (Information)
9. **Team Activity** Divide the class into two groups. One group will take the position that workers should be required to join unions and pay dues. The other group will take the position that workers should not be required to join unions. Hold a debate in which a spokesperson from each group is given 10 minutes to present the group's arguments. (Interpersonal)

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Ethics Activity

Tracking employee information through global positioning systems (GPS)—in particular, on company vehicles driven by employees—is becoming commonplace. Location information is transmitted to a server via the cell phone network (and sometimes via satellite phone service) and is then available to the company through the web or mobile apps.

As the cost of GPS drops and the number of mobile workers rises—by some accounts, to as much as 75 percent of the workforce by 2020—companies are depending on GPS to monitor the movement of personnel and products to improve customer service and help with time management. “I wanted to see how much time was spent on each job,” says one small business owner with a fleet of seven service vehicles. “We’ve had a few problems in the past—people weren’t where they said they’d be. With GPS, we can defend ourselves to the customers. We know how fast the drivers drove, what route they took, and how long they spent on each job.” Late in 2017, four wastewater plant mechanics employed by the city of Modesto, California, were fired after GPS showed they used “work hours to socialize at the lift stations with [each other], go home, shop, sleep and drive around in the City utility vehicle.”

Companies are not only tracking vehicles, but many now track employees through their mobile phones. Understandably, many employees don’t like the idea of Big Brother following their every move; most states allow employers to track their employees’ location even in off hours. Many employees take their company vehicles home after their shifts, but even employees with company-owned phones may be tracked after hours, too.

Surveys show that many GPS-tracked employees have serious concerns about after-hours tracking, micromanagement, and privacy [<https://www.tsheets.com/gps-survey>]. In 2015, a woman in California sued her employer, claiming that she was tracked 24 hours a day through her company-issued iPhone. And when she uninstalled the tracking app, she was fired.

Using a web search tool, locate articles about this topic, and then write responses to the following questions. Be sure to support your arguments and cite your sources.

**Ethical Dilemma:** Do GPS devices constitute an invasion of employee privacy? Are there guidelines companies can develop for appropriate GPS use?

Sources: Kevin Valine, “Modesto Disciplines Sewer Workers for Goofing Off,” *The Modesto Bee*, <http://www.modbee.com>, January 1, 2018; Kaveh Waddell, “Why Bosses Can Track Their Employees 24/7,” *The Atlantic*, <https://www.theatlantic.com>, January 6, 2017; Andrew Burger, “IDC: Mobile Workers Will Make Up Nearly 75 Percent of U.S. Workforce,” <http://www.telecompetitor.com>, June 23, 2015; David Kravets, “Worker Fired for Disabling GPS App That Tracked Her 24 Hours a Day,” *Ars Technica*, <https://arstechnica.com>, May 11, 2015.

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# Working the Net

1. Go to the blog page of the College Recruiter website at <https://www.collegerecruiter.com/blog>, and read the relevant articles to learn how to prepare a résumé that will get results. Develop a list of rules for creating effective résumés. What tips were the most useful to you?
2. Working as a contingent employee can help you explore your career options. Visit the Manpower website at <http://www.manpower.com>, and use the Job Search feature to look for several types of jobs that interest you. Choose your current city and one where you would like to live, either in the United States or abroad. What are the advantages of being a temporary worker? What other services does Manpower offer job seekers?
3. As a corporate recruiter, you must know how to screen prospective employees. The Integrity Center website at <http://www.integctr.com> offers a brief tutorial on pre-employment screening, a glossary of key words and phrases, and related information. Prepare a short report that tells your assistant how to go about this process.
4. You've been asked to give a speech about the current status of affirmative action and equal employment to your company's managers. Starting with the website of the American Association for Access Equity and Diversity (<https://www.aaed.org>) and its links to related sites, research the topic and prepare an outline for your talk. Include current legislation and recent court cases.
5. Web-based training is popular at many companies as a way to bring a wider variety of courses to more people at lower costs. The Web-Based Training Information Center site at <http://www.webbasedtraining.com> provides a good introduction. Learn about the basics of online training at its Primer page. Then link to the Resources section, try a demo, and explore other areas that interest you. Prepare a brief report on your findings, including the pros and cons of using the web for training, to present to your class.
6. What are the key issues facing labor unions today? Visit the AFL-CIO website, <http://www.aflcio.org>, and Labornet, <http://www.labornet.org>. Select three current topics and summarize the key points for the class.
7. Not everyone believes that unions are good for workers. The National Right to Work Legal Defense Foundation offers free legal aid to employees whose "human and civil rights have been violated by compulsory unionism abuses." Read the materials on its site (<http://www.nrtw.org>), and prepare a short report on its position regarding the disadvantages of labor unions.
8. Although we tend to think of labor unions as representing manufacturing employees, many office and service-industry employees, teachers, and professional belong to unions. Visit the websites of two of the following nonmanufacturing unions and discuss how they help their members: the Office and Professional Employees International Union (<http://www.opeiu.org>), the American Federation of State, County, and Municipal Employees (<http://www.afscme.org>), the National Education Association (<http://www.nea.org>), the Actor's Equity Association (<http://www.actorsequity.org>), and the American Federation of Musicians (<http://www.afm.org>). What are the differences, if any, between these unions and those in other industries?

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# Critical Thinking Case

## *Discrimination in the Workplace Continues*

Although we live in enlightened times, a recent Gallup Poll found that 15 percent of American workers still experienced some form of workplace discrimination. The study was conducted to mark the anniversary of the Civil Rights Act of 1964 and the creation of the EEOC.

The poll found that the two most frequently cited types of discrimination are sexual discrimination (31 percent) and discrimination based on race or ethnicity (36 percent). Also mentioned were age, disability, sexual orientation, and religion. The work areas found to be most susceptible to discrimination are promotion and pay. Being selected for a job and treatment in the workplace were also cited. Wage discrimination and sexual harassment are two big battles women continue to fight. Both topics were in the headlines in 2017; one took center stage and the other was brushed under the covers (at least for now).

Thanks to Harvey Weinstein, the topic of sexual harassment was in the spotlight, setting off a tsunami as women around the world reacted with their #MeToo stories. As the movement progressed from Hollywood, to media companies, to Capitol Hill, and finally into corporate America, the topic had a platform. From the boardroom to the factory floor, women who had been sexually harassed shared their stories.

As companies rushed to put zero-tolerance policies into place and issue new training requirements, lawsuits and class-action cases were settled more quickly, some very publicly. In August 2017, the EEOC reached a \$10 million settlement with Ford motor company for sexual and racial harassment at two Chicago plants.

In contrast, little was reported on the reversal of the new regulation designed to combat the wage gap between men and women. The revised EEO-1 would have gone into effect March 31, 2018, and required companies with 100 or more employees and federal contractors with 50 or more employees to report W-2 wage information and total hours worked for all employees. The EEO-1 form already requires employers to report data on race/ethnicity and gender.

The Office of Management and Budget (OMB) initiated a review and immediate stay to the U.S. EEOC “in accordance with its authority under the Paperwork Reduction Act (PRA),” reversing the regulation that had been revised on September 29, 2016.

Pay equity advocates who had supported expanded pay-data reporting were critical of the suspension. “We see through the Trump administration’s call to halt the equal pay rule that requires employers to collect and submit pay data by gender, race, and ethnicity to the government,” said Fatima Goss Graves, president and CEO of the National Women’s Law Center in Washington, D.C. “Make no mistake—it’s an all-out attack on equal pay. [It] sends a clear message to employers: if you want to ignore pay inequities and sweep them under the rug, this administration has your back.”

How important is equal pay? According to the analyses of the 2014–2016 Annual Social and Economic supplement published by the Institute for Women’s Policy Research, the United States economy would have produced additional income of \$512.6 billion if women received equal pay; this represents 2.8 percent of 2016 gross domestic product (GDP).

In addition, poverty rates would drop from 10.8 percent to 4.4 percent, and the number of children with working mothers living in poverty would be nearly cut in half, dropping from 5.6 million to 3.1 million.

### Critical Thinking Questions

1. Why is workplace diversity so important in today’s business environment?
2. What are the major sources of workplace discrimination? Cite specific examples from the case.
3. What steps are companies taking to ensure that employees are not discriminated against?

Sources: Susan Chira and Catrin Einhorn, “How Tough Is It to Change a Culture of Harassment? Ask Women at Ford,” *The New York Times*, <https://www.nytimes.com>, December 19, 2017; “Statement of Acting Chair Victoria A. Lipnic about OMB Decision on EEO-1 Pay Data Collection,” <https://www.eeoc.gov>, August 29, 2017; Stephen Miller, “White House Suspends

Pay-Data Reporting on Revised EEO-1 Form,” <https://www.shrm.org>, August 31, 2017; Heidi Hartmann, Jeff Hayes, and Jennifer Clark, “How Equal Pay for Working Women Would Reduce Poverty and Grow the American Economy,” <http://www.iwpr.org>, January 13, 2014; “Gallup Poll on Employment Discrimination Shows Progress, Problems, 40 Years after Founding of EEOC” (press release), <https://www.eeoc.gov>, December 8, 2005.

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# Hot Links Address Book

1. Search the extensive job database of CareerBuilder.com (**<http://www.careerbuilder.com>**) for a job in a new city.
2. Get advice for brushing up your interview skills at the Job Hunting Advice page of *The Wall Street Journal's* career site, **<http://careers.wsj.com>**.
3. How does the Equal Employment Opportunity Commission promote equal opportunity in employment? Visit **<http://www.eeoc.gov>** to learn what the agency does.
4. For the latest news in the human resources field, visit the website of the Society for Human Resource Management at **<http://www.shrm.org>**.
5. Many companies are using the web to help manage employees. Visit ADP, **<http://www.adp.com>**, to learn how online services can streamline their HR tasks.
6. At the NLRB website, **<http://www.nlrb.gov>**, you'll learn about the agency's many activities and how it protects workers' rights.
7. Visit the Social Security Administration site to track the latest cost-of-living adjustment at **<http://www.ssa.gov>**. You'll find it in the Publications section.

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# 10 - MOTIVATION

## Learning Outcomes

After reading this chapter, you should be able to answer these questions:

1. Define motivation, and distinguish direction and intensity of motivation.
2. Describe a content theory of motivation, and compare and contrast the main content theories of motivation: manifest needs theory, learned needs theory, Maslow's hierarchy of needs, Alderfer's ERG theory, Herzberg's motivator-hygiene theory, and self-determination theory.
3. Describe the process theories of motivation, and compare and contrast the main process theories of motivation: operant conditioning theory, equity theory, goal theory, and expectancy theory.
4. Describe the modern advancements in the study of human motivation.

## EXPLORING MANAGERIAL CAREERS

*Bridget Anderson*

Bridget Anderson thought life would be perfect out in the “real world.” After earning her degree in computer science, she landed a well-paying job as a programmer for a large nonprofit organization whose mission she strongly believed in. And—initially—she was happy with her job.

Lately however, Bridget gets a sick feeling in her stomach every morning when her alarm goes off. Why this feeling of misery? After all, she's working in her chosen field in an environment that matches her values. What else could she want? She's more puzzled than anyone.

It's the end of her second year with the organization, and Bridget apprehensively schedules her annual performance evaluation. She knows she's a competent programmer, but she also knows that lately she's been motivated to do only the minimum required to get by. Her heart is just not in her work with this organization. Not exactly how she thought things would turn out, that's for sure.

Bridget's manager Kyle Jacobs surprises her when he begins the evaluation by inquiring about her professional goals. She admits that she hasn't thought much about her future. Kyle asks if she's content in her current position and if she feels that anything is missing. Suddenly, Bridget realizes that she *does* want more professionally.

**Question:** Are Bridget's motivational problems intrinsic or extrinsic? Which of her needs are currently not being met? What steps should she and her manager take to improve her motivation and ultimately her performance?

**Outcome:** Once Bridget admits that she's unhappy with her position as a computer programmer, she's



ready to explore other possibilities. She and Kyle brainstorm for tasks that will motivate her and bring her greater job satisfaction. Bridget tells Kyle that while she enjoys programming, she feels isolated and misses interacting with other groups in the organization. She also realizes that once she had mastered the initial learning curve, she felt bored. Bridget is ready for a challenge.

Kyle recommends that Bridget move to an information systems team as their technical representative. The team can use Bridget's knowledge of programming, and Bridget will be able to collaborate more frequently with others in the organization.

Bridget and Kyle set specific goals to satisfy her needs to achieve and to work collaboratively. One of Bridget's goals is to take graduate classes in management and information systems. She hopes that this will lead to an MBA and, eventually, to a position as a team leader. Suddenly the prospect of going to work doesn't seem so grim—and lately, Bridget's been beating her alarm!

If you've ever worked with a group of people, and we all have, you have no doubt noticed differences in their performance. Researchers have pondered these differences for many years. Indeed, John B. Watson first studied this issue in the early 1900s. Performance is, of course, an extremely important issue to employers because organizations with high-performing employees will almost always be more effective.

To better understand why people perform at different levels, researchers consider the major determinants of performance: ability, effort (motivation), accurate role perceptions, and environmental factors (see **Exhibit 10.1**). Each performance determinant is important, and a deficit in one can seriously affect the others. People who don't understand what is expected of them will be constrained by their own inaccurate role perceptions, even if they have strong abilities and motivation and the necessary resources to perform their job. None of the performance determinants can compensate for a deficiency in any of the other determinants. Thus, a manager cannot compensate for an employee's lack of skills and ability by strengthening their motivation.

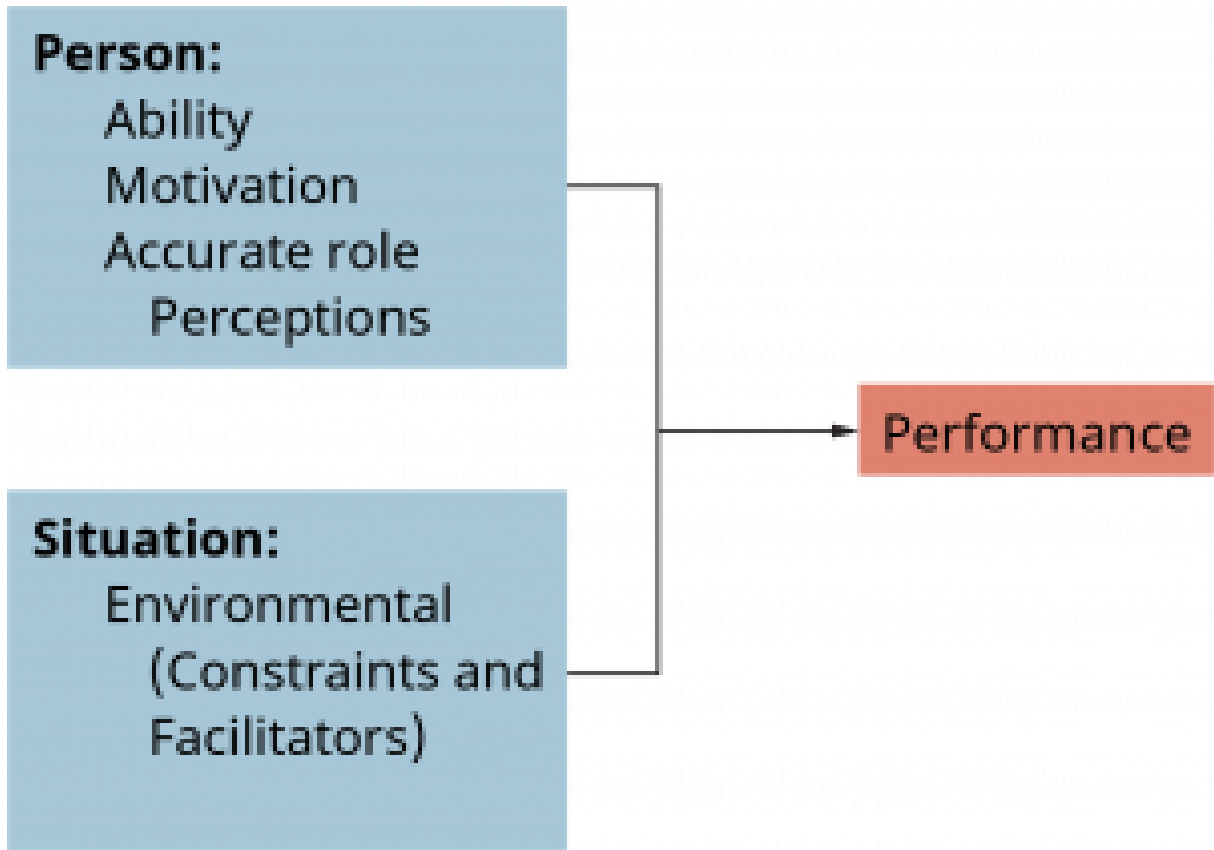


Exhibit 10.1 Determinants of Performance (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## 10.1 - Motivation: Direction and Intensity

1. Define motivation and distinguish direction and intensity of motivation.

Ability refers to the knowledge, skills, and receptiveness to learning that a person brings to a task or job. Knowledge is what a person knows. Skill is their capacity to perform some particular activity (like welding or accounting), including knowing what is expected of them (called accurate role perceptions). Receptiveness to learning is a function of how quickly a person acquires new knowledge. Some people have more ability than others, and high-ability people generally perform better than low-ability people (although we will see that this is not always the case).<sup>1</sup>

Accurate role perceptions refer to how well an individual understands their organizational role. This includes the goals (outcomes) the person is expected to achieve and the process by which the goals will be achieved. An employee who has accurate role perceptions knows both their expected outcomes *and* how to go about making those outcomes a reality. Incomplete or inaccurate role perceptions limit employees' capacity to meet expectations, regardless of their abilities and motivation.

The performance environment refers to those factors that impact employees' performance but are essentially out of their control. Many environmental factors influence performance. Some factors facilitate performance, while others constrain it. A word processor who has to work with a defective personal computer is certainly not going to perform at peak levels, regardless of ability or desire. Students who are working full time and carrying a full load of classes may not do as well on an exam as they would if they could cut back on their work hours, despite the fact that they have high ability and high motivation.

Motivation is the fourth major factor that determines whether a person will perform a task well. Motivation is a force within or outside of the body that energizes, directs, and sustains human behavior. Within the body, examples might be needs, personal values, and goals, while an incentive might be seen as a force outside of the body. The word stems from its Latin root *movere*, which means "to move." Generally speaking, motivation arises as a consequence of a person's desire to (1) fulfill unmet needs or (2) resolve conflicting thoughts that produce anxiety (an unpleasant experience). There are many ways in which we describe and categorize human needs, as we will see later in this chapter. Certain needs are fundamental to our existence, like the need for food and water. When we are hungry, we are energized to satisfy that need by securing and ingesting food. Our other needs operate in a similar manner. When a need is unfulfilled, we are motivated to engage in behaviors that will satisfy it. The same is true for situations in which we experience conflicting thoughts. When we find ourselves in situations inconsistent with our beliefs, values, or expectations, we endeavor to eliminate the inconsistency. We either change the situation, or we change our perception of it. In both cases, motivation arises out of our interaction with and perception of a particular situation. We perceive the situation as satisfying our needs, or not. Motivation is thus a result of our interacting with situations to satisfy unmet needs or to resolve cognitive dissonance.

Exhibit 14.3 Tom Brady At the University of Michigan, Tom Brady was always a backup to high-potential quarterbacks and was a sixth-round draft pick after his college career. He commented, "A lot of people don't believe in you. It's obvious by now, six other quarterbacks taken and 198 other picks. And I always thought 'you know what, once I get my shot, I'm gonna be ready. I'm gonna really take advantage of that.'" Rather than give up, he hired a sports psychologist to help him deal with constant frustrations. Brady would eventually become an elite quarterback and is now considered one of the greatest players ever. "I guess in a sense I've always had a chip on my shoulder. If you were the 199th pick, you were the 199th pick for a reason: because someone didn't think you were good enough." His passion and motivation helped him achieve that status. (Credit: Brook Ward/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

Simply stated, work motivation is the amount of effort a person exerts to achieve a certain level of job performance. Some people try very hard to perform their jobs well. They work long hours, even if it interferes with their family life. Highly motivated people go the "extra mile." High scorers on an exam make sure they know the examination material to

the best of their ability, no matter how much midnight oil they have to burn. Other students who don't do as well may just want to get by—football games and parties are a lot more fun, after all.

Motivation is of great interest to employers: All employers want their people to perform to the best of their abilities. They take great pains to screen applicants to make sure they have the necessary abilities and motivation to perform well. They endeavor to supply all the necessary resources and a good work environment. Yet motivation remains a difficult factor to manage. As a result, it receives the most attention from organizations and researchers alike, who ask the perennial question “What motivates people to perform well?”

In this chapter we look at current answers to this question. What work conditions foster motivation? How can theories of motivation help us understand the general principles that guide organizational behavior? Rather than analyze why a particular student studies hard for a test, we'll look at the underlying principles of our general behavior in a variety of situations (including test taking). We also discuss the major theories of motivation, along with their implications for management and organizational behavior. By the end of this chapter you should have a better understanding of why some people are more motivated than others. Successful employees know what they want to achieve (direction), and they persist until they achieve their goals (intensity).

Our discussion thus far implies that motivation is a matter of effort. This is only partially true. Motivation has two major components: direction and intensity. Direction is *what* a person wants to achieve, what they intend to do. It implies a target that motivated people try to “hit.” That target may be to do well on a test. Or it may be to perform better than anyone else in a work group. Intensity is *how hard* people try to achieve their targets. Intensity is what we think of as effort. It represents the energy we expend to accomplish something. If our efforts are getting nowhere, will we try different strategies to succeed? (High-intensity-motivated people are persistent!)

It is important to distinguish the direction and intensity aspects of motivation. If *either* is lacking, performance will suffer. A person who knows what they want to accomplish (direction) but doesn't exert much effort (intensity) will not succeed. (Scoring 100 percent on an exam—your target—won't happen unless you study!) Conversely, people who don't have a direction (what they want to accomplish) probably won't succeed either. (At some point you have to decide on a major if you want to graduate, even if you do have straight As.)

Employees' targets don't always match with what their employers want. Absenteeism (some employees call this “calling in well”) is a major example.<sup>2</sup> Pursuing your favorite hobby (your target) on a workday (your employer's target) is a conflict in direction; below, we'll examine some theories about why this conflict occurs.

There is another reason why employees' targets are sometimes contrary to their employers'—sometimes employers do not ensure that employees understand what the employer wants. Employees can have great intensity but poor direction. It is management's job to provide direction: Should we stress quality as well as quantity? Work independently or as a team? Meet deadlines at the expense of costs? Employees flounder without direction. Clarifying direction results in accurate *role perceptions*, the behaviors employees think they are expected to perform as members of an organization. Employees with accurate role perceptions understand their purpose in the organization and how the performance of their job duties contributes to organizational objectives. Some motivation theorists assume that employees know the correct direction for their jobs. Others do not. These differences are highlighted in the discussion of motivation theories below.

At this point, as we begin our discussion of the various motivation theories, it is reasonable to ask “Why isn't there just one motivation theory?” The answer is that the different theories are driven by different philosophies of motivation. Some theorists assume that humans are propelled more by needs and instincts than by reasoned actions. Their content motivation theories focus on *the content of what* motivates people. Other theorists focus on the process by which people are motivated. Process motivation theories address *how* people become motivated—that is, how people perceive and think about a situation. Content and process theories endeavor to predict motivation in a variety of situations. However, none of these theories can predict what will motivate an individual in a given situation 100 percent of the time. Given the complexity of human behavior, a “grand theory” of motivation will probably never be developed.

A second reasonable question at this point is “Which theory is best?” If that question could be easily answered, this chapter would be quite short. The simple answer is that there is no “one best theory.” All have been supported by

organizational behavior research. All have strengths and weaknesses. However, understanding something about each theory is a major step toward effective management practices.

## CONCEPT CHECK

1. Explain the two drivers of motivation: direction and intensity.
2. What are the differences between content and process theories of motivation?
3. Will there ever be a grand theory of motivation?

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## 10.2 - Content Theories of Motivation

### 2. Describe a content theory of motivation.

The theories presented in this section focus on the importance of human needs. A common thread through all of them is that people have a variety of needs. A need is a human condition that becomes “energized” when people feel deficient in some respect. When we are hungry, for example, our need for food has been energized. Two features of needs are key to understanding motivation. First, when a need has been energized, we are motivated to satisfy it. We strive to make the need disappear. Hedonism, one of the first motivation theories, assumes that people are motivated to satisfy mainly their own needs (seek pleasure, avoid pain). Long since displaced by more refined theories, hedonism clarifies the idea that needs provide direction for motivation. Second, once we have satisfied a need, it ceases to motivate us. When we’ve eaten to satiation, we are no longer motivated to eat. Other needs take over and we endeavor to satisfy them. A manifest need is whatever need is motivating us at a given time. Manifest needs dominate our other needs.

Instincts are our natural, fundamental needs, basic to our survival. Our needs for food and water are instinctive. Many needs are learned. We are not born with a high (or low) need for achievement—we learn to need success (or failure). The distinction between instinctive and learned needs sometimes blurs; for example, is our need to socialize with other people instinctive or learned?

### Manifest Needs Theory

One major problem with the need approach to motivation is that we can make up a need for every human behavior. Do we “need” to talk or be silent? The possibilities are endless. In fact, around the 1920s, some 6,000 human needs had been identified by behavioral scientists!

Henry A. Murray recognized this problem and condensed the list into a few instinctive and learned needs.<sup>3</sup> Instincts, which Murray called primary needs, include physiological needs for food, water, sex (procreation), urination, and so on. Learned needs, which Murray called secondary needs, are learned throughout one’s life and are basically psychological in nature. They include such needs as the need for achievement, for love, and for affiliation (see **Table 10.1**).<sup>4</sup>

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### Sample Items from Murray's List of Needs

Social Motive	Brief Definition
Abasement	To submit passively to external force. To accept injury, blame, criticism, punishment. To surrender.
Achievement	To accomplish something difficult. To master, manipulate, or organize physical objects, human beings, or ideas.
Affiliation	To draw near and enjoyably cooperate or reciprocate with an allied other (another who resembles the subject or who likes the subject). To please and win affection of a coveted object. To adhere and remain loyal to a friend.
Aggression	To overcome opposition forcefully. To fight. To revenge an injury. To attack, injure, or kill another. To oppose forcefully or punish another.
Autonomy	To get free, shake off restraint, break out of confinement.
Counteraction	To master or make up for a failure by restriving.
Defendance	To defend the self against assault, criticism, and blame. To conceal or justify a misdeed, failure, or humiliation. To vindicate the ego.
Deference	To admire and support a superior. To praise, honor, or eulogize.
Dominance	To control one's human environment. To influence or direct the behavior of others by suggestion, seduction, persuasion, or command.
Exhibition	To make an impression. To be seen and heard. To excite, amaze, fascinate, entertain, shock, intrigue, amuse, or entice others.
Harm avoidance	To avoid pain, physical injury, illness, and death. To escape from a dangerous situation. To take precautionary measures.
Infavoidance	To avoid humiliation. To quit embarrassing situations or to avoid conditions that may lead to belittlement or the scorn or indifference of others.
Nurturance	To give sympathy and gratify the needs of a helpless object: an infant or any object that is weak, disabled, tired, inexperienced, infirm, defeated, humiliated, lonely, dejected, sick, or mentally confused. To assist an object in danger. To feed, help, support, console, protect, comfort, nurse, heal.
Order	To put things in order. To achieve cleanliness, arrangement, organization, balance, neatness, tidiness, and precision.
Play	To act for "fun" without further purpose. To like to laugh and make jokes. To seek enjoyable relaxation from stress.
Rejection	To separate oneself from a negatively valued object. To exclude, abandon, expel, or remain indifferent to an inferior object. To snub or jilt an object.
Sentience	To seek and enjoy sensuous impressions.
Sex	To form and further an erotic relationship. To have sexual intercourse.
Succorance	To have one's needs gratified by the sympathetic aid of an allied object.
Understanding	To ask or answer general questions. To be interested in theory. To speculate, formulate, analyze, and generalize.

Source: Adapted from C. S. Hall and G. Lindzey, *Theories of Personality*. Sample items from Murray's List of Needs. Copyright 1957 by John Wiley & Sons, New York.

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**Table 10.1**

Murray's main premise was that people have a variety of needs, but only a few are expressed at a given time. When a person is behaving in a way that satisfies some need, Murray called the need manifest. Manifest needs theory assumes that human behavior is driven by the desire to satisfy needs. Lucretia's chattiness probably indicates her need for affiliation. This is a manifest need. But what if Lucretia also has a need to dominate others? Could we detect that need from her current behavior? If not, Murray calls this a latent need. A latent need cannot be inferred from a person's behavior at a given time, yet the person may still possess that need. The person may not have had the opportunity to express the need. Or she may not be in the proper environment to solicit behaviors to satisfy the need. Lucretia's need to dominate may not be motivating her current behavior because she is with friends instead of coworkers.

Manifest needs theory laid the groundwork for later theories, most notably McClelland's learned needs theory, that have greatly influenced the study of organizational behavior. The major implication for management is that some

employee needs are latent. Managers often assume that employees do not have certain needs because the employees never try to satisfy them at work. Such needs may exist (latent needs); the work environment is simply not conducive to their manifestation (manifest needs). A reclusive accountant may not have been given the opportunity to demonstrate their need for achievement because they never received challenging assignments.

## Learned Needs Theory

David C. McClelland and his associates (especially John W. Atkinson) built on the work of Murray for over 50 years. Murray studied many different needs, but very few in any detail. McClelland's research differs from Murray's in that McClelland studied three needs in depth: the need for achievement, the need for affiliation, and the need for power (often abbreviated, in turn, as nAch, nAff, and nPow).<sup>5</sup> McClelland believes that these three needs are learned, primarily in childhood. But he also believes that each need can be taught, especially nAch. McClelland's research is important because much of current thinking about organizational behavior is based on it.

### *Need for Achievement*

The need for achievement (nAch) is how much people are motivated to excel at the tasks they are performing, especially tasks that are difficult. Of the three needs studied by McClelland, nAch has the greatest impact. The need for achievement varies in intensity across individuals. This makes nAch a personality trait as well as a statement about motivation. When nAch is being expressed, making it a manifest need, people try hard to succeed at whatever task they're doing. We say these people have a high achievement motive. A motive is a source of motivation; it is the need that a person is attempting to satisfy. Achievement needs become manifest when individuals experience certain types of situations.

To better understand the nAch motive, it's helpful to describe high-nAch people. You probably know a few of them. They're constantly trying to accomplish something. One of your authors has a father-in-law who would much rather spend his weekends digging holes (for various home projects) than going fishing. Why? Because when he digs a hole, he gets results. In contrast, he can exert a lot of effort and still not catch a fish. A lot of fishing, no fish, and no results equal failure!

McClelland describes three major characteristics of high-nAch people:

1. They feel personally responsible for completing whatever tasks they are assigned. They accept credit for success and blame for failure.
2. They like situations where the probability of success is moderate. High-nAch people are not motivated by tasks that are too easy or extremely difficult. Instead, they prefer situations where the outcome is uncertain, but in which they believe they can succeed if they exert enough effort. They avoid both simple and impossible situations.
3. They have very strong desires for feedback about how well they are doing. They actively seek out performance feedback. It doesn't matter whether the information implies success or failure. They want to know whether they have achieved or not. They constantly ask how they are doing, sometimes to the point of being a nuisance.

Why is nAch important to organizational behavior? The answer is, the success of many organizations is dependent on the nAch levels of their employees.<sup>6</sup> This is especially true for jobs that require self-motivation and managing others. Employees who continuously have to be told how to do their jobs require an overly large management team, and too many layers of management spell trouble in the current marketplace. Today's flexible, cost-conscious organizations have no room for top-heavy structures; their high-nAch employees perform their jobs well with minimal supervision.

Many organizations manage the achievement needs of their employees poorly. A common perception about people



who perform unskilled jobs is that they are unmotivated and content doing what they are doing. But, if they have achievement needs, the job itself creates little motivation to perform. It is too easy. There are not enough workers who feel personal satisfaction for having the cleanest floors in a building. Designing jobs that are neither too challenging nor too boring is key to managing motivation. Job enrichment is one effective strategy; this frequently entails training and rotating employees through different jobs, or adding new challenges.

Exhibit 14.4 New York Metro workers carrying a sign The New York City Metropolitan Transit Authority undertook a new approach to how they perform critical inspection and maintenance of subway components that are necessary to providing reliable service. Rather than schedule these inspections during regular hours, they consulted with the maintenance workers, who suggested doing the inspections while sections of the subway were closed to trains for seven consecutive hours. This process was adopted and provided a safer and more efficient way to maintain and clean New York City's sprawling subway. With no trains running, MTA employees are able to inspect signals, replace rails and crossties, scrape track floors, clean stations, and paint areas that are not reachable during normal train operation. Workers also took the opportunity to clean lighting fixtures, change bulbs, and repair platform edges while performing high-intensity station cleaning. (Credit: Patrick Cashin/ flickr/ Attribution 2.0 Generic (CC BY 2.0))

### *Need for Affiliation*

This need is the second of McClelland's learned needs. The need for affiliation (nAff) reflects a desire to establish and maintain warm and friendly relationships with other people. As with nAch, nAff varies in intensity across individuals. As you would expect, high-nAff people are very sociable. They're more likely to go bowling with friends after work than to go home and watch television. Other people have lower affiliation needs. This doesn't mean that they avoid other people, or that they dislike others. They simply don't exert as much effort in this area as high-nAff people do.

The nAff has important implications for organizational behavior. High-nAff people like to be around other people, including other people at work. As a result, they perform better in jobs that require teamwork. Maintaining good relationships with their coworkers is important to them, so they go to great lengths to make the work group succeed because they fear rejection. So, high-nAff employees will be especially motivated to perform well if others depend on them. In contrast, if high-nAff people perform jobs in isolation from other people, they will be less motivated to perform well. Performing well on this job won't satisfy their need to be around other people.

Effective managers carefully assess the degree to which people have high or low nAff. Employees high in nAff should be placed in jobs that require or allow interactions with other employees. Jobs that are best performed alone are more appropriate for low-nAff employees, who are less likely to be frustrated.

### *Need for Power*

The third of McClelland's learned needs, the need for power (nPow), is the need to control things, especially other people. It reflects a motivation to influence and be responsible for other people. An employee who is often talkative, gives orders, and argues a lot is motivated by the need for power over others.

Employees with high nPow can be beneficial to organizations. High-nPow people do have effective employee behaviors, but at times they're disruptive. A high-nPow person may try to convince others to do things that are detrimental to the organization. So, when is this need good, and when is it bad? Again, there are no easy answers. McClelland calls this the "two faces of power."<sup>7</sup> A *personal power seeker* endeavors to control others mostly for the sake of dominating them. They want others to respond to their wishes whether or not it is good for the organization. They "build empires," and they protect them.

McClelland's other power seeker is the *social power seeker*. A high social power seeker satisfies needs for power by influencing others, like the personal power seeker. They differ in that they feel best when they have influenced a work

group to achieve the group's goals, and not some personal agenda. High social power seekers are concerned with goals that a work group has set for itself, and they are motivated to influence others to achieve the goal. This need is oriented toward fulfilling responsibilities to the employer, not to the self.

McClelland has argued that the high need for social power is the most important motivator for successful managers. Successful managers tend to be high in this type of nPow. High need for achievement can also be important, but it sometimes results in too much concern for personal success and not enough for the employer's success. The need for affiliation contributes to managerial success only in those situations where the maintenance of warm group relations is as important as getting others to work toward group goals.

The implication of McClelland's research is that organizations should try to place people with high needs for social power in managerial jobs. It is critical, however, that those managerial jobs allow the employee to satisfy the nPow through social power acquisition. Otherwise, a manager high in nPow may satisfy this need through acquisition of personal power, to the detriment of the organization.

## ETHICS IN PRACTICE

### *Corporate Social Responsibility as a Motivating Force*

Whatever their perspective, most people have a cause that they are passionate about. Bitcoin or net neutrality, sea levels or factory farming—social causes bind us to a larger context or assume a higher purpose for living better.

So what motivates employees to give their all, work creatively, and be fully engaged? According to CB Bhattacharya, the Pietro Ferrero Chair in Sustainability at ESMT European School of Management and Technology in Berlin, Germany, employment engagement, or how positive employees feel about their current job, was at an all-time low globally in 2016: 13 percent. But not all companies battle such low engagement rates. Unilever employees more than 170,000 workers globally and has an employment engagement level around 80 percent. How? Bhattacharya credits the success of Unilever, and other companies with similar engagement levels, to an emphasis on a “sustainable business model.” He outlines eight steps that companies take to move sustainability and social responsibility from buzzwords to a company mission capable of motivating employees (Knowledge @ Wharton 2016).

According to Bhattacharya, a company needs to first define what it does and its long-term purpose, and then reconcile its sustainability goals with its economic goals. With its purpose and goals defined, it can then educate the workforce on sustainable methods to create knowledge and competence. Champions for the effort must be found throughout the organization, not just at the top. Competition should be encouraged among employees to find and embrace new goals. Sustainability should be visible both within and outside the company. Sustainability should be tied to a higher purpose and foster a sense of unity not simply among employees, but even with competition at a societal level (Knowledge @ Wharton 2016).

Other companies have made social responsibility an everyday part of what they do. Launched in 2013, Bombas is the brain child of Randy Goldberg and David Heath. Goldberg and Heath discovered that socks are the most-requested clothing at homeless shelters. In response, the two entrepreneurs launched a line of socks that not only “reinvents” the sock (they claim), but also helps those in need. For each pair of socks purchased, the company donates a pair of socks to someone in need (Mulvey 2017). According to the company website, “Bombas exists to help solve this problem, to support the homeless community, and to bring awareness to an under-publicized problem in the United States” (n.p.). Although the New York-based company is still growing, as of October 2017 Bombas had donated more than four million pairs of socks (Bombas 2017).

In 2016, the Royal Bank of Scotland (RBS) launched a pilot program called Jump in which employees participated in challenges on ways to save water and electricity, as well as other sustainability issues. At the end of the pilot, 95 percent of the employees reported that they felt the program had contributed to employee engagement, team building, and

environmental stability. Given the success of the program, in 2017 it was expanded to all RBS sites and a smartphone app was added to help employees participate in the challenges (Barton 2017).

Placing a *company* in a larger context and adding a second, higher purpose than the established company goals motivates employees to police the company itself to be a better global citizen. Companies benefit from reduced waste and increased employee engagement. Many companies are successfully motivating their staff, and working toward more sustainable practices, while improving lives directly.

Sources:

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1. Do you think social responsibility to promote sustainable practices? Why or why not?
2. Do you think most companies' CSR programs are essentially PR gimmicks? Why or why not? Give examples.

## Maslow's Hierarchy of Needs

Any discussion of needs that motivate performance would be incomplete without considering Abraham Maslow.<sup>8</sup> Thousands of managers in the 1960s were exposed to Maslow's theory through the popular writings of Douglas McGregor.<sup>9</sup> Today, many of them still talk about employee motivation in terms of Maslow's theory.

Maslow was a psychologist who, based on his early research with primates (monkeys), observations of patients, and discussions with employees in organizations, theorized that human needs are arranged hierarchically. That is, before one type of need can manifest itself, other needs must be satisfied. For example, our need for water takes precedence over our need for social interaction (this is also called *prepotency*). We will always satisfy our need for water before we satisfy our social needs; water needs have prepotency over social needs. Maslow's theory differs from others that preceded it because of this hierarchical, prepotency concept.

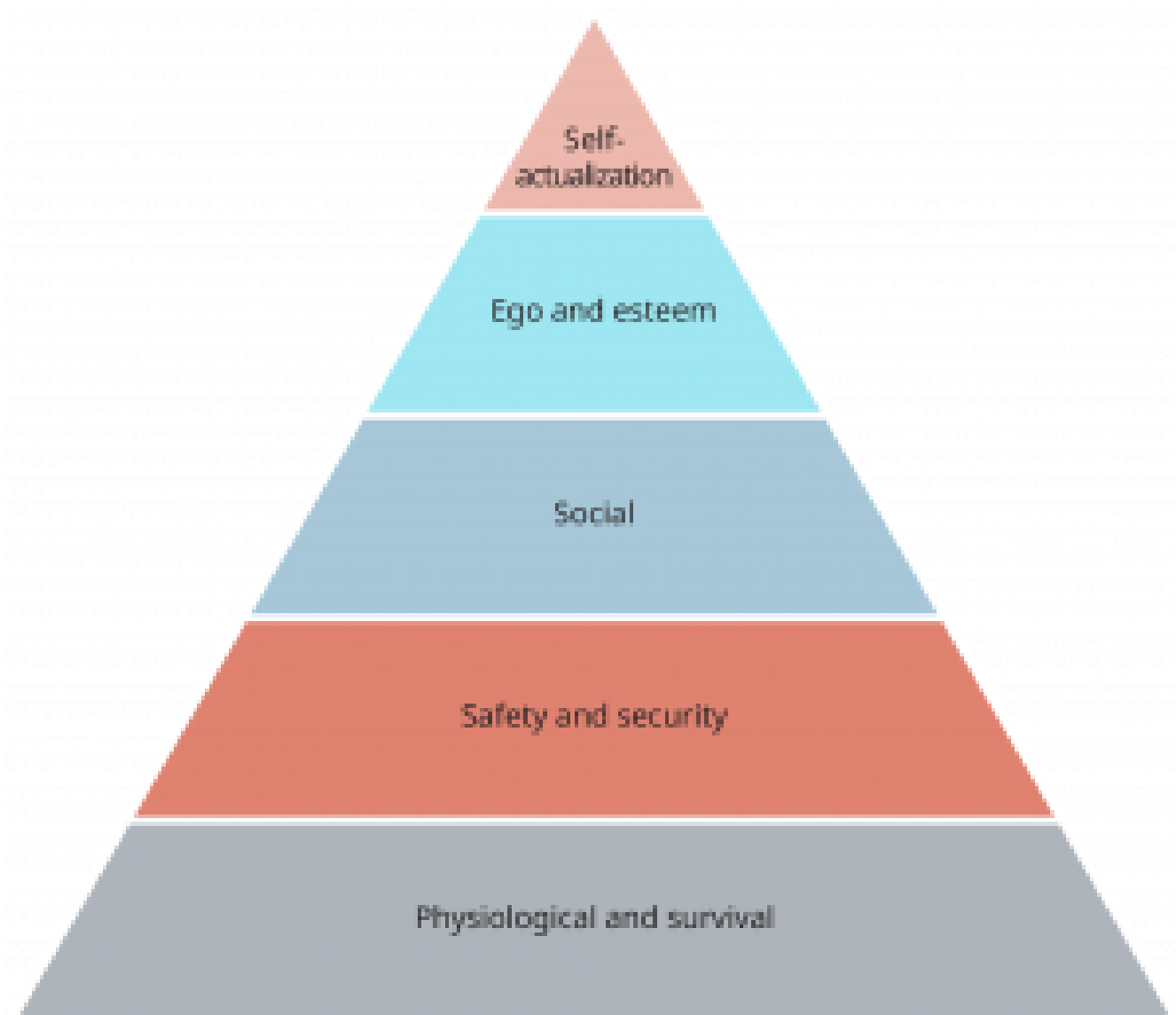
Maslow went on to propose five basic types of human needs. This is in contrast to the thousands of needs that earlier researchers had identified, and also fewer than Murray identified in his theory. Maslow condensed human needs into a manageable set. Those five human needs, in the order of prepotency in which they direct human behavior, are:

1. *Physiological and survival needs*. These are the most basic of human needs, and include the needs for water, food, sex, sleep, activity, stimulation, and oxygen.
2. *Safety and security needs*. These needs invoke behaviors that assure freedom from danger. This set of needs involves meeting threats to our existence, including extremes in environmental conditions (heat, dust, and so on), assault from other humans, tyranny, and murder. In other words, satisfaction of these needs prevents fear and anxiety while adding stability and predictability to life.
3. *Social needs*. These needs reflect human desires to be the target of affection and love from others. They are especially satisfied by the presence of spouses, children, parents, friends, relatives, and others to whom we feel close. Feelings of loneliness and rejection are symptoms that this need has not been satisfied.
4. *Ego and esteem*. Esteem needs go beyond social needs. They reflect our need to be respected by others, and to have esteem for ourselves. It is one thing to be liked by others. It is another thing to be respected for our talents and abilities. Ego and esteem needs have internal (self) and external (others) focuses. An internal focus includes

desires for achievement, strength, competence, confidence, and independence. An external focus includes desires to have prestige, recognition, appreciation, attention, and respect from others. Satisfaction of external esteem needs can lead to satisfaction of internal esteem needs.

5. *Self-actualization*. Self-actualization needs are the most difficult to describe. Unlike the other needs, the need for self-actualization is never completely satisfied. Self-actualization involves a desire for self-fulfillment, “to become more and more what one is, to become everything that one is capable of becoming.”<sup>10</sup> Because people are so different in their strengths and weaknesses, in capacities and limitations, the meaning of self-actualization varies greatly. Satisfying self-actualization needs means developing all of our special abilities to their fullest degree.

**Exhibit 10.2** illustrates Maslow’s proposed hierarchy of needs. According to his theory, people first direct their attention to satisfying their lower-order needs. Those are the needs at the bottom of the pyramid (physiological, safety, and security). Once those needs have been satisfied, the next level, social needs, become energized. Once satisfied, we focus on our ego and esteem needs. Maslow believed that most people become fixated at this level. That is, most people spend much of their lives developing self-esteem and the esteem of others. But, once those esteem needs are satisfied, Maslow predicted that self-actualization needs would dominate. There are no higher levels in the pyramid, because self-actualization needs can never be fully satisfied. They represent a continuing process of self-development and self-improvement that, once satisfied on one dimension (painting), create motivation to continue on other dimensions (sculpting). One wonders if athletes like Tim Tebow are self-actualizing when they participate in multiple sporting endeavors at the professional level.



**Exhibit 10.2** Maslow's Hierarchy of Needs Source: Based on A. H. Maslow. 1943. A theory of human motivation. *Psychological Bulletin* 50:370–396.

An overriding principle in this theory is that a person's attention (direction) and energy (intensity) will focus on satisfying the lowest-level need that is not currently satisfied. Needs can also be satisfied at some point but become active (dissatisfied) again. Needs must be “maintained” (we must continue to eat occasionally). According to Maslow, when lower-level needs are reactivated, we once again concentrate on that need. That is, we lose interest in the higher-level needs when lower-order needs are energized.

The implications of Maslow's theory for organizational behavior are as much conceptual as they are practical. The theory posits that to maximize employee motivation, employers must try to guide workers to the upper parts of the hierarchy. That means that the employer should help employees satisfy lower-order needs like safety and security and social needs. Once satisfied, employees will be motivated to build esteem and respect through their work achievements. **Exhibit 10.1** shows how Maslow's theory relates to factors that organizations can influence. For example, by providing adequate pay, safe working conditions, and cohesive work groups, employers help employees satisfy their lower-order needs. Once satisfied, challenging jobs, additional responsibilities, and prestigious job titles can help employees satisfy higher-order esteem needs.

Maslow's theory is still popular among practicing managers. Organizational behavior researchers, however, are not

as enamored with it because research results don't support Maslow's hierarchical notion. Apparently, people don't go through the five levels in a fixed fashion. On the other hand, there is some evidence that people satisfy the lower-order needs before they attempt to satisfy higher-order needs. Refinements of Maslow's theory in recent years reflect this more limited hierarchy.<sup>11</sup> The self-assessment below will allow you to evaluate the strength of your five needs.

## Alderfer's ERG Theory

Clayton Alderfer observed that very few attempts had been made to test Maslow's full theory. Further, the evidence accumulated provided only partial support. During the process of refining and extending Maslow's theory, Alderfer provided another need-based theory and a somewhat more useful perspective on motivation.<sup>12</sup> Alderfer's ERG theory compresses Maslow's five need categories into three: existence, relatedness, and growth.<sup>13</sup> In addition, ERG theory details the dynamics of an individual's movement between the need categories in a somewhat more detailed fashion than typically characterizes interpretations of Maslow's work.

As shown in **Exhibit 10.3**, the ERG model addresses the same needs as those identified in Maslow's work:



## **Growth Needs**

1. Internal self-esteem needs
2. Self-actualization needs

## **Relatedness Needs**

1. Social needs
2. Social esteem needs
3. Interpersonal safety needs

## **Existence Needs**

1. Physiological needs
2. Material safety needs

**Exhibit 10.3** Alderfer's ERG Theory (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

- *Existence needs* include physiological and material safety needs. These needs are satisfied by material conditions and not through interpersonal relations or personal involvement in the work setting.
- *Relatedness needs* include all of Maslow's social needs, plus social safety and social esteem needs. These needs are satisfied through the exchange of thoughts and feelings with other people.

- *Growth needs* include self-esteem and self-actualization needs. These needs tend to be satisfied through one's full involvement in work and the work setting.

**Exhibit 10.4** identifies a number of ways in which organizations can help their members satisfy these three needs.

### **Growth Opportunities**

- |                              |                    |
|------------------------------|--------------------|
| • Challenging job            | • Autonomy         |
| • Creativity                 | • Interesting work |
| • Organizational advancement | • Achievement      |
| • Responsibility             | • Participation    |

### **Relatedness Opportunities**

- |                          |                       |
|--------------------------|-----------------------|
| • Friendship             | • Quality supervision |
| • Interpersonal security | • Work teams          |
| • Athletic teams         | • Social events       |
| • Social recognition     | • Merit pay           |

### **Existence Opportunities**

- |               |                    |                   |
|---------------|--------------------|-------------------|
| • Heat        | • Air conditioning | • Clean air       |
| • Lighting    | • Restrooms        | • Drinking water  |
| • Base salary | • Cafeteria        | • Safe conditions |
| • Insurance   | • Job security     | • No layoffs      |
| • Retirement  | • Health programs  | • Time off        |

**Exhibit 10.4** Satisfying Existence, Relatedness, and Growth Needs (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Four components—satisfaction progression, frustration, frustration regression, and aspiration—are key to understanding Alderfer's ERG theory. The first of these, *satisfaction progression*, is in basic agreement with Maslow's process of moving through the needs. As we increasingly satisfy our existence needs, we direct energy toward relatedness needs. As these needs are satisfied, our growth needs become more active. The second component, *frustration*, occurs when we attempt but fail to satisfy a particular need. The resulting frustration may make satisfying the unmet need even more important to us—unless we repeatedly fail to satisfy that need. In this case,



Alderfer's third component, *frustration regression*, can cause us to shift our attention to a previously satisfied, more concrete, and verifiable need. Lastly, the *aspiration* component of the ERG model notes that, by its very nature, growth is intrinsically satisfying. The more we grow, the more we want to grow. Therefore, the more we satisfy our growth need, the more important it becomes and the more strongly we are motivated to satisfy it.

Alderfer's model is potentially more useful than Maslow's in that it doesn't create false motivational categories. For example, it is difficult for researchers to ascertain when interaction with others satisfies our need for acceptance and when it satisfies our need for recognition. ERG also focuses attention explicitly on movement through the set of needs in both directions. Further, evidence in support of the three need categories and their order tends to be stronger than evidence for Maslow's five need categories and their relative order.

## Herzberg's Motivator-Hygiene Theory

Clearly one of the most influential motivation theories throughout the 1950s and 1960s was Frederick Herzberg's motivator-hygiene theory.<sup>14</sup> This theory is a further refinement of Maslow's theory. Herzberg argued that there are two sets of needs, instead of the five sets theorized by Maslow. He called the first set "motivators" (or growth needs). Motivators, which relate to the jobs we perform and our ability to feel a sense of achievement as a result of performing them, are rooted in our need to experience growth and self-actualization. The second set of needs he termed "hygienes." Hygienes relate to the work environment and are based in the basic human need to "avoid pain." According to Herzberg, growth needs motivate us to perform well and, when these needs are met, lead to the experience of satisfaction. Hygiene needs, on the other hand, must be met to avoid dissatisfaction (but do not necessarily provide satisfaction or motivation).<sup>15</sup>

Hygiene factors are not directly related to the work itself (job content). Rather, hygienes refer to job context factors (pay, working conditions, supervision, and security). Herzberg also refers to these factors as "dissatisfiers" because they are frequently associated with dissatisfied employees. These factors are so frequently associated with dissatisfaction that Herzberg claims they never really provide satisfaction. When they're present in sufficient quantities, we avoid dissatisfaction, but they do not contribute to satisfaction. Furthermore, since meeting these needs does not provide satisfaction, Herzberg concludes that they do not motivate workers.

Motivator factors involve our long-term need to pursue psychological growth (much like Maslow's esteem and self-actualization needs). Motivators relate to *job content*. Job content is what we actually *do* when we perform our job duties. Herzberg considered job duties that lead to feelings of achievement and recognition to be motivators. He refers to these factors as "satisfiers" to reflect their ability to provide satisfying experiences. When these needs are met, we experience satisfaction. Because meeting these needs provides satisfaction, they motivate workers. More specifically, Herzberg believes these motivators lead to high performance (achievement), and the high performance itself leads to satisfaction.

The unique feature of Herzberg's theory is that job conditions that prevent dissatisfaction do not cause satisfaction. Satisfaction and dissatisfaction are on different "scales" in his view. Hygienes can cause dissatisfaction if they are not present in sufficient levels. Thus, an employee can be dissatisfied with low pay. But paying him more will not cause long-term satisfaction *unless* motivators are present. Good pay *by itself* will only make the employee neutral toward work; to attain satisfaction, employees need challenging job duties that result in a sense of achievement. Employees can be dissatisfied, neutral, or satisfied with their jobs, depending on their levels of hygienes and motivators. Herzberg's theory even allows for the possibility that an employee can be satisfied and dissatisfied at the same time—the "I love my job but I hate the pay" situation!

Herzberg's theory has made lasting contributions to organizational research and managerial practice. Researchers have used it to identify the wide range of factors that influence worker reactions. Previously, most organizations attended primarily to hygiene factors. Because of Herzberg's work, organizations today realize the potential of motivators. Job enrichment programs are among the many direct results of his research.

Herzberg's work suggests a two-stage process for managing employee motivation and satisfaction. First, managers should address the hygiene factors. Intense forms of dissatisfaction distract employees from important work-related activities and tend to be demotivating.<sup>16</sup> Thus, managers should make sure that such basic needs as adequate pay, safe and clean working conditions, and opportunities for social interaction are met. They should then address the much more powerful motivator needs, in which workers experience recognition, responsibility, achievement, and growth. If motivator needs are ignored, neither long-term satisfaction nor high motivation is likely. When motivator needs are met, however, employees feel satisfied and are motivated to perform well.

## Self-Determination Theory

One major implication of Herzberg's motivator-hygiene theory is the somewhat counterintuitive idea that managers should focus more on motivators than on hygienes. (After all, doesn't everyone want to be paid well? Organizations have held this out as a chief motivator for decades!) Why might concentrating on motivators give better results? To answer this question, we must examine types of motivation. Organizational behavior researchers often classify motivation in terms of what stimulates it. In the case of extrinsic motivation, we endeavor to acquire something that satisfies a lower-order need. Jobs that pay well and that are performed in safe, clean working conditions with adequate supervision and resources directly or indirectly satisfy these lower-order needs. These "outside the person" factors are *extrinsic rewards*.

Factors "inside" the person that cause people to perform tasks, intrinsic motivation, arise out of performing a task in and of itself, because it is interesting or "fun" to do. The task is enjoyable, so we continue to do it *even in the absence* of extrinsic rewards. That is, we are motivated by *intrinsic rewards*, rewards that we more or less give ourselves. Intrinsic rewards satisfy higher-order needs like relatedness and growth in ERG theory. When we sense that we are valuable contributors, are achieving something important, or are getting better at some skill, we like this feeling and strive to maintain it.

Self-determination theory (SDT) seeks to explain not only what causes motivation, but also how extrinsic rewards affect intrinsic motivation.<sup>17</sup> In SDT, extrinsic motivation refers to the performance of an activity in order to attain some valued outcome, while intrinsic motivation refers to performing an activity for the inherent satisfaction of the activity itself. SDT specifies when an activity will be intrinsically motivating and when it will not. Considerable numbers of studies have demonstrated that tasks are intrinsically motivating when they satisfy at least one of three higher-order needs: competence, autonomy, and relatedness. These precepts from SDT are entirely consistent with earlier discussions of theories by McClelland, Maslow, Alderfer, and Herzberg.

SDT takes the concepts of extrinsic rewards and intrinsic motivation further than the other need theories. SDT researchers have consistently found that as the level of extrinsic rewards increases, the amount of intrinsic motivation *decreases*. That is, SDT posits that extrinsic rewards not only do not provide intrinsic motivation, they diminish it. Think of this in terms of hobbies. Some people like to knit, others like to carve wood. They do it because it is intrinsically motivating; the hobby satisfies needs for competence, autonomy, and relatedness. But what happens if these hobbyists start getting paid well for their sweaters and carvings? Over time the hobby becomes less fun and is done in order to receive extrinsic rewards (money). Extrinsic motivation increases as intrinsic motivation decreases! When extrinsic rewards are present, people do not feel like what they do builds competence, is self-determined, or enhances relationships with others.

SDT theory has interesting implications for the management of organizational behavior. Some jobs are by their very nature uninteresting and unlikely to be made interesting. Automation has eliminated many such jobs, but they are still numerous. SDT would suggest that the primary way to motivate high performance for such jobs is to make performance contingent on extrinsic rewards. Relatively high pay is necessary to sustain performance on certain low-skill jobs. On the other hand, SDT would suggest that to enhance intrinsic motivation on jobs that are interesting, don't focus only on increasing extrinsic rewards (like large pay bonuses). Instead, create even more opportunities for employees to satisfy

their needs for competence, autonomy, and relatedness. That means giving them opportunities to learn new skills, to perform their jobs without interference, and to develop meaningful relationships with other customers and employees in other departments. Such actions enhance intrinsic rewards.

You may have noticed that content theories are somewhat quiet about what determines the intensity of motivation. For example, some people steal to satisfy their lower-order needs (they have high intensity). But most of us don't steal. Why is this? Process theories of motivation attempt to explain this aspect of motivation by focusing on the intensity of motivation as well as its direction. According to self-determination theory, skilled workers who are given a chance to hone their skills and the freedom to practice their craft will be intrinsically motivated.

## CONCEPT CHECK

1. Understand the content theories of motivation.
2. Understand the contributions that Murray, McClelland, Maslow, Alderfer, and Herzberg made toward an understanding of human motivation.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 10.3 - Process Theories of Motivation

3. Describe the process theories of motivation, and compare and contrast the main process theories of motivation: operant conditioning theory, equity theory, goal theory, and expectancy theory.

Process theories of motivation try to explain *why* behaviors are initiated. These theories focus on the mechanism by which we choose a target, and the effort that we exert to “hit” the target. There are four major process theories: (1) operant conditioning, (2) equity, (3) goal, and (4) expectancy.

### Operant Conditioning Theory

Operant conditioning theory is the simplest of the motivation theories. It basically states that people will do those things for which they are rewarded and will avoid doing things for which they are punished. This premise is sometimes called the “law of effect.” However, if this were the sum total of conditioning theory, we would not be discussing it here. Operant conditioning theory does offer greater insights than “reward what you want and punish what you don’t,” and knowledge of its principles can lead to effective management practices.

Operant conditioning focuses on the learning of voluntary behaviors.<sup>18</sup> The term operant conditioning indicates that learning results from our “operating on” the environment. After we “operate on the environment” (that is, behave in a certain fashion), consequences result. These consequences determine the likelihood of similar behavior in the future. Learning occurs because we do something to the environment. The environment then reacts to our action, and our subsequent behavior is influenced by this reaction.

#### *The Basic Operant Model*

According to operant conditioning theory, we learn to behave in a particular fashion because of consequences that resulted from our past behaviors.<sup>19</sup> The learning process involves three distinct steps (see **Table 10.2**). The first step involves a *stimulus* (S). The stimulus is any situation or event we perceive that we then respond to. A homework assignment is a stimulus. The second step involves a *response* (R), that is, any behavior or action we take in reaction to the stimulus. Staying up late to get your homework assignment in on time is a response. (We use the words response and behavior interchangeably here.) Finally, a *consequence* (C) is any event that follows our response and that makes the response more or less likely to occur in the future. If Colleen Sullivan receives praise from her superior for working hard, and if getting that praise is a pleasurable event, then it is likely that Colleen will work hard again in the future. If, on the other hand, the superior ignores or criticizes Colleen’s response (working hard), this consequence is likely to make Colleen avoid working hard in the future. It is the experienced consequence (positive or negative) that influences whether a response will be repeated the next time the stimulus is presented.

---

## Process Theories of Motivation

### General Operant Model: $S \rightarrow R \rightarrow C$

#### Ways to Strengthen the $S \rightarrow R$ Link

- |  |                          |
|--|--------------------------|
| 1. $S \rightarrow R \rightarrow C+$              | (Positive Reinforcement) |
| 2. $S \rightarrow R \rightarrow C-$              | (Negative Reinforcement) |
| 3. $S \rightarrow R \rightarrow (\text{no } C-)$ | (Avoidance Learning)     |

#### Ways to Weaken the $S \rightarrow R$ Link

- |   |                    |
|---|--------------------|
| 1. $S \rightarrow R \rightarrow (\text{no } C)$ | (Nonreinforcement) |
| 2. $S \rightarrow R \rightarrow C-$             | (Punishment)       |
- 

**Table 10.2** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Reinforcement occurs when a consequence makes it more likely the response/behavior will be repeated in the future. In the previous example, praise from Colleen's superior is a reinforcer. Extinction occurs when a consequence makes it less likely the response/behavior will be repeated in the future. Criticism from Colleen's supervisor could cause her to stop working hard on any assignment.

There are three ways to make a response more likely to recur: positive reinforcement, negative reinforcement, and avoidance learning. In addition, there are two ways to make the response less likely to recur: nonreinforcement and punishment.

### *Making a Response More Likely*

According to reinforcement theorists, managers can encourage employees to repeat a behavior if they provide a desirable consequence, or reward, after the behavior is performed. A positive reinforcement is a desirable consequence that satisfies an active need or that removes a barrier to need satisfaction. It can be as simple as a kind word or as major as a promotion. Companies that provide "dinners for two" as awards to those employees who go the extra mile are utilizing positive reinforcement. It is important to note that there are wide variations in what people consider to be a positive reinforcer. Praise from a supervisor may be a powerful reinforcer for some workers (like high-nAch individuals) but not others.

Another technique for making a desired response more likely to be repeated is known as negative reinforcement. When a behavior causes something undesirable to be taken away, the behavior is more likely to be repeated in the future. Managers use negative reinforcement when they remove something unpleasant from an employee's work environment in the hope that this will encourage the desired behavior. Ted doesn't like being continually reminded by Philip to work faster (Ted thinks Philip is nagging him), so he works faster at stocking shelves to avoid being criticized. Philip's reminders are a negative reinforcement for Ted.

Approach using negative reinforcement with extreme caution. Negative reinforcement is often confused with punishment. Punishment, unlike reinforcement (negative or positive), is intended to make a particular behavior go away (not be repeated). Negative reinforcement, like positive reinforcement, is intended to make a behavior more likely to be repeated in the future. In the previous example, Philip's reminders simultaneously punished one behavior (slow stocking) and reinforced another (faster stocking). The difference is often a fine one, but it becomes clearer when we identify the behaviors we are trying to encourage (reinforcement) or discourage (punishment).

A third method of making a response more likely to occur involves a process known as avoidance learning. Avoidance learning occurs when we learn to behave in a certain way to avoid encountering an undesired or unpleasant consequence. We may learn to wake up a minute or so before our alarm clock rings so we can turn it off and not hear the irritating buzzer. Some workers learn to get to work on time to avoid the harsh words or punitive actions

of their supervisors. Many organizational discipline systems rely heavily on avoidance learning by using the threat of negative consequences to encourage desired behavior. When managers warn an employee not to be late again, when they threaten to fire a careless worker, or when they transfer someone to an undesirable position, they are relying on the power of avoidance learning.

### *Making a Response Less Likely*

At times it is necessary to discourage a worker from repeating an undesirable behavior. The techniques managers use to make a behavior less likely to occur involve doing something that frustrates the individual's need satisfaction or that removes a currently satisfying circumstance. Punishment is an aversive consequence that follows a behavior and makes it less likely to reoccur.

Note that managers have another alternative, known as nonreinforcement, in which they provide no consequence at all following a worker's response. Nonreinforcement eventually reduces the likelihood of that response reoccurring, which means that managers who fail to reinforce a worker's desirable behavior are also likely to see that desirable behavior less often. If Philip never rewards Ted when he finishes stocking on time, for instance, Ted will probably stop trying to beat the clock. Nonreinforcement can also reduce the likelihood that employees will repeat undesirable behaviors, although it doesn't produce results as quickly as punishment does. Furthermore, if other reinforcing consequences are present, nonreinforcement is unlikely to be effective.

While punishment clearly works more quickly than does nonreinforcement, it has some potentially undesirable side effects. Although punishment effectively tells a person what *not* to do and stops the undesired behavior, it does not tell them what they *should* do. In addition, even when punishment works as intended, the worker being punished often develops negative feelings toward the person who does the punishing. Although sometimes it is very difficult for managers to avoid using punishment, it works best when reinforcement is also used. An experiment conducted by two researchers at the University of Kansas found that using nonmonetary reinforcement in addition to punitive disciplinary measures was an effective way to decrease absenteeism in an industrial setting.<sup>20</sup>

### *Schedules of Reinforcement*

When a person is learning a new behavior, like how to perform a new job, it is desirable to reinforce effective behaviors every time they are demonstrated (this is called *shaping*). But in organizations it is not usually possible to reinforce desired behaviors every time they are performed, for obvious reasons. Moreover, research indicates that constantly reinforcing desired behaviors, termed *continuous reinforcement*, can be detrimental in the long run. Behaviors that are learned under continuous reinforcement are quickly extinguished (cease to be demonstrated). This is because people will expect a reward (the reinforcement) every time they display the behavior. When they don't receive it after just a few times, they quickly presume that the behavior will no longer be rewarded, and they quit doing it. Any employer can change employees' behavior by simply not paying them!

If behaviors cannot (and should not) be reinforced every time they are exhibited, how often should they be reinforced? This is a question about schedules of reinforcement, or the frequency at which effective employee behaviors should be reinforced. Much of the early research on operant conditioning focused on the best way to maintain the performance of desired behaviors. That is, it attempted to determine how frequently behaviors need to be rewarded so that they are not extinguished. Research zeroed in on four types of reinforcement schedules:

**Fixed Ratio.** With this schedule, a fixed number of responses (let's say five) must be exhibited before any of the responses are reinforced. If the desired response is coming to work on time, then giving employees a \$25 bonus for being punctual every day from Monday through Friday would be a fixed ratio of reinforcement.

**Variable Ratio.** A variable-ratio schedule reinforces behaviors, *on average*, a fixed number of times (again let's say five).

Sometimes the tenth behavior is reinforced, other times the first, but on average every fifth response is reinforced. People who perform under such variable-ratio schedules like this don't know *when* they will be rewarded, but they do know that they *will* be rewarded.

**Fixed Interval.** In a fixed-interval schedule, a certain amount of time must pass before a behavior is reinforced. With a one-hour fixed-interval schedule, for example, a supervisor visits an employee's workstation and reinforces the first desired behavior she sees. She returns one hour later and reinforces the next desirable behavior. This schedule doesn't imply that reinforcement will be received automatically after the passage of the time period. The time must pass *and* an appropriate response must be made.

**Variable Interval.** The variable interval differs from fixed-interval schedules in that the specified time interval passes on *average* before another appropriate response is reinforced. Sometimes the time period is shorter than the average; sometimes it is longer.

Which type of reinforcement schedule is best? In general, continuous reinforcement is best while employees are learning their jobs or new duties. After that, variable-ratio reinforcement schedules are superior. In most situations the fixed-interval schedule produces the least effective results, with fixed ratio and variable interval falling in between the two extremes. But remember that effective behaviors must be reinforced with some type of schedule, or they may become extinguished.

## Equity Theory

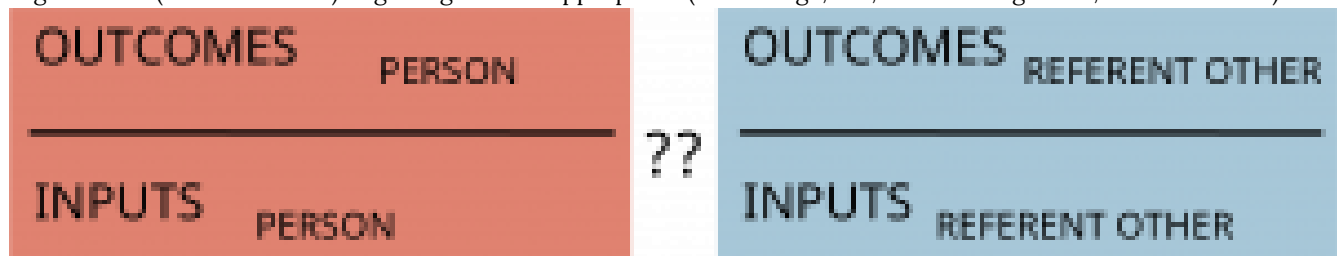
Suppose you have worked for a company for several years. Your performance has been excellent, you have received regular pay increases, and you get along with your boss and coworkers. One day you come to work to find that a new person has been hired to work at the same job that you do. You are pleased to have the extra help. Then, you find out the new person is making \$100 more per week than you, despite your longer service and greater experience. How do you feel? If you're like most of us, you're quite unhappy. Your satisfaction has just evaporated. Nothing about your job has changed—you receive the same pay, do the same job, and work for the same supervisor. Yet, the addition of one new employee has transformed you from a happy to an unhappy employee. This feeling of unfairness is the basis for equity theory.

Equity theory states that motivation is affected by the outcomes we receive for our inputs compared to the outcomes and inputs of other people.<sup>21</sup> This theory is concerned with the reactions people have to outcomes they receive as part of a "social exchange." According to equity theory, our reactions to the outcomes we receive from others (an employer) depend both on how we value those outcomes in an absolute sense *and* on the circumstances surrounding their receipt. Equity theory suggests that our reactions will be influenced by our perceptions of the "inputs" provided in order to receive these outcomes ("Did I get as much out of this as I put into it?"). Even more important is our comparison of our inputs to what we believe others received for their inputs ("Did I get as much for my inputs as my coworkers got for theirs?").

### *The Basic Equity Model*

The fundamental premise of equity theory is that we continuously monitor the degree to which our work environment is "fair." In determining the degree of fairness, we consider two sets of factors, inputs and outcomes (see **Exhibit 10.5**). Inputs are any factors we contribute to the organization that we feel have value and are relevant to the organization. Note that the value attached to an input is based on *our* perception of its relevance and value. Whether or not anyone else agrees that the input is relevant or valuable is unimportant to us. Common inputs in organizations include time, effort, performance level, education level, skill levels, and bypassed opportunities. Since any factor we

consider relevant is included in our evaluation of equity, it is not uncommon for factors to be included that the organization (or even the law) might argue are inappropriate (such as age, sex, ethnic background, or social status).



**Exhibit 10.5** The Equity Theory Comparison (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Outcomes are anything we perceive as getting back from the organization in exchange for our inputs. Again, the value attached to an outcome is based on our perceptions and not necessarily on objective reality. Common outcomes from organizations include pay, working conditions, job status, feelings of achievement, and friendship opportunities. Both positive and negative outcomes influence our evaluation of equity. Stress, headaches, and fatigue are also potential outcomes. Since any outcome we consider relevant to the exchange influences our equity perception, we frequently include unintended factors (peer disapproval, family reactions).

Equity theory predicts that we will compare our outcomes to our inputs in the form of a ratio. On the basis of this ratio we make an initial determination of whether or not the situation is equitable. If we perceive that the outcomes we receive are commensurate with our inputs, we are satisfied. If we believe that the outcomes are not commensurate with our inputs, we are dissatisfied. This dissatisfaction can lead to ineffective behaviors for the organization if they continue. The key feature of equity theory is that it predicts that we will compare our ratios to the ratios of other people. It is this comparison of the two ratios that has the strongest effect on our equity perceptions. These other people are called referent others because we “refer to” them when we judge equity. Usually, referent others are people we work with who perform work of a similar nature. That is, referent others perform jobs that are similar in difficulty and complexity to the employee making the equity determination (see **Exhibit 10.5**).

Three conditions can result from this comparison. Our outcome-to-input ratio could equal the referent other's. This is a state of equity. A second result could be that our ratio is greater than the referent other's. This is a state of overreward inequity. The third result could be that we perceive our ratio to be less than that of the referent other. This is a state of underreward inequity.

Equity theory has a lot to say about basic human tendencies. The motivation to compare our situation to that of others is strong. For example, what is the first thing you do when you get an exam back in class? Probably look at your score and make an initial judgment as to its fairness. For a lot of people, the very next thing they do is look at the scores received by fellow students who sit close to them. A 75 percent score doesn't look so bad if everyone else scored lower! This is equity theory in action.

Most workers in the United States are at least partially dissatisfied with their pay.<sup>22</sup> Equity theory helps explain this. Two human tendencies create feelings of inequity that are not based in reality. One is that we tend to overrate our performance levels. For example, one study conducted by your authors asked more than 600 employees to anonymously rate their performance on a 7-point scale (1 = poor, 7 = excellent). The average was 6.2, meaning the *average* employee rated his or her performance as *very good to excellent*. This implies that the average employee also expects excellent pay increases, a policy most employers cannot afford if they are to remain competitive. Another study found that the average employee (one whose performance is better than half of the other employees and worse than the other half) rated her performance at the 80th percentile (better than 80 percent of the other employees, worse than 20 percent).<sup>23</sup> Again it would be impossible for most organizations to reward the average employee at the 80th percentile. In other words, most employees inaccurately overrate the inputs they provide to an organization. This leads to perceptions of inequity that are not justified.

The second human tendency that leads to unwarranted perceptions of inequity is our tendency to *overrate* the



outcomes of others.<sup>24</sup> Many employers keep the pay levels of employees a “secret.” Still other employers actually forbid employees to talk about their pay. This means that many employees don’t know for certain how much their colleagues are paid. And, because most of us overestimate the pay of others, we tend to think that they’re paid more than they actually are, and the unjustified perceptions of inequity are perpetuated.

The bottom line for employers is that they need to be sensitive to employees’ need for equity. Employers need to do everything they can to prevent feelings of inequity because employees engage in effective behaviors when they perceive equity and ineffective behaviors when they perceive inequity.

### *Perceived Overreward Inequity*

When we perceive that overreward inequity exists (that is, we unfairly make more than others), it is rare that we are so dissatisfied, guilty, or sufficiently motivated that we make changes to produce a state of perceived equity (or we leave the situation). Indeed, feelings of overreward, when they occur, are quite transient. Very few of us go to our employers and complain that we’re overpaid! Most people are less sensitive to overreward inequities than they are to underreward inequities.<sup>25</sup> However infrequently they are used for overreward, the same types of actions are available for dealing with both types of inequity.

### *Perceived Underreward Inequity*

When we perceive that underreward inequity exists (that is, others unfairly make more than we do), we will likely be dissatisfied, angered, and motivated to change the situation (or escape the situation) in order to produce a state of perceived equity. As we discuss shortly, people can take many actions to deal with underreward inequity.

### *Reducing Underreward Inequity*

A simple situation helps explain the consequences of inequity. Two automobile workers in Detroit, John and Mary, fasten lug nuts to wheels on cars as they come down the assembly line, John on the left side and Mary on the right. Their inputs are equal (both fasten the same number of lug nuts at the same pace), but John makes \$500 per week and Mary makes \$600. Their equity ratios are thus:

\$500	\$600
John:	<Mary:
10 lug nuts/car	10 lug nuts/car

As you can see, their ratios are not equal; that is, Mary receives greater outcome for equal input. Who is experiencing inequity? According to equity theory, both John and Mary—underreward inequity for John, and overreward inequity for Mary. Mary’s inequity won’t last long (in real organizations), but in our hypothetical example, what might John do to resolve this?

Adams identified a number of things people do to reduce the tension produced by a perceived state of inequity. They change their own outcomes or inputs, or they change those of the referent other. They distort their own perceptions of the outcomes or inputs of either party by using a different referent other, or they leave the situation in which the inequity is occurring.

1. Alter inputs of the person. The perceived state of equity can be altered by changing our own inputs, that is, by

decreasing the quantity or quality of our performance. John can affect his own mini slowdown and install only nine lug nuts on each car as it comes down the production line. This, of course, might cause him to lose his job, so he probably won't choose this alternative.

2. Alter outcomes of the person. We could attempt to increase outcomes to achieve a state of equity, like ask for a raise, a nicer office, a promotion, or other positively valued outcomes. So John will likely ask for a raise. Unfortunately, many people enhance their outcomes by stealing from their employers.
3. Alter inputs of the referent other. When underrewarded, we may try to achieve a state of perceived equity by encouraging the referent other to increase their inputs. We may demand, for example, that the referent other “start pulling their weight,” or perhaps help the referent other to become a better performer. It doesn't matter that the referent other is already pulling their weight—remember, this is all about perception. In our example, John could ask Mary to put on two of his ten lug nuts as each car comes down the assembly line. This would not likely happen, however, so John would be motivated to try another alternative to reduce his inequity.
4. Alter outcomes of the referent other. We can “correct” a state of underreward by directly or indirectly reducing the value of the other's outcomes. In our example, John could try to get Mary's pay lowered to reduce his inequity. This too would probably not occur in the situation described.
5. Distort perceptions of inputs or outcomes. It is possible to reduce a perceived state of inequity without changing input or outcome. We simply distort our own perceptions of our inputs or outcomes, or we distort our perception of those of the referent other. Thus, John may tell himself that “Mary does better work than I thought” or “she enjoys her work much less than I do” or “she gets paid less than I realized.”
6. Choose a different referent other. We can also deal with both over- and underreward inequities by changing the referent other (“my situation is really more like Ahmed's”). This is the simplest and most powerful way to deal with perceived inequity: it requires neither actual nor perceptual changes in anybody's input or outcome, and it causes us to look around and assess our situation more carefully. For example, John might choose as a referent other Bill, who installs dashboards but makes less money than John.
7. Leave the situation. A final technique for dealing with a perceived state of inequity involves removing ourselves from the situation. We can choose to accomplish this through absenteeism, transfer, or termination. This approach is usually not selected unless the perceived inequity is quite high or other attempts at achieving equity are not readily available. Most automobile workers are paid quite well for their work. John is unlikely to find an equivalent job, so it is also unlikely that he will choose this option.

### *Implications of Equity Theory*

Equity theory is widely used, and its implications are clear. In the vast majority of cases, employees experience (or perceive) underreward inequity rather than overreward. As discussed above, few of the behaviors that result from underreward inequity are good for employers. Thus, employers try to prevent unnecessary perceptions of inequity. They do this in a number of ways. They try to be as fair as possible in allocating pay. That is, they measure performance levels as accurately as possible, then give the highest performers the highest pay increases. Second, most employers are no longer secretive about their pay schedules. People are naturally curious about how much they are paid relative to others in the organization. This doesn't mean that employers don't practice discretion—they usually don't reveal specific employees' exact pay. But they do tell employees the minimum and maximum pay levels for their jobs and the pay scales for the jobs of others in the organization. Such practices give employees a factual basis for judging equity.

Supervisors play a key role in creating perceptions of equity. “Playing favorites” ensures perceptions of inequity. Employees want to be rewarded on their merits, not the whims of their supervisors. In addition, supervisors need to recognize differences in employees in their reactions to inequity. Some employees are highly sensitive to inequity, and a supervisor needs to be especially cautious around them.<sup>26</sup> Everyone is sensitive to reward allocation.<sup>27</sup> But “equity sensitives” are even more sensitive. A major principle for supervisors, then, is simply to implement fairness. Never base punishment or reward on whether or not you like an employee. Reward behaviors that contribute to the organization,

and discipline those that do not. Make sure employees understand what is expected of them, and praise them when they do it. These practices make everyone happier and your job easier.

## Goal Theory

No theory is perfect. If it was, it wouldn't be a theory. It would be a set of facts. Theories are sets of propositions that are right more often than they are wrong, but they are not infallible. However, the basic propositions of goal theory\* come close to being infallible. Indeed, it is one of the strongest theories in organizational behavior.

### *The Basic Goal-Setting Model*

Goal theory states that people will perform better if they have difficult, specific, accepted performance goals or objectives.<sup>28, 29</sup> The first and most basic premise of goal theory is that people will attempt to achieve those goals that they *intend* to achieve. Thus, if we intend to do something (like get an A on an exam), we will exert effort to accomplish it. Without such goals, our effort at the task (studying) required to achieve the goal is less. Students whose goals are to get As study harder than students who don't have this goal—we all know this. This doesn't mean that people without goals are unmotivated. It simply means that people with goals are more motivated. The intensity of their motivation is greater, and they are more directed.

The second basic premise is that *difficult* goals result in better performance than easy goals. This does not mean that difficult goals are always achieved, but our performance will usually be better when we intend to achieve harder goals. Your goal of an A in Classical Mechanics at Cal Tech may not get you your A, but it may earn you a B+, which you wouldn't have gotten otherwise. Difficult goals cause us to exert more effort, and this almost always results in better performance.

Another premise of goal theory is that *specific* goals are better than vague goals. We often wonder what we need to do to be successful. Have you ever asked a professor “What do I need to do to get an A in this course?” If she responded “Do well on the exams,” you weren't much better off for having asked. This is a vague response. Goal theory says that we perform better when we have specific goals. Had your professor told you the key thrust of the course, to turn in *all* the problem sets, to pay close attention to the essay questions on exams, and to aim for scores in the 90s, you would have something concrete on which to build a strategy.

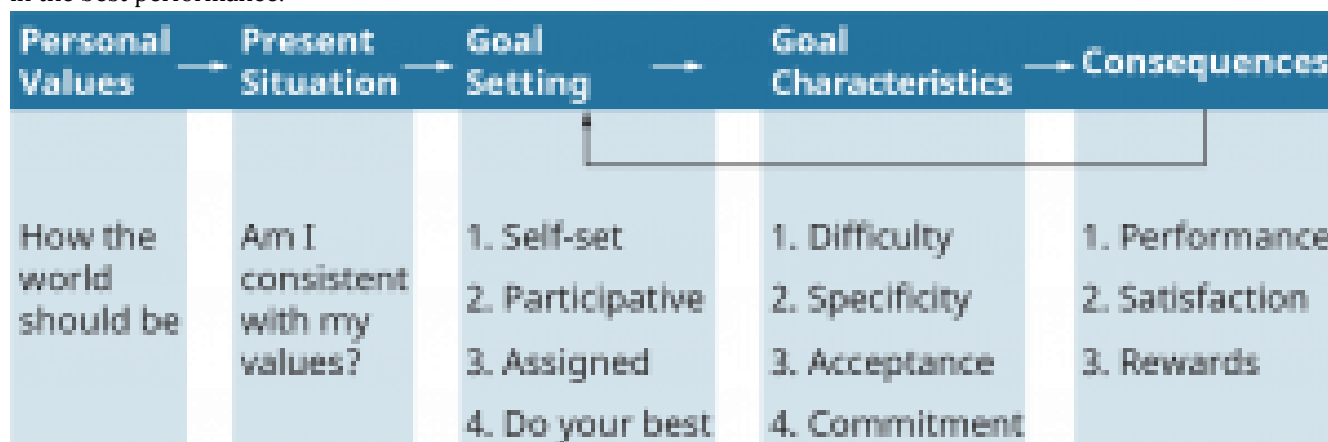
A key premise of goal theory is that people must *accept* the goal. Usually we set our own goals. But sometimes others set goals for us. Your professor telling you your goal is to “score at least a 90 percent on your exams” doesn't mean that you'll accept this goal. Maybe you don't feel you can achieve scores in the 90s. Or, you've heard that 90 isn't good enough for an A in this class. This happens in work organizations quite often. Supervisors give orders that something must be done by a certain time. The employees may fully understand what is wanted, yet if they feel the order is unreasonable or impossible, they may not exert much effort to accomplish it. Thus, it is important for people to accept the goal. They need to feel that it is also their goal. If they do not, goal theory predicts that they won't try as hard to achieve it.

Goal theory also states that people need to *commit* to a goal in addition to accepting it. Goal commitment is the degree to which we dedicate ourselves to achieving a goal. Goal commitment is about setting priorities. We can accept many goals (go to all classes, stay awake during classes, take lecture notes), but we often end up doing only some of them. In other words, some goals are more important than others. And we exert more effort for certain goals. This also happens frequently at work. A software analyst's major goal may be to write a new program. Her minor goal may be to maintain previously written programs. It is minor because maintaining old programs is boring, while writing new ones is fun. Goal theory predicts that her commitment, and thus her intensity, to the major goal will be greater.

Allowing people to participate in the goal-setting process often results in higher goal commitment. This has to do with ownership. And when people participate in the process, they tend to incorporate factors they think will make the

goal more interesting, challenging, and attainable. Thus, it is advisable to allow people some input into the goal-setting process. Imposing goals on them from the outside usually results in less commitment (and acceptance).

The basic goal-setting model is shown in **Exhibit 10.6**. The process starts with our values. Values are our beliefs about how the world should be or act, and often include words like “should” or “ought.” We compare our present conditions against these values. For example, Randi holds the value that everyone should be a hard worker. After measuring her current work against this value, Randi concludes that she doesn’t measure up to her own value. Following this, her goal-setting process begins. Randi will set a goal that affirms her status as a hard worker. **Exhibit 10.6** lists the four types of goals. Some goals are self-set. (Randi decides to word process at least 70 pages per day.) Participative goals are jointly set. (Randi goes to her supervisor, and together they set some appropriate goals for her.) In still other cases, goals are assigned. (Her boss tells her that she must word process at least 60 pages per day.) The fourth type of goal, which can be self-set, jointly determined, or assigned, is a “do your best” goal. But note this goal is vague, so it usually doesn’t result in the best performance.



**Exhibit 10.6** The Goal-Setting Process (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

Depending on the characteristics of Randi’s goals, she may or may not exert a lot of effort. For maximum effort to result, her goals should be difficult, specific, accepted, and committed to. Then, if she has sufficient ability and lack of constraints, maximum performance should occur. Examples of constraints could be that her old computer frequently breaks down or her supervisor constantly interferes.

The consequence of endeavoring to reach her goal will be that Randi will be satisfied with herself. Her behavior is consistent with her values. She’ll be even more satisfied if her supervisor praises her performance and gives her a pay increase!

In Randi’s case, her goal achievement resulted in several benefits. However, this doesn’t always happen. If goals are not achieved, people may be unhappy with themselves, and their employer may be dissatisfied as well. Such an experience can make a person reluctant to accept goals in the future. Thus, setting difficult yet attainable goals cannot be stressed enough.

Goal theory can be a tremendous motivational tool. In fact, many organizations practice effective management by using a technique called “management by objectives” (MBO). MBO is based on goal theory and is quite effective when implemented consistently with goal theory’s basic premises.

Despite its many strengths, several cautions about goal theory are appropriate. Locke has identified most of them.<sup>30</sup> First, setting goals in one area can lead people to neglect other areas. (Randi may word process 70 pages per day, but neglect her proofreading responsibilities.) It is important that goals be set for most major duties. Second, goal setting sometimes has unintended consequences. For example, employees set easy goals so that they look good when they achieve them. Or it causes unhealthy competition between employees. Or an employee sabotages the work of others so that only she has goal achievement.

Some managers use goal setting in unethical ways. They may manipulate employees by setting impossible goals. This enables them to criticize employees even when the employees are doing superior work and, of course, causes much

stress. Goal setting should never be abused. Perhaps the key caution about goal setting is that it often results in too much focus on quantified measures of performance. Qualitative aspects of a job or task may be neglected because they aren't easily measured. Managers must keep employees focused on the qualitative aspects of their jobs as well as the quantitative ones. Finally, setting individual goals in a teamwork environment can be counterproductive.<sup>31</sup> Where possible, it is preferable to have group goals in situations where employees depend on one another in the performance of their jobs.

The cautions noted here are not intended to deter you from using goal theory. We note them so that you can avoid the pitfalls. Remember, employees have a right to reasonable performance expectations and the rewards that result from performance, and organizations have a right to expect high performance levels from employees. Goal theory should be used to optimize the employment relationship. Goal theory holds that people will exert effort to accomplish goals if those goals are difficult to achieve, accepted by the individual, and specific in nature.

## Expectancy Theory

Expectancy theory posits that we will exert much effort to perform at high levels so that we can obtain valued outcomes. It is the motivation theory that many organizational behavior researchers find most intriguing, in no small part because it is currently also the most comprehensive theory. Expectancy theory ties together many of the concepts and hypotheses from the theories discussed earlier in this chapter. In addition, it points to factors that other theories miss. Expectancy theory has much to offer the student of management and organizational behavior.

Expectancy theory is sufficiently general that it is useful in a wide variety of situations. Choices between job offers, between working hard or not so hard, between going to work or not—virtually any set of possibilities can be addressed by expectancy theory. Basically, the theory focuses on two related issues:

1. When faced with two or more alternatives, which will we select?
2. Once an alternative is chosen, how motivated will we be to pursue that choice?

Expectancy theory thus focuses on the two major aspects of motivation, *direction* (which alternative?) and *intensity* (how much effort to implement the alternative?). The attractiveness of an alternative is determined by our “expectations” of what is likely to happen if we choose it. The more we believe that the alternative chosen will lead to positively valued outcomes, the greater its attractiveness to us.

Expectancy theory states that, when faced with two or more alternatives, we will select the most attractive one. And, the greater the attractiveness of the chosen alternative, the more motivated we will be to pursue it. Our natural hedonism, discussed earlier in this chapter, plays a role in this process. We are motivated to maximize desirable outcomes (a pay raise) and minimize undesirable ones (discipline). Expectancy theory goes on to state that we are also logical in our decisions about alternatives. It considers people to be *rational*. People evaluate alternatives in terms of their “pros and cons,” and then choose the one with the most “pros” and fewest “cons.”

### *The Basic Expectancy Model*

The three major components of expectancy theory reflect its assumptions of hedonism and rationality: effort-performance expectancy, performance-outcome expectancy, and valences.

The effort-performance expectancy, abbreviated E1, is the perceived probability that effort will lead to performance (or  $E \rightarrow P$ ). Performance here means anything from doing well on an exam to assembling 100 toasters a day at work. Sometimes people believe that no matter how much effort they exert, they won't perform at a high level. They have weak E1s. Other people have strong E1s and believe the opposite—that is, that they can perform at a high level if they

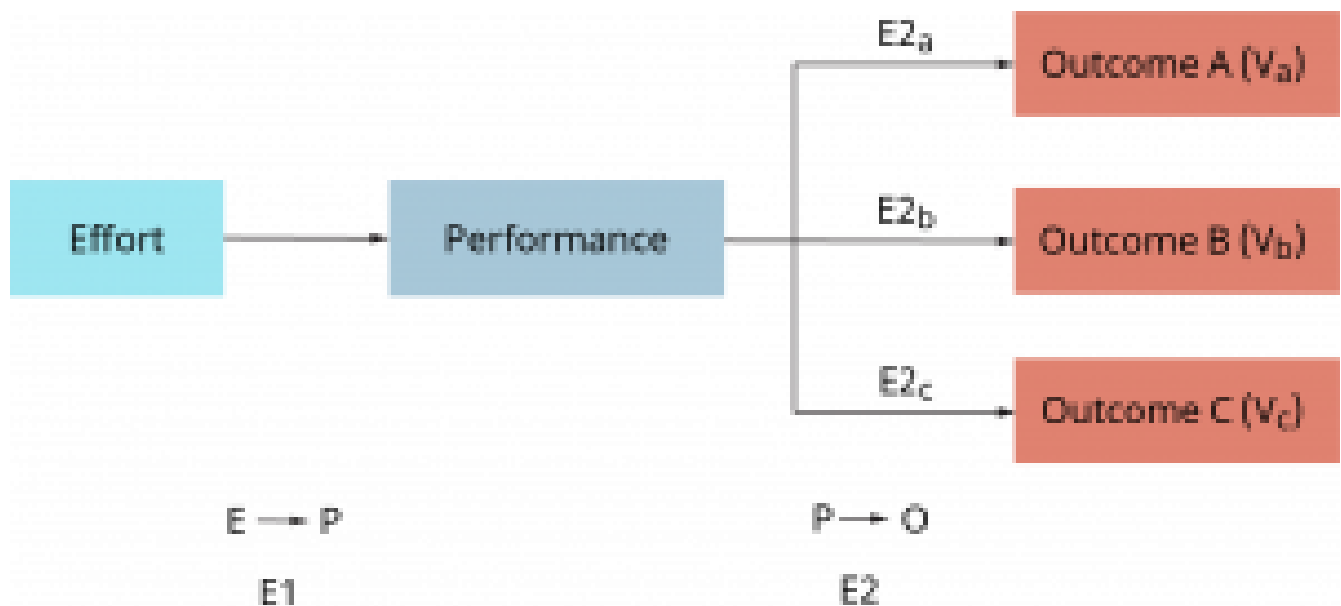
exert high effort. You all know students with different E1s—those who believe that if they study hard they'll do well, and those who believe that no matter how much they study they'll do poorly. People develop these perceptions from prior experiences with the task at hand, and from self-perceptions of their abilities. The core of the E1 concept is that people don't always perceive a direct relationship between effort level and performance level.

The performance-outcome expectancy, E2, is the perceived relationship between performance and outcomes (or  $P \rightarrow O$ ).<sup>1</sup> Many things in life happen as a function of how well we perform various tasks. E2 addresses the question “What will happen if I perform well?” Let's say you get an A in your Classical Mechanics course at Cal Tech. You'll be elated, your classmates may envy you, and you are now assured of that plum job at NASA. But let's say you got a D. Whoops, that was the last straw for the dean. Now you've flunked out, and you're reduced to going home to live with your parents (perish the thought!). Likewise, E2 perceptions develop in organizations, although hopefully not as drastically as your beleaguered career at Cal Tech. People with strong E2s believe that if they perform their jobs well, they'll receive desirable outcomes—good pay increases, praise from their supervisor, and a feeling that they're really contributing. In the same situation, people with weak E2s will have the opposite perceptions—that high performance levels don't result in desirable outcomes and that it doesn't really matter how well they perform their jobs as long as they don't get fired.

Valences are the easiest of the expectancy theory concepts to describe. Valences are simply the degree to which we perceive an outcome as desirable, neutral, or undesirable. Highly desirable outcomes (a 25 percent pay increase) are positively valent. Undesirable outcomes (being disciplined) are negatively valent. Outcomes that we're indifferent to (where you must park your car) have neutral valences. Positively and negatively valent outcomes abound in the workplace—pay increases and freezes, praise and criticism, recognition and rejection, promotions and demotions. And as you would expect, people differ dramatically in how they value these outcomes. Our needs, values, goals, and life situations affect what valence we give an outcome. Equity is another consideration we use in assigning valences. We may consider a 10 percent pay increase desirable until we find out that it was the lowest raise given in our work group.

**Exhibit 10.7** summarizes the three core concepts of expectancy theory. The theory states that our perceptions about our surroundings are essentially predictions about “what leads to what.” We perceive that certain effort levels result in certain performance levels. We perceive that certain performance levels result in certain outcomes. Outcomes can be extrinsic, in that others (our supervisor) determine whether we receive them, or intrinsic, in that we determine if they are received (our sense of achievement). Each outcome has an associated valence (outcome A's valence is  $V_a$ ).

Expectancy theory predicts that we will exert effort that results in the maximum amount of positive-valence outcomes.<sup>2</sup> If our E1 or E2 is weak, or if the outcomes are not sufficiently desirable, our motivation to exert effort will be low. Stated differently, an individual will be motivated to try to achieve the level of performance that results in the most rewards.



**Exhibit 10.7** The Expectancy Theory of Motivation (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

$V_o$  is the valence of the outcome. The effort level with the greatest force associated with it will be chosen by the individual.

### *Implications of Expectancy Theory*

Expectancy theory has major implications for the workplace. Basically, expectancy theory predicts that employees will be motivated to perform well on their jobs under two conditions. The first is when employees believe that a reasonable amount of effort will result in good performance. The second is when good performance is associated with positive outcomes and low performance is associated with negative outcomes. If neither of these conditions exists in the perceptions of employees, their motivation to perform will be low.

Why might an employee perceive that positive outcomes are not associated with high performance? Or that negative outcomes are not associated with low performance? That is, why would employees develop weak E2s? This happens for a number of reasons. The main one is that many organizations subscribe too strongly to a principle of equality (not to be confused with equity). They give all of their employees equal salaries for equal work, equal pay increases every year (these are known as across-the-board pay raises), and equal treatment wherever possible. Equality-focused organizations reason that some employees “getting more” than others leads to disruptive competition and feelings of inequity.

In time employees in equality-focused organizations develop weak E2s because no distinctions are made for differential outcomes. If the best and the worst salespeople are paid the same, in time they will both decide that it isn't worth the extra effort to be a high performer. Needless to say, this is not the goal of competitive organizations and can cause the demise of the organization as it competes with other firms in today's global marketplace.

Expectancy theory states that to maximize motivation, organizations must make outcomes contingent on performance. This is the main contribution of expectancy theory: it makes us think about *how* organizations should distribute outcomes. If an organization, or a supervisor, believes that treating everyone “the same” will result in satisfied and motivated employees, they will be wrong more times than not. From equity theory we know that some employees, usually the better-performing ones, will experience underreward inequity. From expectancy theory we know that employees will see no difference in outcomes for good and poor performance, so they will not have as much incentive to be good performers. Effective organizations need to actively encourage the perception that good performance leads to positive outcomes (bonuses, promotions) and that poor performance leads to negative ones (discipline, termination). Remember, there is a big difference between treating employees equally and treating them equitably.

What if an organization ties positive outcomes to high performance and negative outcomes to low performance? Employees will develop strong E2s. But will this result in highly motivated employees? The answer is maybe. We have yet to address employees’ E1s. If employees have weak E1s, they will perceive that high (or low) effort does *not* result in high performance and thus will not exert much effort. It is important for managers to understand that this can happen despite rewards for high performance.

Task-related abilities are probably the single biggest reason why some employees have weak E1s. Self-efficacy is our belief about whether we can successfully execute some future action or task, or achieve some result. High self-efficacy employees believe that they are likely to succeed at most or all of their job duties and responsibilities. And as you would expect, low self-efficacy employees believe the opposite. Specific self-efficacy reflects our belief in our capability to perform a specific task at a specific level of performance. If we believe that the probability of our selling \$30,000 of jackrabbit slippers in one month is .90, our self-efficacy for this task is high. Specific self-efficacy is our judgment about the likelihood of successful task performance measured immediately before we expend effort on the task. As a result, specific self-efficacy is much more variable than more enduring notions of personality. Still, there is little doubt that our state-based beliefs are some of the most powerful motivators of behavior. Our efficacy expectations at a given point in time determine not only our initial decision to perform (or not) a task, but also the amount of effort we will expend and whether we will persist in the face of adversity.<sup>32</sup> Self-efficacy has a strong impact on the E1 factor. As a result, self-efficacy is one of the strongest determinants of performance in any particular task situation.<sup>33</sup>

Employees develop weak E1s for two reasons. First, they don’t have sufficient resources to perform their jobs. Resources can be internal or external. Internal resources include what employees bring to the job (such as prior training, work experience, education, ability, and aptitude) and their understanding of what they need to do to be considered good performers. The second resource is called role perceptions—how employees believe their jobs are done and how they fit into the broader organization. If employees don’t know *how* to become good performers, they will have weak E1s. External resources include the tools, equipment, and labor necessary to perform a job. The lack of good external resources can also cause E1s to be weak.

The second reason for weak E1s is an organization’s failure to measure performance accurately. That is, performance *ratings* don’t correlate well with actual performance *levels*. How does this happen? Have you ever gotten a grade that you felt didn’t reflect how much you learned? This also happens in organizations. Why are ratings sometimes inaccurate? Supervisors, who typically give out ratings, well, they’re human. Perhaps they’re operating under the mistaken notion that similar ratings for everyone will keep the team happy. Perhaps they’re unconsciously playing favorites. Perhaps they don’t know what good and poor performance levels are. Perhaps the measurements they’re expected to use don’t fit their product/team/people. Choose one or all of these. Rating people is rarely easy.

Whatever the cause of rating errors, some employees may come to believe that no matter what they do they will never receive a high performance rating. They may in fact believe that they are excellent performers but that the performance rating system is flawed. Expectancy theory differs from most motivation theories because it highlights the need for accurate performance measurement. Organizations cannot motivate employees to perform at a high level if they cannot identify high performers.

Organizations exert tremendous influence over employee choices in their performance levels and how much effort to exert on their jobs. That is, organizations can have a major impact on the direction and intensity of employees’ motivation levels. Practical applications of expectancy theory include:



1. Strengthening the effort ➔ performance expectancy by selecting employees who have the necessary abilities, providing proper training, providing experiences of success, clarifying job responsibilities, etc.
2. Strengthening the performance ➔ outcome expectancy with policies that specify that desirable behavior leads to desirable outcomes and undesirable behavior leads to neutral or undesirable outcomes. Consistent enforcement of these policies is key—workers must believe in the contingencies.
3. Systematically evaluating which outcomes employees value. The greater the valence of outcomes offered for a behavior, the more likely employees will commit to that alternative. By recognizing that different employees have different values and that values change over time, organizations can provide the most highly valued outcomes.
4. Ensuring that effort actually translates into performance by clarifying what actions lead to performance and by appropriate training.
5. Ensuring appropriate worker outcomes for performance through reward schedules (extrinsic outcomes) and appropriate job design (so the work experience itself provides intrinsic outcomes).
6. Examining the level of outcomes provided to workers. Are they equitable, given the worker's inputs? Are they equitable in comparison to the way other workers are treated?
7. Measuring performance levels as accurately as possible, making sure that workers are capable of being high performers.

## MANAGING CHANGE

### *Differences in Motivation across Cultures*

The disgruntled employee is hardly a culturally isolated feature of business, and quitting before leaving takes the same forms, regardless of country. Cross-cultural signaling, social norms, and simple language barriers can make the task of motivation for the global manager confusing and counterintuitive. Communicating a passion for a common vision, coaching employees to see themselves as accountable and as owning their work, or attempting to create a “motivational ecosystem” can all fall flat with simple missed cues, bad translations, or tone-deaf approaches to a thousand-year-old culture.

Keeping employees motivated by making them feel valued and appreciated is not just a “Western” idea. The Ghanaian blog site Starrfmonline emphasizes that employee motivation and associated work quality improve when employees feel “valued, trusted, challenged, and supported in their work.” Conversely, when employees feel like a tool rather than a person, or feel unengaged with their work, then productivity suffers. A vicious cycle can then begin when the manager treats an employee as unmotivated and incapable, which then demotivates the employee and elicits the predicted response. The blogger cites an example from Eastern Europe where a manager sidelined an employee as inefficient and incompetent. After management coaching, the manager revisited his assessment and began working with the employee. As he worked to facilitate the employee's efficiency and motivation, the employee went from being the lowest performer to a valuable team player. In the end, the blog says, “The very phrase ‘human resources’ frames employees as material to be deployed for organizational objectives. While the essential nature of employment contracts involves trading labour for remuneration, if we fail to see and appreciate our employees as whole people, efforts to motivate them will meet with limited success” (Starrfmonline 2017 n.p.)

Pavel Vosk, a business and management consultant based in Puyallup, Washington, says that too often, overachieving employees turn into unmotivated ones. In looking for the answer, he found that the most common source was a lack of recognition for the employee's effort or exceptional performance. In fact, Vosk found that most employees go the extra mile only three times before they give up. Vosk's advice is to show gratitude for employees' effort, especially when it goes above and beyond. He says the recognition doesn't have to be over the top, just anything that the employees will

perceive as gratitude, from a catered lunch for a team working extra hours to fulfill a deadline to a simple face-to-face thank you (Huhman 2017).

Richard Frazao, president of Quaketek, based in Montreal, Quebec, stresses talking to the employees and making certain they are engaged in their jobs, citing boredom with one's job as a major demotivating factor (Huhman 2017).

But motivating employees is not "one size fits all" globally. Rewarding and recognizing individuals and their achievements works fine in Western cultures but is undesirable in Asian cultures, which value teamwork and the collective over the individual. Whether to reward effort with a pay raise or with a job title or larger office is influenced by culture. Demoting an employee for poor performance is an effective motivator in Asian countries but is likely to result in losing an employee altogether in Western cultures. According to Matthew MacLachlan at Communicaid, "Making the assumption that your international workforce will be motivated by the same incentives can be dangerous and have a real impact on talent retention" (2016 n.p.).

Huhman, Heather R. 2017. "Employee Motivation Has to Be More Than 'a Pat on the Back.'" *Entrepreneur*. <https://www.entrepreneur.com/article/287770>

MacLachlan, Matthew. 2016. "Management Tips: How To Motivate Your International Workforce." *Communicaid*. <https://www.communicaid.com/cross-cultural-training/blog/motivating-international-workforce/>

Starrfmonline. 2017. "HR Today: Motivating People Starts With Right Attitude."

<http://starrfmonline.com/2017/03/30/hr-today-motivating-people-starts-with-right-attitude/#>

1. As a Western manager working in the Middle East or sub-Saharan Africa, what motivational issues might you face?
2. What problems would you expect a manager from a Confucian culture to encounter managing employees in America? In Europe?
3. What regional, cultural, or ethnic issues do you think managers have to navigate within the United States?

### *Expectancy Theory: An Integrative Theory of Motivation*

More so than any other motivation theory, expectancy theory can be tied into most concepts of what and how people become motivated. Consider the following examples.

1. *Need theories* state that we are motivated to satisfy our needs. We positively value outcomes that satisfy unmet needs, negatively value outcomes that thwart the satisfaction of unmet needs, and assign neutral values to outcomes that do neither. In effect, the need theories explain how valences are formed.
2. *Operant conditioning theories* state that we will probably repeat a response (behavior) in the future that was reinforced in the past (that is, followed by a positively valued consequence or the removal of a negatively valued consequence). This is the basic process involved in forming performance ➡ outcome expectancies. Both operant theories and expectancy theory argue that our interactions with our environment influence our future behavior. The primary difference is that expectancy theory explains this process in cognitive (rational) terms.
3. *Equity theories* state that our satisfaction with a set of outcomes depends not only on how we value them but also on the circumstances surrounding their receipt. Equity theory, therefore, explains part of the process shown in **Exhibit 10.7**. If we don't feel that the outcomes we receive are equitable compared to a referent other, we will associate a lower or even negative valence with those outcomes.
4. *Goal theory* can be integrated with the expanded expectancy model in several ways. Locke has noted that expectancy theory explains how we go about choosing a particular goal.<sup>34</sup> A reexamination of **Exhibit 10.7** reveals other similarities between goal theory and expectancy theory. Locke's use of the term "goal acceptance" to identify the personal adoption of a goal is similar to the "choice of an alternative" in the expectancy model. Locke's "goal commitment," the degree to which we commit to reaching our accepted (chosen) goal, is very much like the expectancy description of choice of effort level. Locke argues that the difficulty and specificity of a goal are major

determinants of the level of performance attempted (goal-directed effort), and expectancy theory appears to be consistent with this argument (even though expectancy theory is not as explicit on this point). We can reasonably conclude that the major underlying processes explored by the two models are very similar and will seldom lead to inconsistent recommendations.

## CONCEPT CHECK

1. Understand the process theories of motivation: operant conditioning, equity, goal, and expectancy theories.
2. Describe the managerial factors managers must consider when applying motivational approaches.

## Footnotes

- Sometimes E2s are called *instrumentalities*, because they are the perception that performance is instrumental in getting some desired outcome.
- It can also be expressed as an equation:

$$\text{Force to Choose} = E1 \times \sum (E2_o \times V_o) \text{ A level of Effort}$$

$$\text{Force to Choose} = E1 \times \sum (E2_o \times V_o) \text{ A level of Effort}$$

$$\text{Force to Choose} = E1 \times \sum (E2_o \times V_o) \text{ A level of Effort}$$

$$\text{Force to Choose} = E1 \times \sum (E2_o \times V_o) \text{ A level of Effort}$$

Where  $V_o$  is the valence of a given outcome (o), and  $E2_o$  is the perceived probability that a certain level of performance (e.g., Excellent, average, poor) will result in that outcome. So, for multiple outcomes, and different performance levels, the valence of the outcome and its associated performance → outcome expectancy (E2) are multiplied and added to the analogous value for the other outcomes. Combined with the E1 (the amount of effort required to produce a level of performance), the effort level with the greatest force associated with it will be chosen by the individual.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 10.4 - Recent Research on Motivation Theories

### 4. Describe the modern advancements in the study of human motivation.

Employee motivation continues to be a major focus in organizational behavior.<sup>35</sup> We briefly summarize current motivation research here.

### Content Theories

There is some interest in testing content theories (including Herzberg's two-factor theory), especially in international research. Need theories are still generally supported, with most people identifying such workplace factors as recognition, advancement, and opportunities to learn as the chief motivators for them. This is consistent with need satisfaction theories. However, most of this research does not include actual measures of employee performance. Thus, questions remain about whether the factors that employees say motivate them to perform actually do.

### Operant Conditioning Theory

There is considerable interest in operant conditioning theory, especially within the context of what has been called organizational behavior modification. Oddly enough, there has not been much research using operant conditioning theory in designing reward systems, even though there are obvious applications. Instead, much of the recent research on operant conditioning focuses on punishment and extinction. These studies seek to determine how to use punishment appropriately. Recent results still confirm that punishment should be used sparingly, should be used only after extinction does not work, and should not be excessive or destructive.

### Equity Theory

Equity theory continues to receive strong research support. The major criticism of equity theory, that the inputs and outcomes people use to evaluate equity are ill-defined, still holds. Because each person defines inputs and outcomes, researchers are not in a position to know them all. Nevertheless, for the major inputs (performance) and outcomes (pay), the theory is a strong one. Major applications of equity theory in recent years incorporate and extend the theory into the area called *organizational justice*. When employees receive rewards (or punishments), they evaluate them in terms of their fairness (as discussed earlier). This is *distributive justice*. Employees also assess rewards in terms of how fair the processes used to distribute them are. This is *procedural justice*. Thus during organizational downsizing, when employees lose their jobs, people ask whether the loss of work is fair (distributive justice). But they also assess the fairness of the process used to decide *who* is laid off (procedural justice). For example, layoffs based on seniority may be perceived as more fair than layoffs based on supervisors' opinions.

## Goal Theory

It remains true that difficult, specific goals result in better performance than easy and vague goals, assuming they are accepted. Recent research highlights the positive effects of performance feedback and goal commitment in the goal-setting process. Monetary incentives enhance motivation when they are tied to goal achievement, by increasing the level of goal commitment. There are negative sides to goal theory as well. If goals conflict, employees may sacrifice performance on important job duties. For example, if both quantitative and qualitative goals are set for performance, employees may emphasize quantity because this goal achievement is more visible.

## Expectancy Theory

The original formulation of expectancy theory specifies that the motivational force for choosing a level of effort is a function of the multiplication of expectancies and valences. Recent research demonstrates that the individual components predict performance just as well, without being multiplied. This does not diminish the value of expectancy theory. Recent research also suggests that high performance results not only when the valence is high, but also when employees set difficult goals for themselves.

One last comment on motivation: As the world of work changes, so will the methods organizations use to motivate employees. New rewards—time off instead of bonuses; stock options; on-site gyms, cleaners, and dental services; opportunities to telecommute; and others—will need to be created in order to motivate employees in the future. One useful path that modern researchers can undertake is to analyze the previous studies and aggregate the findings into more conclusive understanding of the topic through meta-analysis studies.<sup>36</sup>

## CATCHING THE ENTREPRENEURIAL SPIRIT

### *Entrepreneurs and Motivation*

Motivation can be difficult to elicit in employees. So what drives entrepreneurs, who by definition have to motivate themselves as well as others? While everyone from Greek philosophers to football coaches warn about undirected passion, a lack of passion will likely kill any start-up. An argument could be made that motivation is simply *part* of the discipline, or the *outcome* of remaining fixed on a purpose to mentally remind yourself of why you get up in the morning.

Working from her home in Egypt, at age 30 Yasmine El-Mehairy launched Supermama.me, a start-up aimed at providing information to mothers throughout the Arab world. When the company began, El-Mehairy worked full time at her day job and 60 hours a week after that getting the site established. She left her full-time job to manage the site full time in January 2011, and the site went live that October. El-Mehairy is motivated to keep moving forward, saying that if she stops, she might not get going again (Knowledge @ Wharton 2012).

For El-Mehairy, the motivation didn't come from a desire to work for a big company or travel the world and secure a master's degree from abroad. She had already done that. Rather, she said she was motivated to "do something that is useful and I want to do something on my own" (Knowledge @ Wharton 2012 n.p.).

Lauren Lipcon, who founded a company called Injury Funds Now, attributes her ability to stay motivated to three factors: purpose, giving back, and having fun outside of work. Lipcon believes that most entrepreneurs are not motivated by money, but by a sense of purpose. Personally, she left a job with Arthur Andersen to begin her own firm out of a desire to help people. She also thinks it is important for people to give back to their communities because the change the entrepreneur sees in the community loops back, increasing motivation and making the business more successful.

Lipcon believes that having a life outside of work helps keep the entrepreneur motivated. She particularly advocates for physical activity, which not only helps the body physically, but also helps keep the mind sharp and able to focus (Rashid 2017).

But do all entrepreneurs agree on what motivates them? A July 17, 2017 survey on the hearpreneur blog site asked 23 different entrepreneurs what motivated them. Seven of the 23 referred to some sense of purpose in what they were doing as a motivating factor, with one response stressing the importance of discovering one's "personal why." Of the remaining entrepreneurs, answers varied from keeping a positive attitude (three responses) and finding external sources (three responses) to meditation and prayer (two responses). One entrepreneur said his greatest motivator was fear: the fear of being in the same place financially one year in the future "causes me to take action and also alleviates my fear of risk" (Hear from Entrepreneurs 2017 n.p.). Only one of the 23 actually cited money and material success as a motivating factor to keep working.

However it is described, entrepreneurs seem to agree that passion and determination are key factors that carry them through the grind of the day-to-day.

Sources:

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Questions:

1. In the article from Hear from Entrepreneurs, one respondent called motivation "garbage"? Would you agree or disagree, and why?
2. How is staying motivated as an entrepreneur similar to being motivated to pursue a college degree? Do you think the two are related? How?
3. How would you expect motivation to vary across cultures?

## CONCEPT CHECK

1. Understand the modern approaches to motivation theory.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Key Terms

**ability**

The knowledge, skills, and receptiveness to learning that an individual brings to a task or job.

**avoidance learning**

Occurs when people learn to behave in a certain way to avoid encountering an undesired or unpleasant consequence.

**content motivation theories**

Theories that focus on what motivates people.

**direction**

What a person is motivated to achieve.

**effort-performance expectancy**

E1, the perceived probability that effort will lead to performance (or  $E \rightarrow P$ ).

**equity theory**

States that human motivation is affected by the outcomes people receive for their inputs, compared to the outcomes and inputs of other people.

**ERG theory**

Compresses Maslow's five need categories into three: existence, relatedness, and growth.

**expectancy theory**

Posits that people will exert high effort levels to perform at high levels so that they can obtain valued outcomes.

**extinction**

Occurs when a consequence or lack of a consequence makes it less likely that a behavior will be repeated in the future.

**extrinsic motivation**

Occurs when a person performs a given behavior to acquire something that will satisfy a lower-order need.

**extrinsic outcomes**

Are awarded or given by other people (like a supervisor).

**goal commitment**

The degree to which people dedicate themselves to achieving a goal.

**goal theory**

States that people will perform better if they have difficult, specific, accepted performance goals or objectives.

**hedonism**

Assumes that people are motivated to satisfy mainly their own needs (seek pleasure, avoid pain).

**hygienes**

Factors in the work environment that are based on the basic human need to "avoid pain."

**input**

Any personal qualities that a person views as having value and that are relevant to the organization.

**instincts**

Our natural, fundamental needs, basic to our survival.

**intensity**

(1) The degree to which people try to achieve their targets; (2) the forcefulness that enhances the likelihood that a stimulus will be selected for perceptual processing.

**intrinsic motivation**

Arises out of performing a behavior in and of itself, because it is interesting or "fun" to do.

**intrinsic outcomes**

Are awarded or given by people to themselves (such as a sense of achievement).

**latent needs**

Cannot be inferred from a person's behavior at a given time, yet the person may still possess those needs.

**manifest needs**

Are needs motivating a person at a given time.

**manifest needs theory**

Assumes that human behavior is driven by the desire to satisfy needs.

**motivation**

A force within or outside of the body that energizes, directs, and sustains human behavior. Within the body, examples might be needs, personal values, and goals, while an incentive might be seen as a force outside of the body. The word stems from its Latin root *movere*, which means "to move."

**motivators**

Relate to the jobs that people perform and people's ability to feel a sense of achievement as a result of performing them.

**motive**

A source of motivation; the need that a person is attempting to satisfy.

**need**

A human condition that becomes energized when people feel deficient in some respect.

**need for achievement (nAch)**

The need to excel at tasks, especially tasks that are difficult.

**need for affiliation (nAff)**

The need to establish and maintain warm and friendly relationships with other people.

**need for power (nPow)**

The need to control things, especially other people; reflects a motivation to influence and be responsible for other people.

**negative reinforcement**

Occurs when a behavior causes something undesirable to be removed, increasing the likelihood of the behavior reoccurring.

**nonreinforcement**

Occurs when no consequence follows a worker's behavior.

**operant conditioning**

A learning process based on the results produced by a person "operating on" the environment.

**operant conditioning theory**

Posits that people learn to behave in a particular fashion as a result of the consequences that followed their past behaviors.

**outcome**

Anything a person perceives as getting back from an organization in exchange for the person's inputs.

**overreward inequity**

Occurs when people perceive their outcome/input ratio to be greater than that of their referent other.

**performance environment**

Refers to those factors that impact employees' performance but are essentially out of their control.

**performance–outcome expectancy**

E2, the perceived relationship between performance and outcomes (or P ➡ O).

**positive reinforcement**

Occurs when a desirable consequence that satisfies an active need or removes a barrier to need satisfaction increases the likelihood of a behavior reoccurring.

**primary needs**

Are instinctual in nature and include physiological needs for food, water, and sex (procreation).



**process motivation theories**

Theories that focus on the how and why of motivation.

**punishment**

An aversive consequence that follows a behavior and makes it less likely to reoccur.

**referent others**

Workers that a person uses to compare inputs and outcomes, and who perform jobs similar in difficulty and complexity to the employee making an equity determination.

**reinforcement**

Occurs when a consequence makes it more likely a behavior will be repeated in the future.

**role perceptions**

The set of behaviors employees think they are expected to perform as members of an organization.

**schedules of reinforcement**

The frequency at which effective employee behaviors are reinforced.

**secondary needs**

Are learned throughout one's life span and are psychological in nature.

**self-determination theory (SDT)**

Seeks to explain not only what causes motivation, but also the effects of extrinsic rewards on intrinsic motivation.

**self-efficacy**

A belief about the probability that one can successfully execute some future action or task, or achieve some result.

**state of equity**

Occurs when people perceive their outcome/input ratio to be equal to that of their referent other.

**underreward inequity**

Occurs when people perceive their outcome/input ratio to be less than that of their referent other.

**valences**

The degree to which a person perceives an outcome as being desirable, neutral, or undesirable.

**work motivation**

The amount of effort a person exerts to achieve a level of job performance

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<https://openstax.org/subjects/view-all>

# Summary of Learning Outcomes

## 10.1 Motivation: Direction and Intensity

1. Define motivation, and distinguish direction and intensity of motivation.

This chapter has covered the major motivation theories in organizational behavior. Motivation theories endeavor to explain how people become motivated. Motivation has two major components: direction and intensity. Direction is what a person is trying to achieve. Intensity is the degree of effort a person expends to achieve the target. All motivation theories address the ways in which people develop direction and intensity.

## 10.2 Content Theories of Motivation

2. Describe a content theory of motivation, and compare and contrast the main content theories of motivation: manifest needs theory, learned needs theory, Maslow's hierarchy of needs, Alderfer's ERG theory, Herzberg's motivator-hygiene theory, and self-determination theory.

Motivation theories are classified as either content or process theories. Content theories focus on what motivates behavior. The basic premise of content theories is that humans have needs. When these needs are not satisfied, humans are motivated to satisfy the need. The need provides direction for motivation. Murray's manifest needs theory, McClelland's learned needs theory, Maslow's hierarchy of needs, and Herzberg's motivator-hygiene theory are all content theories. Each has something to say about the needs that motivate humans in the workplace.

## 10.3 Process Theories of Motivation

3. Describe the process theories of motivation, and compare and contrast the main process theories of motivation: operant conditioning theory, equity theory, goal theory, and expectancy theory.

Process theories focus on how people become motivated. Operant conditioning theory states that people will be motivated to engage in behaviors for which they have been reinforced (rewarded). It also states that people will avoid behaviors that are punished. The rate at which behaviors are rewarded also affects how often they will be displayed. Equity theory's main premise is that people compare their situations to those of other people. If a person feels that they are being treated unfairly relative to a referent other, the person may engage in behaviors that are counterproductive for the organization. Employers should try to develop feelings of fairness in employees. Goal theory is a strong theory. It states that difficult, specific goals will result in high performance if employees accept the goals and are committed to achieving them.

## 10.4 Recent Research on Motivation Theories

4. Describe the modern advancements in the study of human motivation.

Expectancy theory is a process theory. It also is the broadest of the motivation theories. Expectancy theory predicts that employees will be motivated to be high performers if they perceive that high performance leads to valued outcomes. Employees will be motivated to avoid being low performers if they perceive that it leads to negative outcomes. Employees must perceive that they are capable of achieving high performance, and they must have the appropriate abilities and high self-efficacy. Organizations need to provide adequate resources and to measure performance accurately. Inaccurate performance ratings discourage high performance. Overall, expectancy theory draws attention to how organizations structure the work environment and distribute rewards.

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# Chapter Review Questions

1. Discuss the benefits that accrue when an organization has a good understanding of employee needs.
2. How might Maslow explain why organizational rewards that motivate workers today may not motivate the same workers in 5 or 10 years?
3. Describe the process by which needs motivate workers.
4. Discuss the importance of Herzberg's motivators and hygienes.
5. Describe a work situation in which it would be appropriate to use a continuous reinforcement schedule.
6. Discuss the potential effectiveness and limitations of punishment in organizations.
7. How can equity theory explain why a person who receives a high salary might be dissatisfied with their pay?
8. Equity theory specifies a number of possible alternatives for reducing perceived inequity. How could an organization influence which of these alternatives a person will pursue?
9. What goals would be most likely to improve your learning and performance in an organizational behavior class?
10. Identify two reasons why a formal goal-setting program might be dysfunctional for an organization.
11. What steps can an organization take to increase the motivational force for high levels of performance?
12. Discuss how supervisors sometimes unintentionally weaken employees  $E \rightarrow P$  and  $P \rightarrow O$  expectancies.
13. How can an employee attach high valence to high levels of performance, yet not be motivated to be a high performer?
14. Is there "one best" motivation theory? Explain your answer.

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# Management Skills Application Exercises

1. Many companies strive to design jobs that are intrinsically motivating. Visit several small and large company websites and search their career section. What job features related to motivation are highlighted? What type of employees do you think the companies will attract with these jobs?
2. You will be paired with another student in this class. Each of you will take one side of the issue and debate:
  - a. Student A: All members of the organization should be given the same specific, difficult-to-achieve goals.
  - b. Student B: Specific, difficult-to-achieve goals should only be given to certain members of the organization.
3. Assume the role of sales manager, and write a memo to two of your reports that have the following situations and job performance.
  - a. Employee 1: Shawn is a onetime stellar performer. They were twice the top performing salesperson in the company in the past decade. In the past year, Shawn has missed goal by 4 percent. Shawn recently became the parent to twins and says that the reason for missing goal this year was due to the territory being saturated with product from previous years.
  - b. Employee 2: Soo Kim is an energetic salesperson who is putting in long hours and producing detailed sales reports, but their performance on the sales side has not met expectations. When you examine the customer feedback page on your website, you notice that they have five times as many positive reviews and glowing comments about Soo Kim.

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# Managerial Decision Exercises

1. You are a manager and it's performance appraisal time, which is a yearly exercise to provide feedback to your direct reports that is often stressful for both the employee and the manager. You feel that the feedback process should be more of an ongoing process than the yearly formal process. What are the benefits of this yearly process, and what, if any, are the drawbacks of providing both positive and remediation feedback to your direct reports?
2. You have been told by a worker on another team that one of your direct reports made an inappropriate comment to a coworker. What do you do to investigate the matter, and what actions would you take with your report, the person that the comment was directed to, and other people in the organization?
3. You learn that an employee who doesn't report to you has made an inappropriate comment to one of your direct reports. What do you do to investigate the matter, and what actions would you take with your report, the person that made the comment, their manager, and other people in the organization?
4. Your company is considering implementing a 360° appraisal system where up to 10 people in the organization provide feedback on every employee as part of the annual performance appraisal process. This feedback will come from subordinates, peers, and senior managers as well as individuals in other departments. You have been asked to prepare a memo to the director of human resources about the positive and negative effects this could have on the motivation of employees. Note that not all of the employees are on a bonus plan that will be impacted by this feedback.

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# Critical Thinking Case

## *Motivating Employees at JCPenney, Walmart, and Amazon in the Age of Online Shopping*

In the 1980s, Walmart had killed (or was killing) the mom-and-pop store. “Buy local” signs were seen, urging consumers to buy from their local retailers rather than from the low-cost behemoth. Markets have continued to shift and the “buy local” signs are still around, but now the battleground has shifted with the disruptive growth of e-commerce. Even mighty Walmart is feeling some growing pains.

Census Bureau data for 2017 shows that e-commerce, or online shopping, accounted for 8.9 percent of all retail sales in the United States, accounting for \$111.5 billion (U.S. Census Bureau 2017). Feeling the pinch, many malls across the country are closing their doors, and their empty retail spaces are being repurposed. Credit Suisse predicts that due to competition from online shopping, 20 to 25 percent of American malls will close within the next five years (Dying Malls Make Room for New Condos Apartment 2017). Furthermore, according to a 2017 study, 23 percent of Americans already purchase their groceries online (Embrace the Internet, Skip the Checkout 2017).

Whether face-to-face with customers or filling orders in a warehouse, motivated employees are essential to business success. And company culture helps drive that motivation. As a 2015 *Harvard Business Review* article put it, “Why we work determines how well we work” (McGregor & Doshi 2015). Adapting earlier research for the modern workplace, the study found six reasons that people work: play, purpose, potential, emotional pressure, economic pressure, and inertia. The first three are positive motives while the latter three are negative. The researchers found that role design, more than any other factor, had the highest impact on employee motivation.

Anecdotally, using role design to motivate employees can be seen across industries. Toyota allows factory workers to innovate new processes on the factory floor. Southwest Airlines encourages a sense of “play” among crewmembers who interact directly with passengers (which has resulted in some humorous viral videos). A sense of the organization’s identity (and a desire to be part of it) and how the career ladder within the company is perceived are second and third in their impact on employee motivation. Unhealthy competition for advancement can do more harm than good to employee motivation, and as a result many large companies are restructuring their performance review and advancement systems (McGregor & Doshi 2015). Conversely, costs from unmotivated employees can be high. In August 2017, retailer JCPenney had an employee arrested who had allegedly cost the company more than \$10,000 in stolen cash and under-rung merchandise at a mall store. Another employee had stolen more than \$1,000 of clothes from the store less than a month earlier.

Brick-and-mortar retail outlets from Macy’s to Walmart have come under pressure by increased online shopping, particularly at Amazon.com. Walmart has responded by both trying to improve the shopping experience in its stores and creating an online presence of its own. A recent study funded by Walmart found that 60 percent of retail workers lack proficiency in reading and 70 percent have difficulty with math (Class is in session at Walmart Academy 2017). Increasing math and team skills for the employees would increase efficiency and certainly help improve employee self-image and motivation. With this in mind, Walmart has created one of the largest employer training programs in the country, Walmart Academy (McGregor & Doshi 2015). The company expects to graduate more than 225,000 of its supervisors and managers from a program that covers topics such as merchandising and employee motivation. In another program, Pathways, Walmart has created a course that covers topics such as merchandising, communication, and retail math (Walmart 2016 Global Responsibility Report 2016). The Pathways program was expected to see 500,000 entry-level workers take part in 2016 (Walmart 2016). All employees who complete the course receive a dollar an hour pay increase. Educating employees pays off by recognizing that the effort put in pays off with better-motivated and better-educated employees. In the case of Walmart, “upskilling” has become a priority.

Walmart has gone beyond education to motivate or empower employees. In 2016, pay raises for 1.2 million employees took effect as part of a new minimum-wage policy, and it streamlined its paid time off program that same year (Schmid

2017). In its 2016 Global Responsibility Report, Walmart points out that over the course of two years, the company has invested \$2.7 billion in wages, benefits, and training in the United States (Staley 2017).

### Critical Thinking Questions

1. A 2015 *New York Times* article described Amazon as “a soulless, dystopian workplace where no fun is had and no laughter heard” (Cook 2015 n.p.). Employees themselves came to the company’s defense (Ciubotariu 2015). Does this reputation continue to haunt Amazon, or has it been addressed?
2. How do employees differ between a Walmart retail location and an Amazon order fulfillment center? How many white-collar or skilled jobs does Amazon have compared to Walmart?
3. With Amazon moving into the retail market with the purchase of Whole Foods, and with Walmart expanding its e-commerce, how are employee motivation challenges going to shift?

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# 11 - LEADERSHIP

## Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. What is the nature of leadership and the leadership process?
2. What are the processes associated with people coming to leadership positions?
3. How do leaders influence and move their followers to action?
4. What are the trait perspectives on leadership?
5. What are the behavioral perspectives on leadership?
6. What are the situational perspectives on leadership?
7. What does the concept “substitute for leadership” mean?
8. What are the characteristics of transactional, transformational, and charismatic leadership?
9. How do different approaches and styles of leadership impact what is needed now?

## EXPLORING MANAGERIAL CAREERS

### *John Arroyo: Springfield Sea Lions*

John Arroyo is thrilled with his new position as general manager of the Springfield Sea Lions, a minor league baseball team. Arroyo has been a baseball fan all of his life, and now his diligent work and his degree in sports management are paying off.

Arroyo knew he had a hard act to follow. The general manager whom John replaced, “T.J.” Grevin, was a much-loved old-timer who had been with the Sea Lions since their inception 14 years ago. John knew it would be difficult for whoever followed T.J., but he didn’t realize how ostracized and powerless he would feel. He tried a pep talk: “I’m the general manager—the CEO of this ball club! In time, the staff *will* respect me.” [Not a very good pep talk!]

After his first season ends, Arroyo is discouraged. Ticket and concession sales are down, and some long-time employees are rumored to be thinking about leaving. If John doesn’t turn things around, he knows his tenure with the Sea Lions will be short.

**Questions:** Is John correct in assuming that the staff will learn to respect him in time? What can John do to earn the loyalty of his staff and improve the ball club’s performance?

**Outcomes:** During the winter, John thinks long and hard about how he can earn the respect of the Sea Lions staff. Before the next season opener, John announces his plan: “So I can better understand what your day is like, I’m going to spend one day in each of your shoes. I’m trading places with each of you. I will be a ticket taker, a roving hot dog vendor, and a janitor. And I will be a marketer, and an accountant—for a day. You in turn will have the day off so you can enjoy the game from the general manager’s box.” The staff laughs and whistles appreciatively. Then the Springfield mascot, Sparky the Sea Lion, speaks up: “Hey Mr. Arroyo, are you going to spend a day in my flippers?” “You bet!” says John, laughing. The entire staff cheers.

John continues. “At the close of the season, we will honor a staff member with the T.J. Grevin Award for outstanding contributions to the Sea Lions organization. T.J. was such a great guy, it’s only right that we honor him.” The meeting

ends, but John's staff linger to tell him how excited they are about his ideas. Amidst the handshakes, he hopes that this year may be the best year yet for the Sea Lions.

According to Louise Axon, director of content strategy, and her colleagues at Harvard Business Publishing, in seeking management talent, *leadership* is an urgently needed quality in all managerial roles.<sup>1</sup> Good leaders and good leadership are rare. Harvard management professor John P. Kotter notes that "there is a leadership crisis in the U.S. today,"<sup>2</sup> and the late USC Professor Warren Bennis states that many of our organizations are overmanaged and underled.<sup>3</sup>

## 11.1 - The Nature of Leadership

### 1. What is the nature of leadership and the leadership process?

The many definitions of leadership each have a different emphasis. Some definitions consider leadership an act or behavior, such as initiating structure so group members know how to complete a task. Others consider a leader to be the center or nucleus of group activity, an instrument of goal achievement who has a certain personality, a form of persuasion and power, and the art of inducing compliance.<sup>4</sup> Some look at leadership in terms of the management of group processes. In this view, a good leader develops a vision for the group, communicates that vision,<sup>5</sup> orchestrates the group's energy and activity toward goal attainment, "[turns] a group of individuals into a team," and "[transforms] good intentions into positive actions."<sup>6</sup>

Leadership is frequently defined as a social (interpersonal) influence relationship between two or more persons who depend on each other to attain certain mutual goals in a group situation.<sup>7</sup> Effective leadership helps individuals and groups achieve their goals by focusing on the group's *maintenance needs* (the need for individuals to fit and work together by having, for example, shared norms) and *task needs* (the need for the group to make progress toward attaining the goal that brought them together).

### Leader versus Manager

The two dual concepts, leader and manager, leadership and management, are not interchangeable, nor are they redundant. The differences between the two can, however, be confusing. In many instances, to be a good manager one needs to be an effective leader. Many CEOs have been hired in the hope that their leadership skills, their ability to formulate a vision and get others to "buy into" that vision, will propel the organization forward. In addition, effective leadership often necessitates the ability to manage—to set goals; plan, devise, and implement strategy; make decisions and solve problems; and organize and control. For our purposes, the two sets of concepts can be contrasted in several ways.

First, we define the two concepts differently. In *Management and Organizational Behavior*, we defined management as a process consisting of planning, organizing, directing, and controlling. Here we define leadership as a social (interpersonal) influence relationship between two or more people who are dependent on each another for goal attainment.

Second, managers and leaders are commonly differentiated in terms of the processes through which they initially come to their position. Managers are generally appointed to their role. Even though many organizations appoint people to positions of leadership, leadership per se is a relationship that revolves around the followers' acceptance or rejection of the leader.<sup>8</sup> Thus, leaders often emerge out of events that unfold among members of a group.

Third, managers and leaders often differ in terms of the types and sources of the power they exercise. Managers commonly derive their power from the larger organization. Virtually all organizations legitimize the use of certain "carrots and sticks" (rewards and punishments) as ways of securing the compliance of their employees. In other words, by virtue of the position that a manager occupies (president, vice president, department head, supervisor), certain "rights to act" (schedule production, contract to sell a product, hire and fire) accompany the position and its place within the hierarchy of authority. Leaders can also secure power and the ability to exercise influence using carrots and sticks; however, it is much more common for leaders to derive power from followers' perception of their knowledge (expertise), their personality and attractiveness, and the working relationship that has developed between leaders and followers.

From the perspective of those who are under the leader's and manager's influence, the motivation to comply often has a different base. The subordinate to a manager frequently complies because of the role authority of the manager,

and because of the carrots and sticks that managers have at their disposal. The followers of a leader comply because they want to. Thus, leaders motivate primarily through intrinsic processes, while managers motivate primarily through extrinsic processes.

Finally, it is important to note that while managers may be successful in directing and supervising their subordinates, they often succeed or fail because of their ability or inability to lead.<sup>9</sup> As noted above, effective leadership often calls for the ability to manage, and effective management often requires leadership.

## CONCEPT CHECK

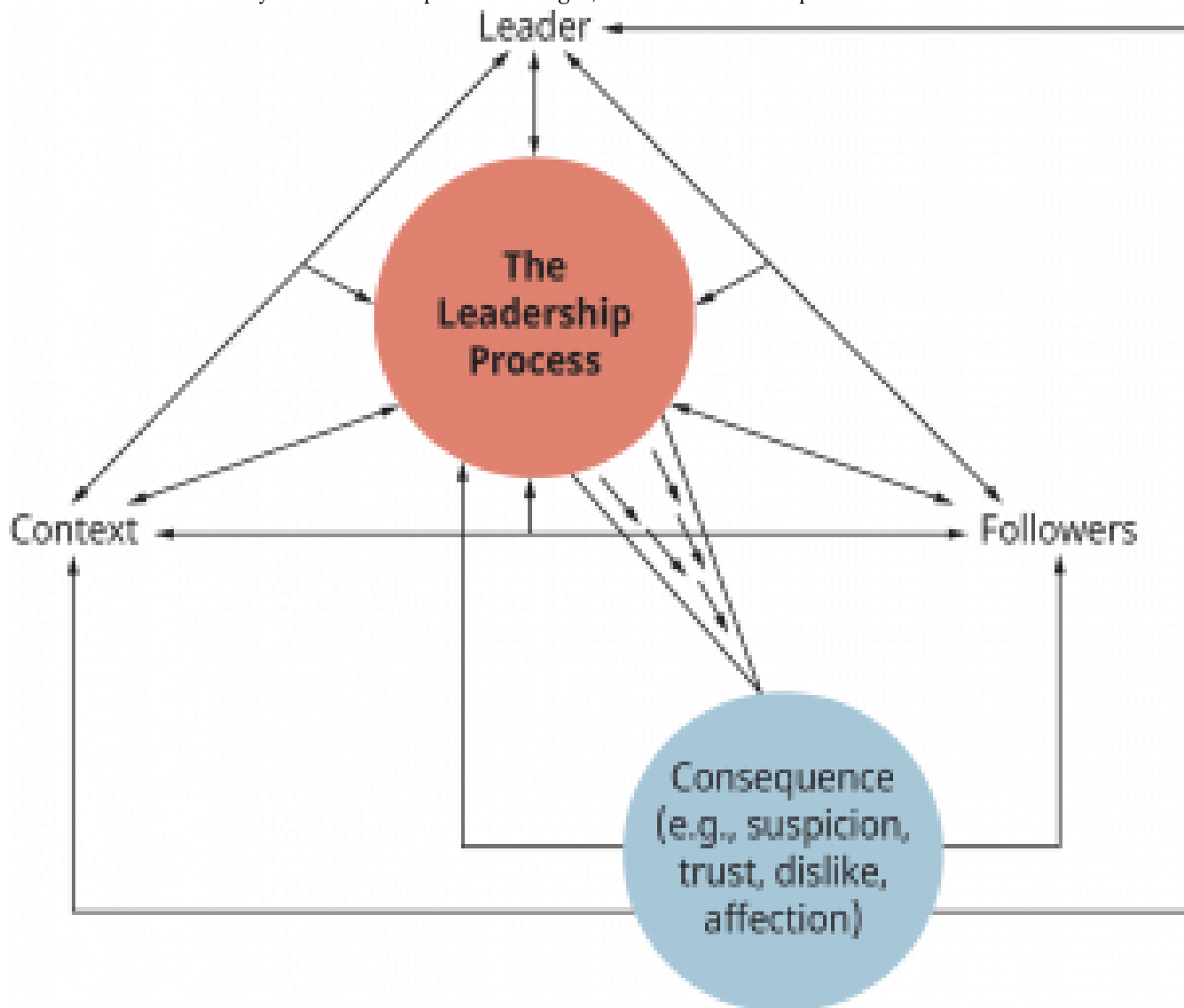
1. What is the nature of leadership and the leadership process?

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## 11.2 - The Leadership Process

### 2. What are the processes associated with people coming to leadership positions?

Leadership is a process, a complex and dynamic exchange relationship built over time between leader and follower and between leader and the group of followers who depend on each other to attain a mutually desired goal.<sup>10</sup> There are several key components to this “working relationship”: the leader, the followers, the context (situation), the leadership process per se, and the consequences (outcomes) (see **Exhibit 11.1**).<sup>11</sup> Across time, each component interacts with and influences the other components, and whatever consequences (such as leader-follower trust) are created influence future interactions. As any one of the components changes, so too will leadership.<sup>12</sup>



**Exhibit 11.1** The Leadership Process (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## The Leader

Leaders are people who take charge of or guide the activities of others. They are often seen as the focus or orchestrator of group activity, the people who set the tone of the group so that it can move forward to attain its goals. Leaders provide the group with what is required to fulfill its maintenance and task-related needs. (Later in the chapter, we will return to the “leader as a person” as part of our discussion of the trait approach to leadership.)

## The Follower

The follower is not a passive player in the leadership process. Edwin Hollander, after many years of studying leadership, suggested that the follower is the most critical factor in any leadership event.<sup>13</sup> It is, after all, the follower who perceives the situation and comes to define the needs that the leader must fulfill. In addition, it is the follower who either rejects leadership or accepts acts of leadership by surrendering his power to the leader to diminish task uncertainty, to define and manage the meaning of the situation to the follower, and to orchestrate the follower's action in pursuit of goal attainment.

The follower's personality and readiness to follow determine the style of leadership that will be most effective. For example, individuals with an internal locus of control are much more responsive to participative styles of leadership than individuals with an external locus of control.<sup>14</sup> Individuals with an authoritarian personality are highly receptive to the effectiveness of directive acts of leadership.<sup>15</sup> It is the followers' expectations, as well as their performance-based needs, that determine what a leader must do in order to be effective.

The strength of the follower's self-concept has also been linked to the leadership process. High-self-esteem individuals tend to have a strong sense of self-efficacy, that is, a generalized belief they can be successful in difficult situations. They therefore tend to be strongly motivated to perform and persist in the face of adversity.<sup>16</sup> The high-self-esteem follower tends to be responsive to participative styles of leadership. Low-self-esteem individuals, who doubt their competence and worthiness and their ability to succeed in difficult situations, function better with supportive forms of leadership. This helps them deal with the stress, frustration, and anxiety that often emerge with difficult tasks. Followers without a readiness to follow, limited by their inability to perform and lack of motivation and commitment, usually need more directive forms of leadership.<sup>17</sup>

Follower behavior plays a major role in determining what behaviors leaders engage in. For example, followers who perform at high levels tend to cause their leaders to be considerate in their treatment and to play a less directive role. Followers who are poor performers, on the other hand, tend to cause their leaders to be less warm toward them and to be more directive and controlling in their leadership style.<sup>18</sup>

## The Context

Situations make demands on a group and its members, and not all situations are the same. Context refers to the situation that surrounds the leader and the followers. Situations are multidimensional. We discuss the context as it pertains to leadership in greater detail later in this chapter, but for now let's look at it in terms of the task and task environment that confront the group. Is the task structured or unstructured? Are the goals of the group clear or ambiguous? Is there agreement or disagreement about goals? Is there a body of knowledge that can guide task performance? Is the task boring? Frustrating? Intrinsically satisfying? Is the environment complex or simple, stable or unstable? These factors create different contexts within which leadership unfolds, and each factor places a different set of needs and demands on the leader and on the followers.

## The Process

The process of leadership is separate and distinct from the leader (the person who occupies a central role in the group). The process is a complex, interactive, and dynamic working relationship between leader and followers. This working relationship, built over time, is directed toward fulfilling the group's maintenance and task needs. Part of the process consists of an exchange relationship between the leader and follower. The leader provides a resource directed toward fulfilling the group's needs, and the group gives compliance, recognition, and esteem to the leader. To the extent that leadership is the exercise of influence, part of the leadership process is captured by the surrender of power by the followers and the exercise of influence over the followers by the leader.<sup>19</sup> Thus, the leader influences the followers and the followers influence the leader, the context influences the leader and the followers, and both leader and followers influence the context.

### The Consequences

A number of outcomes or consequences of the leadership process unfold between leader, follower, and situation. At the group level, two outcomes are important:

- Have the group's maintenance needs been fulfilled? That is, do members of the group like and get along with one another, do they have a shared set of norms and values, and have they developed a good working relationship? Have individuals' needs been fulfilled as reflected in attendance, motivation, performance, satisfaction, citizenship, trust, and maintenance of the group membership?
- Have the group's task needs been met? That is, there are also important consequences of the leadership process for individuals: attendance, motivation, performance, satisfaction, citizenship, trust, and maintenance of their group membership.

The leader-member exchange (LMX) theory of the leadership process focuses attention on consequences associated with the leadership process. The theory views leadership as consisting of a number of dyadic relationships linking the leader with a follower. A leader-follower relationship tends to develop quickly and remains relatively stable over time. The quality of the relationship is reflected by the degree of mutual trust, loyalty, support, respect, and obligation. High- and low-quality relationships between a leader and each of his followers produce in and out groups among the followers. Members of the in group come to be key players, and high-quality exchange relationships tend to be associated with higher levels of performance, commitment, and satisfaction than are low-quality exchange relationships.<sup>20</sup> Attitudinal similarity and extroversion appear to be associated with a high-quality leader-member relationship.<sup>21</sup>

The nature of the leadership process varies substantially depending on the leader, the followers, and the situation and context. Thus, leadership is the function of an interaction between the leader, the follower, and the context.

The leadership context for the leader of a group of assembly line production workers differs from the context for the leader of a self-managing production team and from the context confronted by the lead scientists in a research laboratory. The leadership tactics that work in the first context might fail miserably in the latter two.

## CATCHING THE ENTREPRENEURIAL SPIRIT

### *How a Start-Up Finds the Right Leader*

Start-ups, by their very nature, require innovation to bring new products and services to market. Along with establishing a new brand or product, the leader has to develop the relationships and processes that make a company succeed, or risk its early demise. While leading an established firm has its challenges, a start-up requires even more from a leader.

How critical is leadership to a start-up? Ask the four cofounders of the now-defunct PYP (Pretty Young Professionals), a website founded as a source of information for young professional women. What began as four young professional women working on a new start-up ended with hurt feelings and threats of legal action. In 2010, Kathryn Minshew, Amanda Pouchot, Caroline Ghosn, and Alex Cavoulacos decided to create the website and Minshew was named CEO (Cohan 2011a). Lines blurred about Minshew's authority and the ultimate look, feel, and direction of the website. Ideals about shared leadership, where the company was going, and how it was going to get there ultimately got lost in the power shuffle. By June 2011, passwords were changed and legal actions began, and in August Minshew and Cavoulacos left altogether (Cohan 2011b).

When the legal haggling from PYP was over, Alex Cavoulacos and Kathryn Minshew, joined by Melissa McCreery, tried again. But this time, rather than hoping for the best, they put a leadership plan in place. Minshew was named CEO of the new start-up, The Daily Muse, with Cavoulacos as chief operating officer and McCreery as editor in chief. Rather than trusting to luck, the three cofounders based their team positions on strengths and personalities. Cavoulacos and McCreery agreed that Minshew's outgoing personality and confidence made her the proper choice as CEO (Casserly 2013).

No single trait will guarantee that a person can lead a start-up from idea to greatness, but a survey of successful entrepreneurs does show some common traits. According to David Barbash, a partner at Boston-based law firm Posternak Blankstein & Lund LLP, personality is paramount: "You can have great technology but if you're not a great communicator it may die in the lab" (Casserly 2013 n.p.). A start-up needs a leader who is confident and willing, if not eager, to face the future. According to Michelle Randall, a principal of Enriching Leadership International, start-up CEOs have to be willing to fundraise and not be too proud to beg (Casserly 2013). Peter Shankman, an entrepreneur and angel investor, says leaders have to be willing to make the hard decisions, even risking being the bad guy (Casserly 2013).

Gary Vaynerchuk credits his success to six factors. Angel investor, social media marketer, and early social media adopter, Vaynerchuk leveraged YouTube in its early years to market wine from the family's liquor store, eventually increasing sales from \$3 million to \$60 million a year (Clifford 2017). Gary believes good leaders recognize that they don't dictate to the market, but rather respond to where it is going. They have respect for and believe in other people, and have a strong work ethic, what Vaynerchuk called a "lunch pail work ethic": they are willing to put in long hours because they love the work, not the perks. He also stresses that he loves technology and doesn't fear it, is obsessed with the youth of today, and is optimistic about people and the future of humanity (Vaynerchuk 2017).

Leading a startup requires more than simple management. It requires the right leader for the right



company at the right time, which means matching the right management skills with the proper flexibility and drive to keep it all together and moving in the right direction.

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1. Why would start-up leaders need different leadership qualities than someone managing an established firm?
2. Vaynerchuk has been quoted as saying that if you live for Friday, get a different job. How does this apply to successful entrepreneurs?

## CONCEPT CHECK

1. What are the processes associated with people coming to leadership positions?

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## 11.3 - Leader Emergence

### 3. How do leaders influence and move their followers to action?

Leaders hold a unique position in their groups, exercising influence and providing direction. Leonard Bernstein was part of the symphony, but his role as the New York Philharmonic conductor differed dramatically from that of the other symphony members. Besides conducting the orchestra, he created a vision for the symphony. In this capacity, leadership can be seen as a differentiated role and the nucleus of group activity.

Organizations have two kinds of leaders: formal and informal. A formal leader is that individual who is recognized by those outside the group as the official leader of the group. Often, the formal leader is appointed by the organization to serve in a formal capacity as an agent of the organization. Jack Welch was the formal leader of General Electric, and Leonard Bernstein was the formal leader of the symphony. Practically all managers act as formal leaders as part of their assigned role. Organizations that use self-managed work teams allow members of the team to select the individual who will serve as their team leader. When this person's role is sanctioned by the formal organization, these team leaders become formal leaders. Increasingly, leaders in organizations will be those who "best sell" their ideas on how to complete a project—persuasiveness and inspiration are important ingredients in the leadership equation, especially in high-involvement organizations.<sup>22</sup>

Informal leaders, by contrast, are not assigned by the organization. The informal leader is that individual whom members of the group acknowledge as their leader. Athletic teams often have informal leaders, individuals who exert considerable influence on team members even though they hold no official, formal leadership position. In fact, most work groups contain at least one informal leader. Just like formal leaders, informal leaders can benefit or harm an organization depending on whether their influence encourages group members to behave consistently with organizational goals.

As we have noted, the terms *leader* and *manager* are not synonymous. Grace Hopper, retired U.S. Navy admiral, draws a distinction between leading and managing: "You don't manage people, you manage *things*. You lead *people*."<sup>23</sup> Informal leaders often have considerable leverage over their colleagues. Traditionally, the roles of informal leaders have not included the total set of management responsibilities because an informal leader does not always exercise the functions of planning, organizing, directing, and controlling. However, high-involvement organizations frequently encourage their formal and informal leaders to exercise the full set of management roles. Many consider such actions necessary for self-managing work teams to succeed. Informal leaders are acknowledged by the group, and the group willingly responds to their leadership.

## Paths to Leadership

People come to leadership positions through two dynamics. In many instances, people are put into positions of leadership by forces outside the group. University-based ROTC programs and military academies (like West Point) formally groom people to be leaders. We refer to this person as the designated leader (in this instance the designated and formal leader are the same person). Emergent leaders, on the other hand, arise from the dynamics and processes that unfold within and among a group of individuals as they endeavor to achieve a collective goal.

A variety of processes help us understand how leaders emerge. Gerald Salancik and Jeffrey Pfeffer observe that power to influence others flows to those individuals who possess the critical and scarce resources (often knowledge and expertise) that a group needs to overcome a major problem.<sup>24</sup> They note that the dominant coalition and leadership in American corporations during the 1950s was among engineers, because organizations were engaged in competition based on product design. The power base in many organizations shifted to marketing as competition became a game of

advertising aimed at differentiating products in the consumer's mind. About 10–15 years ago, power and leadership once again shifted, this time to people with finance and legal backgrounds, because the critical contingencies facing many organizations were mergers, acquisitions, hostile takeovers, and creative financing. Thus, Salancik and Pfeffer reason that power and thus leadership flow to those individuals who have the ability to help an organization or group [overcome its critical contingencies]. As the challenges facing a group change, so too may the flow of power and leadership.

Many leaders emerge out of the needs of the situation. Different situations call for different configurations of knowledge, skills, and abilities. A group often turns to the member who possesses the knowledge, skills, and abilities that the group requires to achieve its goals.<sup>25</sup> People surrender their power to individuals whom they believe will make meaningful contributions to attaining group goals.<sup>26</sup> The individual to whom power is surrendered is often a member of the group who is in good standing. As a result of this member's contributions to the group's goals, he has accumulated *idiosyncrasy credits* (a form of competency-based status). These credits give the individual a status that allows him to influence the direction that the group takes as it works to achieve its goals.<sup>27</sup>

It is important to recognize that the traits possessed by certain individuals contribute significantly to their emergence as leaders. Research indicates that people are unlikely to follow individuals who, for example, do not display drive, self-confidence, knowledge of the situation, honesty, and integrity.

## Leadership as an Exercise of Influence

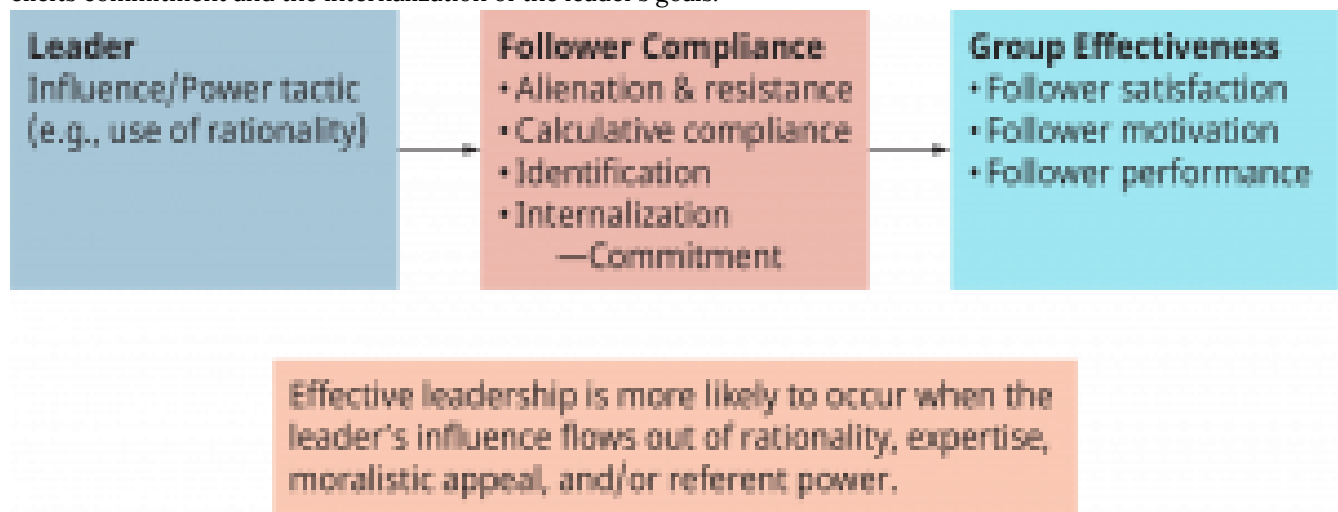
As we have noted, leadership is the exercise of influence over those who depend on one another for attaining a mutual goal in a group setting. But *how* do leaders effectively exercise this influence? *Social or (interpersonal) influence* is one's ability to effect a change in the motivation, attitudes, and/or behaviors of others. *Power*, then, essentially answers the "how" question: How do leaders influence their followers? The answer often is that a leader's social influence is the source of his power.

French and Raven provide us with a useful typology that identifies the sources and types of power that may be at the disposal of leaders:

- *Reward power*—the power a person has because people believe that they can bestow rewards or outcomes, such as money or recognition that others desire
- *Coercive power*—the power a person has because people believe that the person can punish them by inflicting pain or by withholding or taking away something that they value
- *Referent power*—the power a person has because others want to associate with or be accepted by him
- *Expert power*—the power a person has because others believe that the person has and is willing to share expert knowledge that they need (The concept of *resource power* extends the idea of expert power to include the power that a person has because others believe that the person possesses and is willing to share resources, such as information, time, or materials that are needed.)
- *Legitimate power*—the power a person has because others believe that the person possesses the "right" to influence them and that they ought to obey. This right can originate in tradition; in the charisma or appeal of the person; and in laws, institutional roles within society, moralistic appeal, and rationality (that is, logical arguments, factual evidence, reason, and internally consistent positions).<sup>28</sup>

Not all forms of power are equally effective (see **Exhibit 11.2**), nor is a leader's total power base the simple sum of the powers at his disposal. Different types of power elicit different forms of compliance: Leaders who rely on coercive power often alienate followers who resist their influence attempts. Leaders who rely on reward power develop followers who are very measured in their responses to [what?]; the use of rewards often leads people to think in terms of "How much am I getting?" or "How much should I give?" or "Am I breaking even?" The use of referent power produces

identification with the leader and his cause. The use of rationality, expert power, and/or moralistic appeal generally elicits commitment and the internalization of the leader's goals.<sup>29</sup>



**Exhibit 11.2** The Leader-Follower Power Relationship

Leaders who use referent and expert power commonly experience a favorable response in terms of follower satisfaction and performance. Research suggests that rationality is the most effective influence tactic in terms of its impact on follower commitment, motivation, performance, satisfaction, and group effectiveness.<sup>30</sup>

Reward and legitimate power (that is, relying on one's position to influence others) produce inconsistent results. Sometimes these powers lead to follower performance and satisfaction, yet they also sometimes fail. Coercive power can result in favorable performance, yet follower and resistance dissatisfaction are not uncommon.

Good leaders, whether formal or informal, develop many sources of power. Leaders who rely solely on their legitimate power and authority seldom generate the influence necessary to help their organization and its members succeed. In the process of building their power base, effective leaders have discovered that the use of coercive power tends to dilute the effectiveness of other powers, while the development and use of referent power tends to magnify the effectiveness of other forms of power. A compliment or reward from a person we like generally has greater value than one from someone we dislike, and punishment from someone we love (such as "tough love" from a parent) is less offensive than the pain inflicted by someone we dislike.<sup>31</sup>

In sum, one key to effective leadership, especially as it pertains to the exercise of social and interpersonal influence, relates to the type of power employed by the leader. Overall leader effectiveness will be higher when people follow because they want to follow. This is much more likely to happen when the leader's influence flows out of intrinsic such as rationality, expertise, moralistic appeal, and/or referent power.

Leadership is also about having a vision and communicating that vision to others in such a way that it provides meaning for the follower.<sup>32</sup> Language, ritual, drama, myths, symbolic constructions, and stories are some of the tools leaders use to capture the attention of their "followers to be" to evoke emotion and to manage the meaning "of the task (challenges) facing the group."<sup>33</sup> These tools help the leader influence the attitudes, motivation, and behavior of their followers.

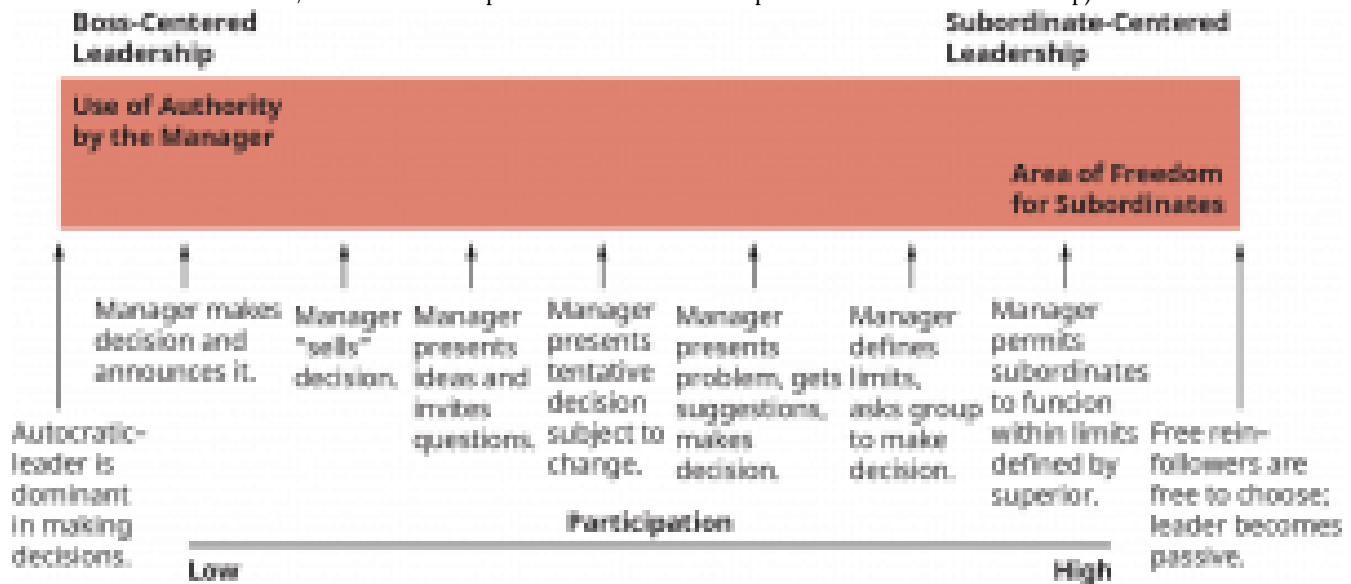
## Influence-Based Leadership Styles

Many writers and researchers have explored how leaders can use power to address the needs of various situations. One view holds that in traditional organizations members expect to be told what to do and are willing to follow highly structured directions. Individuals attracted to high-involvement organizations, however, want to make their own

decisions, expect their leaders to allow them to do so, and are willing to accept and act on this responsibility. This suggests that a leader may use and employ power in a variety of ways.

### The Tannenbaum and Schmidt Continuum

In the 1950s, Tannenbaum and Schmidt created a continuum (see **Exhibit 11.3**) along which leadership styles range from authoritarian to extremely high levels of worker freedom.<sup>34</sup> Subsequent to Tannenbaum and Schmidt's work, researchers adapted the continuum by categorizing leader power styles as *autocratic* (boss-centered), *participative* (workers are consulted and involved), or *free-rein* (members are assigned the work and decide on their own how to do it; the leader relinquishes the active assumption of the role of leadership).<sup>35</sup>



**Exhibit 11.3** Tannenbaum and Schmidt's Leadership Continuum Source: Modified from R. Tannenbaum and W. H. Schmidt. May–June 1971. How to choose a leadership pattern. *Harvard Business Review*, 167.

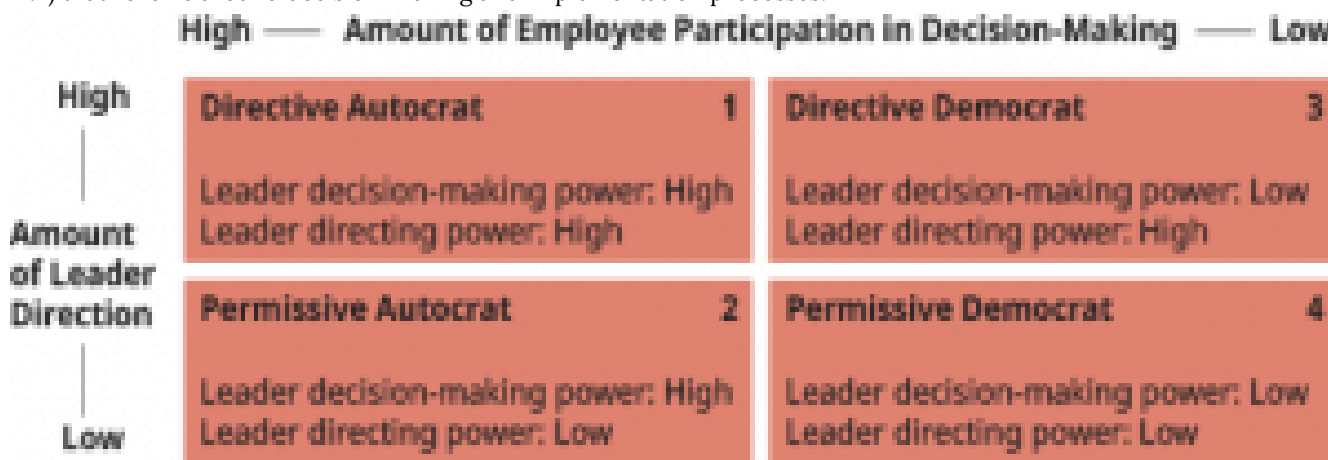
### Theory X and Theory Y Leaders

McGregor's Theory X and Theory Y posits two different sets of attitudes about the individual as an organizational member.<sup>36</sup> Theory X and Y thinking gives rise to two different styles of leadership. The *Theory X leader* assumes that the average individual dislikes work and is incapable of exercising adequate self-direction and self-control. As a consequence, they exert a highly controlling leadership style. In contrast, *Theory Y leaders* believe that people have creative capacities, as well as both the ability and desire to exercise self-direction and self-control. They typically allow organizational members significant amounts of discretion in their jobs and encourage them to participate in departmental and organizational decision-making. Theory Y leaders are much more likely to adopt involvement-oriented approaches to leadership and organically designed organizations for their leadership group.

Theory X and Theory Y thinking and leadership are not strictly an American phenomenon. Evidence suggests that managers from different parts of the global community commonly hold the same view. A study of 3,600 managers from 14 countries reveals that most of them held assumptions about human nature that could best be classified as Theory X.<sup>37</sup> Even though managers might publicly endorse the merits of participatory management, most of them doubted their workers' capacities to exercise self-direction and self-control and to contribute creatively.<sup>38</sup>

## Directive/Permissive Leadership Styles

Contemplating the central role of problem-solving in management and leadership, Jan P. Muczyk and Bernard C. Reimann of Cleveland State University offer an interesting perspective on four different leadership styles (see **Exhibit 11.4**) that revolve around decision-making and implementation processes.<sup>39</sup>



**Exhibit 11.4** Leadership Behavior and the Uses of Power **Source:** Modified from J. P. Muczyk and B. C. Reimann. 1987. The case for directive leadership. *Academy of Management Executive*, 1:304.

A *directive autocrat* retains power, makes unilateral decisions, and closely supervises workers' activities. This style of leadership is seen as appropriate when circumstances require quick decisions and organizational members are new, inexperienced, or underqualified. A doctor in charge of a hastily constructed shelter for victims of a tornado may use this style to command nonmedical volunteers.

The *permissive autocrat* mixes his or her use of power by retaining decision-making power but permitting organizational members to exercise discretion when executing those decisions. This leader behavior is recommended when decision-making time is limited, when tasks are routine, or when organizational members have sufficient expertise to determine appropriate role behaviors.

Also sharing power is the *directive democrat*, who encourages participative decision-making but retains the power to direct team members in the execution of their roles. This style is appropriate when followers have valuable opinions and ideas, but one person needs to coordinate the execution of the ideas. A surgeon might allow the entire surgical team to participate in developing a plan for a surgical procedure. Once surgery begins, however, the surgeon is completely in charge.

Finally, the *permissive democrat* shares power with group members, soliciting involvement in both decision-making and execution. This style is appropriate when participation has both informational and motivational value, when time permits group decision-making, when group members are capable of improving decision quality, and when followers are capable of exercising self-management in their performance of work.

The permissive democratic approach to leadership is characteristic of leadership in high-involvement organizations. Here, leaders act as facilitators, process consultants, network builders, conflict managers, inspirationalists, coaches, teachers/mentors, and cheerleaders.<sup>40</sup> Such is the role of Ralph Stayer, founder, owner, and CEO of Johnsonville Foods. He defines himself as his company's philosopher. At Quad/Graphics, president Harry V. Quadracci is a permissive democrat because he encourages all Quad employees to play a major role in decision-making and execution as they manage their teams as independent profit centers.

## CONCEPT CHECK

1. What is the role of the leader and follower in the leadership process?
2. How do the theories of Tannenbaum and Schmidt's leadership continuum and McGregor's Theory X and Theory Y attempt to define leadership?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 11.4 - The Trait Approach to Leadership

### 4. What are the trait perspectives on leadership?

Ancient Greek, Roman, Egyptian, and Chinese scholars were keenly interested in leaders and leadership. Their writings portray leaders as heroes. Homer, in his poem *The Odyssey*, portrays Odysseus during and after the Trojan War as a great leader who had vision and self-confidence. His son Telemachus, under the tutelage of Mentor, developed his father's courage and leadership skills.<sup>41</sup> Out of such stories there emerged the "great man" theory of leadership, and a starting point for the contemporary study of leadership.

The great man theory of leadership states that some people are born with the necessary attributes to be great leaders. Alexander the Great, Julius Caesar, Joan of Arc, Catherine the Great, Napoleon, and Mahatma Gandhi are cited as naturally great leaders, born with a set of personal qualities that made them effective leaders. Even today, the belief that truly great leaders are born is common. For example, Kenneth Labich, writer for *Fortune* magazine, commented that "the best leaders seem to possess a God-given spark."<sup>42</sup>

During the early 1900s, scholars endeavored to understand leaders and leadership. They wanted to know, from an organizational perspective, what characteristics leaders hold in common in the hope that people with these characteristics could be identified, recruited, and placed in key organizational positions. This gave rise to early research efforts and to what is referred to as the *trait approach to leadership*. Prompted by the great man theory of leadership and the emerging interest in understanding what leadership is, researchers focused on the leader—Who is a leader? What are the distinguishing characteristics of the great and effective leaders? The great man theory of leadership holds that some people are born with a set of personal qualities that make truly great leaders. Mahatma Gandhi is often cited as a naturally great leader.

### Leader Trait Research

Ralph Stogdill, while on the faculty at The Ohio State University, pioneered our modern (late 20th century) study of leadership.<sup>43</sup> Scholars taking the trait approach attempted to identify physiological (appearance, height, and weight), demographic (age, education, and socioeconomic background), personality (dominance, self-confidence, and aggressiveness), intellectual (intelligence, decisiveness, judgment, and knowledge), task-related (achievement drive, initiative, and persistence), and social characteristics (sociability and cooperativeness) with leader emergence and leader effectiveness. After reviewing several hundred studies of leader traits, Stogdill in 1974 described the successful leader this way:

The [successful] leader is characterized by a strong drive for responsibility and task completion, vigor and persistence in pursuit of goals, venturesomeness and originality in problem solving, drive to exercise initiative in social situations, self-confidence and sense of personal identity, willingness to accept consequences of decision and action, readiness to absorb interpersonal stress, willingness to tolerate frustration and delay, ability to influence other person's behavior, and capacity to structure social interaction systems to the purpose at hand.<sup>44</sup>

The last three decades of the 20th century witnessed continued exploration of the relationship between traits and both leader emergence and leader effectiveness. Edwin Locke from the University of Maryland and a number of his research associates, in their recent review of the trait research, observed that successful leaders possess a set of core characteristics that are different from those of other people.<sup>45</sup> Although these core traits do not solely determine whether a person will be a leader—or a successful leader—they are seen as preconditions that endow people with leadership potential. Among the core traits identified are:

- *Drive*—a high level of effort, including a strong desire for achievement as well as high levels of ambition, energy,



tenacity, and initiative

- *Leadership motivation*—an intense desire to lead others
- *Honesty and integrity*—a commitment to the truth (nondeceit), where word and deed correspond
- *Self-confidence*—an assurance in one's self, one's ideas, and one's ability
- *Cognitive ability*—conceptually skilled, capable of exercising good judgment, having strong analytical abilities, possessing the capacity to think strategically and multidimensionally
- *Knowledge of the business*—a high degree of understanding of the company, industry, and technical matters
- *Other traits*—charisma, creativity/originality, and flexibility/adaptiveness<sup>46</sup>

While leaders may be “people with the right stuff,” effective leadership requires more than simply possessing the correct set of motives and traits. Knowledge, skills, ability, vision, strategy, and effective vision implementation are all necessary for the person who has the “right stuff” to realize their leadership potential.<sup>47</sup> According to Locke, people endowed with these traits engage in behaviors that are associated with leadership. As followers, people are attracted to and inclined to follow individuals who display, for example, honesty and integrity, self-confidence, and the motivation to lead.

Personality psychologists remind us that behavior is a result of an interaction between the person and the situation—that is,  $\text{Behavior} = f[(\text{Person})(\text{Situation})]$ . To this, psychologist Walter Mischel adds the important observation that personality tends to get expressed through an individual's behavior in “weak” situations and to be suppressed in “strong” situations.<sup>48</sup> A strong situation is one with strong behavioral norms and rules, strong incentives, clear expectations, and rewards for a particular behavior. Our characterization of the mechanistic organization with its well-defined hierarchy of authority, jobs, and standard operating procedures exemplifies a strong situation. The organic social system exemplifies a weak situation. From a leadership perspective, a person's traits play a stronger role in their leader behavior and ultimately leader effectiveness when the situation permits the expression of their disposition. Thus, personality traits prominently shape leader behavior in weak situations.

Finally, about the validity of the “great person approach to leadership”: Evidence accumulated to date does not provide a strong base of support for the notion that leaders are born. Yet, the study of twins at the University of Minnesota leaves open the possibility that part of the answer might be found in our genes. Many personality traits and vocational interests (which might be related to one's interest in assuming responsibility for others and the motivation to lead) have been found to be related to our “genetic dispositions” as well as to our life experiences.<sup>49</sup> Each core trait recently identified by Locke and his associates traces a significant part of its existence to life experiences. Thus, a person is not born with self-confidence. Self-confidence is developed, honesty and integrity are a matter of personal choice, motivation to lead comes from within the individual and is within his control, and knowledge of the business can be acquired. While cognitive ability does in part find its origin in the genes, it still needs to be developed. Finally, drive, as a dispositional trait, may also have a genetic component, but it too can be self- and other-encouraged. It goes without saying that none of these ingredients are acquired overnight.

## Other Leader Traits

Sex and gender, disposition, and self-monitoring also play an important role in leader emergence and leader style.

### *Sex and Gender Role*

Much research has gone into understanding the role of sex and gender in leadership.<sup>50</sup> Two major avenues have been explored: sex and gender roles in relation to leader emergence, and whether style differences exist across the sexes.

Evidence supports the observation that men emerge as leaders more frequently than women.<sup>51</sup> Throughout history, few women have been in positions where they could develop or exercise leadership behaviors. In contemporary society,

being perceived as experts appears to play an important role in the emergence of women as leaders. Yet, gender role is more predictive than sex. Individuals with “masculine” (for example, assertive, aggressive, competitive, willing to take a stand) as opposed to “feminine” (cheerful, affectionate, sympathetic, gentle) characteristics are more likely to emerge in leadership roles.<sup>52</sup> In our society males are frequently socialized to possess the masculine characteristics, while females are more frequently socialized to possess the feminine characteristics.

Recent evidence, however, suggests that individuals who are androgynous (that is, who simultaneously possess both masculine and feminine characteristics) are as likely to emerge in leadership roles as individuals with only masculine characteristics. This suggests that possessing feminine qualities does not distract from the attractiveness of the individual as a leader.<sup>53</sup>

With regard to leadership style, researchers have looked to see if male-female differences exist in task and interpersonal styles, and whether or not differences exist in how autocratic or democratic men and women are. The answer is, when it comes to interpersonal versus task orientation, differences between men and women appear to be marginal. Women are somewhat more concerned with meeting the group's interpersonal needs, while men are somewhat more concerned with meeting the group's task needs. Big differences emerge in terms of democratic versus autocratic leadership styles. Men tend to be more autocratic or directive, while women are more likely to adopt a more democratic/participative leadership style.<sup>54</sup> In fact, it may be because men are more directive that they are seen as key to goal attainment and they are turned to more often as leaders.<sup>55</sup>

### *Dispositional Trait*

Psychologists often use the terms *disposition* and *mood* to describe and differentiate people. Individuals characterized by a positive affective state exhibit a mood that is active, strong, excited, enthusiastic, peppy, and elated. A leader with this mood state exudes an air of confidence and optimism and is seen as enjoying work-related activities.

Recent work conducted at the University of California-Berkeley demonstrates that leaders (managers) with positive affectivity (a positive mood state) tend to be more competent interpersonally, to contribute more to group activities, and to be able to function more effectively in their leadership role.<sup>56</sup> Their enthusiasm and high energy levels appear to be infectious, transferring from leader to followers. Thus, such leaders promote group cohesiveness and productivity. This mood state is also associated with low levels of group turnover and is positively associated with followers who engage in acts of good group citizenship.<sup>57</sup>

### *Self-Monitoring*

Self-monitoring as a personality trait refers to the strength of an individual's ability and willingness to read verbal and nonverbal cues and to alter one's behavior so as to manage the presentation of the self and the images that others form of the individual. “High self-monitors” are particularly astute at reading social cues and regulating their self-presentation to fit a particular situation. “Low self-monitors” are less sensitive to social cues; they may either lack motivation or lack the ability to manage how they come across to others.

Some evidence supports the position that high self-monitors emerge more often as leaders. In addition, they appear to exert more influence on group decisions and initiate more structure than low self-monitors. Perhaps high self-monitors emerge as leaders because in group interaction they are the individuals who attempt to organize the group and provide it with the structure needed to move the group toward goal attainment.<sup>58</sup>

## CONCEPT CHECK

1. What are the trait perspectives on leadership?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 11.5 - Behavioral Approaches to Leadership

### 5. What are the behavioral perspectives on leadership?

The nearly four decades of research that focused on identifying the personal traits associated with the emergence of leaders and leader effectiveness resulted in two observations. First, leader traits are important—people who are endowed with the “right stuff” (drive, self-confidence, honesty, and integrity) are more likely to emerge as leaders and to be effective leaders than individuals who do not possess these characteristics. Second, traits are only a part of the story. Traits only account for part of why someone becomes a leader and why they are (or are not) effective leaders.

Still under the influence of the great man theory of leadership, researchers continued to focus on the leader in an effort to understand leadership—who emerges and what constitutes effective leadership. Researchers then began to reason that maybe the rest of the story could be understood by looking at what it is that leaders *do*. Thus, we now turn our attention to leader behaviors and the behavioral approaches to leadership.

It is now common to think of effective leadership in terms of what leaders do. CEOs and management consultants agree that effective leaders display trust in their employees, develop a vision, keep their cool, encourage risk, bring expertise into the work setting, invite dissent, and focus everyone’s attention on that which is important.<sup>59</sup> William Arruda, in a *Fortune* article, noted that “organizations with strong coaching cultures report their revenue to be above average, compared to their peer group.” Sixty-five percent of employees “from strong coaching cultures rated themselves as highly engaged,” compared to 13 percent of employees worldwide.<sup>60</sup> Jonathan Anthony calls himself an intrapreneur and corporate disorganizer, because same-old, same-old comms practices are dying in front of our eyes.<sup>61</sup> Apple founder Steve Jobs believed that the best leaders are coaches and team cheerleaders. Similar views have been frequently echoed by management consultant Tom Peters.

During the late 1940s, two major research programs—The Ohio State University and the University of Michigan leadership studies—were launched to explore leadership from a behavioral perspective.

### The Ohio State University Studies

A group of Ohio State University researchers, under the direction of Ralph Stogdill, began an extensive and systematic series of studies to identify leader behaviors associated with effective group performance. Their results identified two major sets of leader behaviors: consideration and initiating structure.

Consideration is the “relationship-oriented” behavior of a leader. It is instrumental in creating and maintaining good relationships (that is, addressing the group’s maintenance needs) with organizational members. Consideration behaviors include being supportive and friendly, representing people’s interests, communicating openly with group members, recognizing them, respecting their ideas, and sharing concern for their feelings.

Initiating structure involves “task-oriented” leader behaviors. It is instrumental in the efficient use of resources to attain organizational goals, thereby addressing the group’s task needs. Initiating structure behaviors include scheduling work, deciding what is to be done (and how and when to do it), providing direction to organizational members, planning, coordinating, problem-solving, maintaining standards of performance, and encouraging the use of uniform procedures.

After consideration and initiating structure behaviors were first identified, many leaders believed that they had to behave one way or the other. If they initiated structure, they could not be considerate, and vice versa. It did not take long, however, to recognize that leaders can simultaneously display any combination of both behaviors.

The Ohio State studies are important because they identified two critical categories of behavior that distinguish one leader from another. Both consideration and initiating structure behavior can significantly impact work attitudes and behaviors. Unfortunately, the effects of consideration and initiating structure are not consistent from situation to

situation.<sup>62</sup> In some of the organizations studied, for example, high levels of initiating structure increased performance. In other organizations, the amount of initiating structure seemed to make little difference. Although most organizational members reported greater satisfaction when leaders acted considerately, consideration behavior appeared to have no clear effect on performance.

Initially, these mixed findings were disappointing to researchers and managers alike. It had been hoped that a profile of the most effective leader behaviors could be identified so that leaders could be trained in the best ways to behave. Research made clear, however, that there is no one best style of leader behavior for all situations.

## The University of Michigan Studies

At about the same time that the Ohio State studies were underway, researchers at the University of Michigan also began to investigate leader behaviors. As at Ohio State, the Michigan researchers attempted to identify behavioral elements that differentiated effective from ineffective leaders.<sup>63</sup>

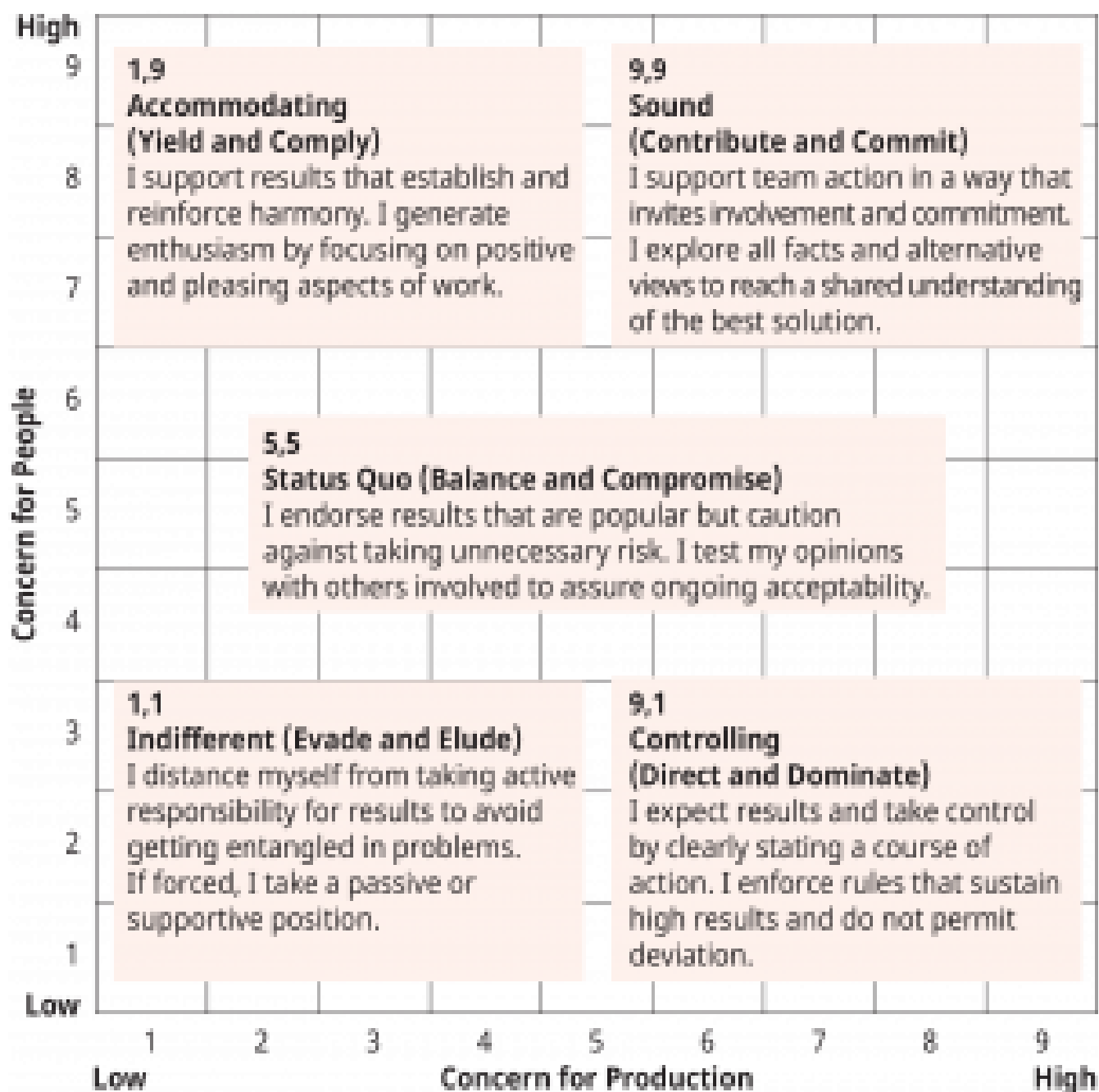
The two types of leader behavior that stand out in these studies are job centered and organizational member centered. *Job-centered behaviors* are devoted to supervisory functions, such as planning, scheduling, coordinating work activities, and providing the resources needed for task performance. *Employee-member-centered behaviors* include consideration and support for organizational members. These dimensions of behavior, of course, correspond closely to the dimensions of initiating structure and consideration identified at Ohio State. The similarity of the findings from two independent groups of researchers added to their credibility. As the Ohio State researchers had done, the Michigan researchers also found that any combination of the two behaviors was possible.

The studies at Michigan are significant because they reinforce the importance of leader behavior. They also provide the basis for later theories that identify specific, effective matches of work situations and leader behaviors. Subsequent research at Michigan and elsewhere has found additional behaviors associated with effective leadership: support, work facilitation, goal emphasis, and interaction facilitation.<sup>64</sup>

These four behaviors are important to the successful functioning of the group in that support and interaction facilitation contribute to the group's maintenance needs, and goal emphasis and work facilitation contribute to the group's task needs. The Michigan researchers also found that these four behaviors do not need to be brought to the group by the leader. In essence, the leader's real job is to set the tone and create the climate that ensure these critical behaviors are present.<sup>65</sup>

## The Leadership Grid<sup>®</sup>

Much of the credit for disseminating knowledge about important leader behaviors must go to Robert R. Blake and Jane S. Mouton, who developed a method for classifying styles of leadership compatible with many of the ideas from the Ohio State and Michigan studies.<sup>66</sup> In their classification scheme, *concern for results* (production) emphasizes output, cost effectiveness, and (in for-profit organizations) a concern for profits. *Concern for people* involves promoting working relationships and paying attention to issues of importance to group members. As shown in **Exhibit 11.5**, the Leadership Grid<sup>®</sup> demonstrates that any combination of these two leader concerns is possible, and five styles of leadership are highlighted here.



**Exhibit 11.5** Blake and Mouton's Managerial Grid® **Source:**Adapted from R. McKee and B. Carlson. 1999. *The Power to Change*, p.16.

Blake and Mouton contend that the sound (contribute and commit) leader (a high concern for results and people, or 9,9) style is universally the most effective.<sup>67</sup> While the Leadership Grid® is appealing and well structured, research to date suggests that there is no universally effective style of leadership (9,9 or otherwise).<sup>68</sup> There are, however, well-identified situations in which a 9,9 style is unlikely to be effective. Organizational members of high-involvement organizations who have mastered their job duties require little production-oriented leader behavior. Likewise, there is little time for people-oriented behavior during an emergency. Finally, evidence suggests that the “high-high” style may be effective when the situation calls for high levels of initiating structure. Under these conditions, the initiation of structure is more acceptable, favorably affecting follower satisfaction and performance, when the leader is also experienced as warm, supportive, and considerate.<sup>69</sup>

## CONCEPT CHECK

1. What are the behavioral approaches to defining leadership?
2. What roles do gender and the popular perceptions of gender roles have on views of leadership traits?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 11.6 - Situational (Contingency) Approaches to Leadership

### 6. What are the situational perspectives on leadership?

As early as 1948, Ralph Stogdill stated that “the qualities, characteristics, and skills required in a leader are determined to a large extent by the demands of the situation in which he is to function as a leader.”<sup>70</sup> In addition, it had been observed that two major leader behaviors, initiating structure and consideration, didn’t always lead to equally positive outcomes. That is, there are times when initiating structure results in performance increases and follower satisfaction, and there are times when the results are just the opposite. Contradictory findings such as this lead researchers to ask “Under what conditions are the results positive in nature?” and “When and why are they negative at other times?” Obviously, situational differences and key contingencies are at work.

Several theories have been advanced to address this issue. These are Fiedler’s contingency theory of leadership, the path-goal theory of leader effectiveness, Hersey and Blanchard’s life cycle theory, cognitive resource theory, the decision tree, and the decision process theory.<sup>71</sup> We explore two of the better-known situational theories of leadership, Fred Fiedler’s contingency model and Robert J. House’s path-goal theory, here. Victor Vroom, Phillip Yetton, and Arthur Jago’s decision tree model also applies.

### Fiedler’s Contingency Model

One of the earliest, best-known, and most controversial situation-contingent leadership theories was set forth by Fred E. Fiedler from the University of Washington.<sup>72</sup> This theory is known as the contingency theory of leadership. According to Fiedler, organizations attempting to achieve group effectiveness through leadership must assess the leader according to an underlying trait, assess the situation faced by the leader, and construct a proper match between the two.

#### *The Leader’s Trait*

Leaders are asked about their least-preferred coworker (LPC), the person with whom they *least* like to work. The most popular interpretation of the LPC score is that it reflects a leader’s underlying disposition toward others—for example: pleasant/unpleasant, cold/warm, friendly/unfriendly, and untrustworthy/trustworthy. (You can examine your own LPC score by completing the LPC self-assessment on the following page.)

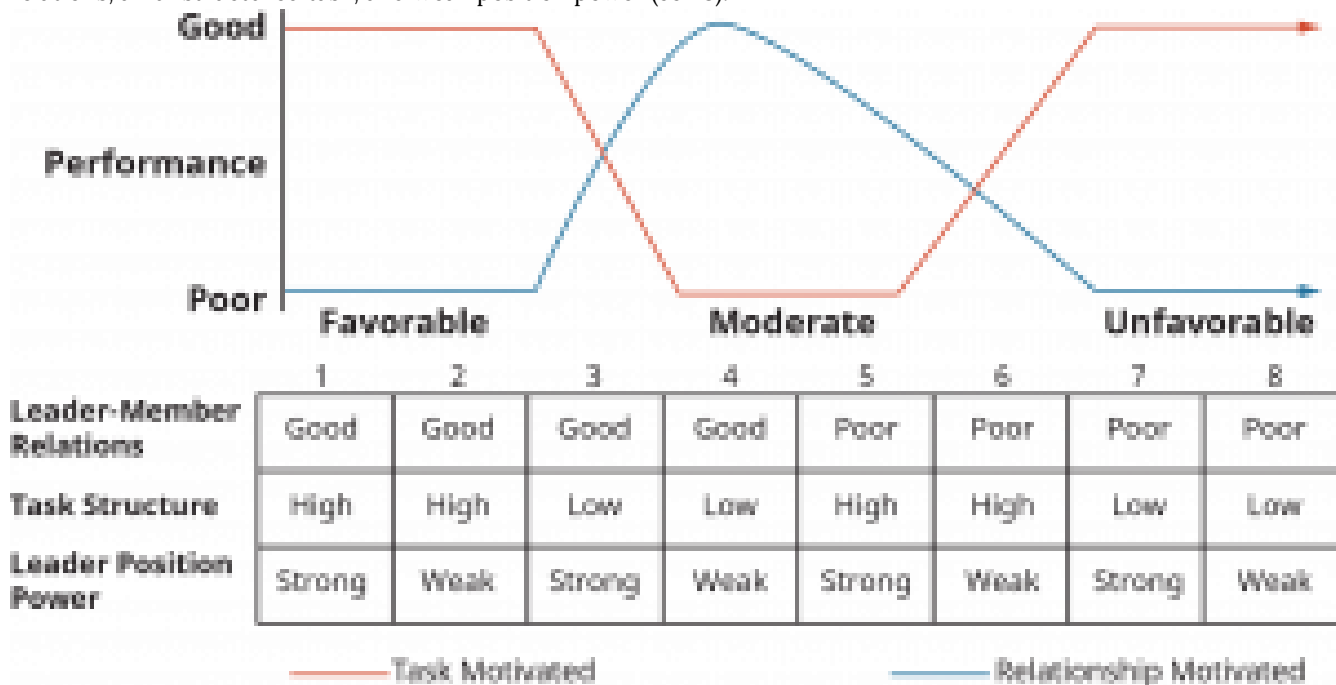
Fiedler states that leaders with high LPC scores are *relationship oriented*—they need to develop and maintain close interpersonal relationships. They tend to evaluate their least-preferred coworkers in fairly favorable terms. Task accomplishment is a secondary need to this type of leader and becomes important only after the need for relationships is reasonably well satisfied. In contrast, leaders with low LPC scores tend to evaluate the individuals with whom they least like to work fairly negatively. They are *task-oriented* people, and only after tasks have been accomplished are low-LPC leaders likely to work on establishing good social and interpersonal relations.

#### *The Situational Factor*

Some situations favor leaders more than others do. To Fiedler, *situational favorableness* is the degree to which leaders



have control and influence and therefore feel that they can determine the outcomes of a group interaction.<sup>73</sup> Several years later, Fiedler changed his situational factor from situational favorability to situational control—where situational control essentially refers to the degree to which a leader can influence the group process.<sup>74</sup> Three factors work together to determine how favorable a situation is to a leader. In order of importance, they are (1) *leader-member relations*—the degree of the group's acceptance of the leader, their ability to work well together, and members' level of loyalty to the leader; (2) *task structure*—the degree to which the task specifies a detailed, unambiguous goal and how to achieve it; and (3) *position power*—a leader's direct ability to influence group members. The situation is most favorable for a leader when the relationship between the leader and group members is good, when the task is highly structured, and when the leader's position power is strong (cell 1 in **Exhibit 11.6**). The least-favorable situation occurs under poor leader-member relations, an unstructured task, and weak position power (cell 8).



**Exhibit 11.6** Fiedler's Contingency Model of Leader-Situation Matches **Source:** Adapted from F. E. Fiedler and M. M. Chemers. 1974. *Leadership and effective management*. Glenview, IL: Scott, Foresman.

### Leader-Situation Matches

Some combinations of leaders and situations work well; others do not. In search of the best combinations, Fiedler examined a large number of leadership situations. He argued that most leaders have a relatively unchangeable or dominant style, so organizations need to design job situations to fit the leader.<sup>75</sup>

While the model has not been fully tested and tests have often produced mixed or contradictory findings,<sup>76</sup> Fiedler's research indicates that relationship-oriented (high-LPC) leaders are much more effective under conditions of intermediate favorability than under either highly favorable or highly unfavorable situations. Fiedler attributes the success of relationship-oriented leaders in situations with intermediate favorability to the leader's nondirective, permissive attitude; a more directive attitude could lead to anxiety in followers, conflict in the group, and a lack of cooperation.

For highly favorable and unfavorable situations, task-oriented leaders (those with a low LPC) are very effective. As tasks are accomplished, a task-oriented leader allows the group to perform its highly structured tasks without imposing more task-directed behavior. The job gets done without the need for the leader's direction. Under unfavorable

conditions, task-oriented behaviors, such as setting goals, detailing work methods, and guiding and controlling work behaviors, move the group toward task accomplishment.

As might be expected, leaders with mid-range LPC scores can be more effective in a wider range of situations than high- or low-LPC leaders.<sup>77</sup> Under conditions of low favorability, for example, a middle-LPC leader can be task oriented to achieve performance, but show consideration for and allow organizational members to proceed on their own under conditions of high situational favorability.

### *Controversy over the Theory*

Although Fiedler's theory often identifies appropriate leader-situation matches and has received broad support, it is not without critics. Some note that it characterizes leaders through reference to their attitudes or personality traits (LPC) while it explains the leader's effectiveness through their behaviors—those with a particular trait will behave in a particular fashion. The theory fails to make the connection between the least-preferred coworker attitude and subsequent behaviors. In addition, some tests of the model have produced mixed or contradictory findings.<sup>78</sup> Finally, what is the true meaning of the LPC score—exactly what is being revealed by a person who sees their least-preferred coworker in positive or negative terms? Robert J. House and Ram N. Aditya recently noted that, in spite of the criticisms, there has been substantial support for Fiedler's theory.<sup>79</sup>

## Path-Goal Theory

Robert J. House and Martin Evans, while on the faculty at the University of Toronto, developed a useful leadership theory. Like Fiedler's, it asserts that the type of leadership needed to enhance organizational effectiveness depends on the situation in which the leader is placed. Unlike Fiedler, however, House and Evans focus on the leader's observable behavior. Thus, managers can either match the situation to the leader or modify the leader's behavior to fit the situation.

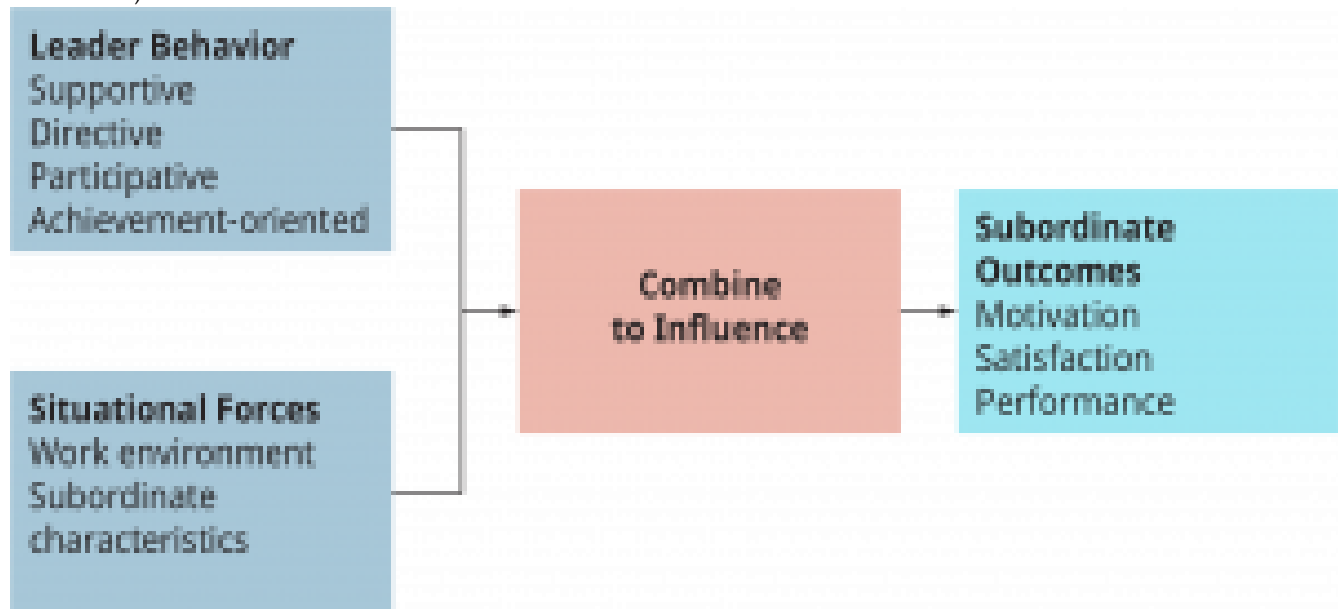
The model of leadership advanced by House and Evans is called the path-goal theory of leadership because it suggests that an effective leader provides organizational members with a *path* to a valued *goal*. According to House, the motivational function of the leader consists of increasing personal payoffs to organizational members for work-goal attainment, and making the path to these payoffs easier to travel by clarifying it, reducing roadblocks and pitfalls, and increasing the opportunities for personal satisfaction en route.<sup>80</sup>

Effective leaders therefore provide rewards that are valued by organizational members. These rewards may be pay, recognition, promotions, or any other item that gives members an incentive to work hard to achieve goals. Effective leaders also give clear instructions so that ambiguities about work are reduced and followers understand how to do their jobs effectively. They provide coaching, guidance, and training so that followers can perform the task expected of them. They also remove barriers to task accomplishment, correcting shortages of materials, inoperative machinery, or interfering policies.

### *An Appropriate Match*

According to the path-goal theory, the challenge facing leaders is basically twofold. First, they must analyze situations and identify the most appropriate leadership style. For example, experienced employees who work on a highly structured assembly line don't need a leader to spend much time telling them how to do their jobs—they already know this. The leader of an archeological expedition, though, may need to spend a great deal of time telling inexperienced laborers how to excavate and care for the relics they uncover.

Second, leaders must be flexible enough to use different leadership styles as appropriate. To be effective, leaders must engage in a wide variety of behaviors. Without an extensive repertoire of behaviors at their disposal, a leader's effectiveness is limited.<sup>81</sup> All team members will not, for example, have the same need for autonomy. The leadership style that motivates organizational members with strong needs for autonomy (participative leadership) is different from that which motivates and satisfies members with weaker autonomy needs (directive leadership). The degree to which leadership behavior matches situational factors will determine members' motivation, satisfaction, and performance (see **Exhibit 11.7**).<sup>82</sup>



**Exhibit 11.7** The Path-Goal Leadership Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

### *Behavior Dimensions*

According to path-goal theory, there are four important dimensions of leader behavior, each of which is suited to a particular set of situational demands.<sup>83</sup>

- *Supportive leadership*—At times, effective leaders demonstrate concern for the well-being and personal needs of organizational members. Supportive leaders are friendly, approachable, and considerate to individuals in the workplace. Supportive leadership is especially effective when an organizational member is performing a boring, stressful, frustrating, tedious, or unpleasant task. If a task is difficult and a group member has low self-esteem, supportive leadership can reduce some of the person's anxiety, increase his confidence, and increase satisfaction and determination as well.
- *Directive leadership*—At times, effective leaders set goals and performance expectations, let organizational members know what is expected, provide guidance, establish rules and procedures to guide work, and schedule and coordinate the activities of members. Directive leadership is called for when role ambiguity is high. Removing uncertainty and providing needed guidance can increase members' effort, job satisfaction, and job performance.
- *Participative leadership*—At times, effective leaders consult with group members about job-related activities and consider their opinions and suggestions when making decisions. Participative leadership is effective when tasks are unstructured. Participative leadership is used to great effect when leaders need help in identifying work procedures and where followers have the expertise to provide this help.
- *Achievement-oriented leadership*—At times, effective leaders set challenging goals, seek improvement in

performance, emphasize excellence, and demonstrate confidence in organizational members' ability to attain high standards. Achievement-oriented leaders thus capitalize on members' needs for achievement and use goal-setting theory to great advantage.

## Cross-Cultural Context

Gabriel Bristol, the CEO of Intelfluence Live, a full-service customer contact center offering affordable inbound customer service, outbound sales, lead generation and consulting services for small to mid-sized businesses, notes “diversity breeds innovation, which helps businesses achieve goals and tackle new challenges.”<sup>84</sup> *Multiculturalism* is a new reality as today's society and workforce become increasingly diverse. This naturally leads to the question “Is there a need for a new and different style of leadership?”

The vast majority of the contemporary scholarship directed toward understanding leaders and the leadership process has been conducted in North America and Western Europe. Westerners have “developed a highly romanticized, heroic view of leadership.”<sup>85</sup> Leaders occupy center stage in organizational life. We use leaders in our attempts to make sense of the performance of our groups, clubs, organizations, and nations. We see them as key to organizational success and profitability, we credit them with organizational competitiveness, and we blame them for organizational failures. At the national level, recall that President Reagan brought down Communism and the Berlin Wall, President Bush won the Gulf War, and President Clinton brought unprecedented economic prosperity to the United States during the 1990s.

This larger-than-life role ascribed to leaders and the Western romance with successful leaders raise the question “How representative is our understanding of leaders and leadership across cultures?” That is, do the results that we have examined in this chapter generalize to other cultures?

Geert Hofstede points out that significant value differences (individualism-collectivism, power distance, uncertainty avoidance, masculinity-femininity, and time orientation) cut across societies. Thus, leaders of culturally diverse groups will encounter belief and value differences among their followers, as well as in their own leader-member exchanges.

There appears to be consensus that a universal approach to leadership and leader effectiveness does not exist. Cultural differences work to enhance and diminish the impact of leadership styles on group effectiveness. For example, when leaders empower their followers, the effect for job satisfaction in India has been found to be negative, while in the United States, Poland, and Mexico, the effect is positive.<sup>86</sup> The existing evidence suggests similarities as well as differences in such areas as the effects of leadership styles, the acceptability of influence attempts, and the closeness and formality of relationships. The distinction between task and relationship-oriented leader behavior, however, does appear to be meaningful across cultures.<sup>87</sup> Leaders whose behaviors reflect support, kindness, and concern for their followers are valued and effective in Western and Asian cultures. Yet it is also clear that democratic, participative, directive, and contingent-based rewards and punishment do not produce the same results across cultures. The United States is very different from Brazil, Korea, New Zealand, and Nigeria. The effective practice of leadership necessitates a careful look at, and understanding of, the individual differences brought to the leader-follower relationship by cross-cultural contexts.<sup>88</sup>

### CONCEPT CHECK

1. Identify and describe the variables presented in Fiedler's theory of leadership.

2. What are the leadership behaviors in the path-goal theory of leadership?
3. What role does culture have in how leadership is viewed?
4. What are the differences between the trait, behavioral, and situational approaches to defining leadership?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# 11.7 - Substitutes for and Neutralizers of Leadership

7. What does the concept “substitute for leadership” mean?

Several factors have been discovered that can substitute for or neutralize the effects of leader behavior (see **Table 11.1**).<sup>89</sup> *Substitutes* for leadership behavior can clarify role expectations, motivate organizational members, or satisfy members (making it unnecessary for the leader to attempt to do so). In some cases, these substitutes supplement the behavior of a leader. Sometimes it is a group member’s characteristics that make leadership less necessary, as when a master craftsperson or highly skilled worker performs up to his or her own high standards without needing outside prompting. Sometimes the task’s characteristics take over, as when the work itself—solving an interesting problem or working on a familiar job—is intrinsically satisfying. Sometimes the characteristics of the organization make leadership less necessary, as when work rules are so clear and specific that workers know exactly what they must do without help from the leader (see *An Inside Look* at flat management structure and the orchestra with no leader).

Substitutes for and Neutralizers of Leader Behavior		
Supportive or Neutralizer	Leader Behavior Influenced	
	Substitute Leadership	Instrumental Leadership
A. Subordinate Characteristics:		
1. Experience, ability, training		Substitute
2. “Professional” orientation	Substitute	Substitute
3. Indifference toward rewards offered by organization	Neutralizer	Neutralizer
B. Task Characteristics:		
1. Structured, routine, unambiguous task		Substitute
2. Feedback provided by task		Substitute
3. Intrinsically satisfying task	Substitute	
C. Organization Characteristics:		
1. Cohesive work group	Substitute	Substitute
2. Low position power (leader lacks control over organizational rewards)	Neutralizer	Neutralizer
3. Formalization (explicit plans, goals, areas of responsibility)		Substitute
4. Inflexibility (rigid, unyielding rules and procedures)		Neutralizer
5. Leader located apart from subordinates with only limited communication possible	Neutralizer	Neutralizer
Source: Adapted from <i>Leadership in organizations</i> by G. A. Yukl.		

Table 11.1

*Neutralizers* of leadership, on the other hand, are not helpful; they prevent leaders from acting as they wish. A computer-paced assembly line, for example, prevents a leader from using initiating structure behavior to pace the line. A union contract that specifies that workers be paid according to seniority prevents a leader from dispensing merit-based pay. Sometimes, of course, neutralizers can be beneficial. Union contracts, for example, clarify disciplinary proceedings and identify the responsibilities of both management and labor. Leaders must be aware of the presence of neutralizers and their effects so that they can eliminate troublesome neutralizers or take advantage of any potential benefits that accompany them (such as the clarity of responsibilities provided by a union contract). If a leader’s effectiveness is being

neutralized by a poor communication system, for example, the leader might try to remove the neutralizer by developing (or convincing the organization to develop) a more effective system.

Followers differ considerably in their *focus of attention* while at work, thereby affecting the effectiveness of the act of leadership. Focus of attention is an employee's cognitive orientation while at work. It reflects what and how strongly an individual thinks about various objects, events, or phenomena while physically present at work. Focus of attention reflects an individual difference in that not all individuals have the same cognitive orientation while at work—some think a great deal about their job, their coworkers, their leader, or off-the-job factors, while others daydream.<sup>90</sup> An employee's focus of attention has both “trait” and “state” qualities. For example, there is a significant amount of minute-by-minute variation in an employee's focus of attention (the “state” component), and there is reasonable consistency in the categories of events that employees think about while they are at work (the “trait” component).

Research suggests that the more followers focus on off-job (nonleader) factors, the less they will react to the leader's behaviors. Thus, a strong focus on one's life “away from work” (for example, time with family and friends) tends to neutralize the motivational, attitudinal, and/or behavioral effects associated with any particular leader behavior. It has also been observed, however, that a strong focus on the leader, either positive or negative, enhances the impact that the leader's behaviors have on followers.<sup>91</sup>

## MANAGERIAL LEADERSHIP

### *You Are Now the Leader*

Leading and managing are two very different things. Being a manager means something more than gaining authority or charge over former colleagues. With the title does come the power to affect company outcomes, but it also comes with something more: the power to shape the careers and personal growth of subordinates.

According to Steve Keating, a senior manager at the Toro Company, it is important not to assume that being made a manager automatically makes you a leader. Rather, being a manager means having the *opportunity* to lead. Enterprises need managers to guide processes, but the employees—the people—need a leader. Keating believes that leaders need a mindset that emphasizes people, and the leader's job is to help the people in the organization to be successful. According to Keating, “If you don't care for people, you can't lead them” (Hakim 2017 n.p.).

For someone who has been promoted over his peers, ground rules are essential. “Promotion doesn't mean the end of friendship but it does change it,” according to Keating. If a *peer* has been promoted, rather than grouse and give in to envy, it is important to step back and look at the new manager; take a hard look at why the peer was promoted and what skill or characteristic made you a less appealing fit for the position (Hakim 2017).

Carol Walker, president of Prepared to Lead, a management consulting firm, advises new managers to develop a job philosophy. She urges new managers to develop a core philosophy that provides a guide to the day-to-day job of leading. She urges managers to build up the people they are leading and work as a “servant leader.” The manager's perspective should be on employee growth and success. Leaders must bear in mind that employees don't work for the manager; they work for the organization—and for themselves. Managers coordinate this relationship; they are not the center of it. Work should not be assigned haphazardly, but with the employee's skills and growth in mind. “An employee who understands why she has been asked to do something is far more likely to assume true ownership for the assignment,” Walker says (Yakowicz 2015 n.p.). A leader's agenda should be on employee success, not personal glory. Employees are more receptive when they recognize that their leader is working not for their own success, but for the employee's success.

A survey from HighGround revealed one important item that most new managers and even many seasoned managers overlook: asking for feedback. Everyone has room for growth, even managers. Traditional management dictates a top-down style in which managers review subordinates. But many companies have found it beneficial to turn things around and ask employees, “How can I be a better manager?” Of course, this upward review only works if employees believe

that their opinion will be heard. Managers need to carefully cultivate a rapport where employees don't fear reprisals for negative feedback. Listening to criticism from those you are leading builds trust and helps ensure that as a manager, you are providing the sort of leadership that employees need to be successful (Kauflin 2017). Showing respect and caring for employees by asking this simple question is *inspiring*—an important aspect of leadership itself. Whether asking for feedback or focusing on an employee's fit with a particular job description, a leader helps guide employees through the day-to-day, builds a positive culture, and helps employees improve their skills.

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#### Questions

1. What do you think are the most important qualities in a leader? In a manager? Are your two lists mutually exclusive? Why?
2. How do you think a leader can use feedback to model the growth process for employees?

### CONCEPT CHECK

1. Identify and describe substitutes of leadership.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



## 11.8 - Transformational, Visionary, and Charismatic Leadership

### 8. What are the characteristics of transactional, transformational, and charismatic leadership?

Many organizations struggling with the need to manage chaos, to undergo a culture change, to empower organizational members, and to restructure have looked for answers in “hiring the right leader.” Many have come to believe that the transformational, visionary, and charismatic leader represents the style of leadership needed to move organizations through chaos.

### The Transformational and Visionary Leader

Leaders who subscribe to the notion that “if it ain’t broke, don’t fix it” are often described as *transactional leaders*. They are extremely task oriented and instrumental in their approach, frequently looking for incentives that will induce their followers into a desired course of action.<sup>92</sup> These reciprocal exchanges take place in the context of a mutually interdependent relationship between the leader and the follower, frequently resulting in interpersonal bonding.<sup>93</sup> The transactional leader moves a group toward task accomplishment by initiating structure and by offering an incentive in exchange for desired behaviors. The transformational leader, on the other hand, moves and changes (fixes) things “in a big way”! Unlike transactional leaders, they don’t cause change by offering inducements. Instead, they inspire others to action through their personal values, vision, passion, and belief in and commitment to the mission.<sup>94</sup> Through charisma (idealized influence), individualized consideration (a focus on the development of the follower), intellectual stimulation (questioning assumptions and challenging the status quo), and/or inspirational motivation (articulating an appealing vision), transformational leaders move others to follow.

The transformational leader is also referred to as a visionary leader. Visionary leaders are those who influence others through an emotional and/or intellectual attraction to the leader’s dreams of what “can be.” Vision links a present and future state, energizes and generates commitment, provides meaning for action, and serves as a standard against which to assess performance.<sup>95</sup> Evidence indicates that vision is positively related to follower attitudes and performance.<sup>96</sup> As pointed out by Warren Bennis, a vision is effective only to the extent that the leader can communicate it in such a way that others come to internalize it as their own.<sup>97</sup>

As people, transformational leaders are engaging. They are characterized by extroversion, agreeableness, and openness to experience.<sup>98</sup> They energize others. They increase followers’ awareness of the importance of the designated outcome.<sup>99</sup> They motivate individuals to transcend their own self-interest for the benefit of the team and inspire organizational members to self-manage (become self-leaders).<sup>100</sup> Transformational leaders move people to focus on higher-order needs (self-esteem and self-actualization). When organizations face a turbulent environment, intense competition, products that may die early, and the need to move fast, managers cannot rely solely on organizational structure to guide organizational activity. In these situations, transformational leadership can motivate followers to be fully engaged and inspired, to internalize the goals and values of the organization, and to move forward with dogged determination!

Transformational leadership is positively related to follower satisfaction, performance, and acts of citizenship. These effects result from the fact that transformational leader behaviors elicit trust and perceptions of procedural justice, which in turn favorably impact follower satisfaction and performance.<sup>101</sup> As R. Pillai, C. Schriesheim, and E. Williams note, “when followers perceive that they can influence the outcomes of decisions that are important to them and that they are participants in an equitable relationship with their leader, their perceptions of procedural justice [and trust]

are likely to be enhanced.”<sup>102</sup> Trust and experiences of organizational justice promote leader effectiveness, follower satisfaction, motivation, performance, and citizenship behaviors.

## Charismatic Leadership

Ronald Reagan, Jesse Jackson, and Queen Elizabeth I have something in common with Martin Luther King Jr., Indira Gandhi, and Winston Churchill. The effectiveness of these leaders originates in part in their charisma, a special magnetic charm and appeal that arouses loyalty and enthusiasm. Each exerted considerable personal influence to bring about major events.

It is difficult to differentiate the charismatic and the transformational leader. True transformational leaders may achieve their results through the magnetism of their personality. In this case, the two types of leaders are essentially one and the same, yet it is important to note that not all transformational leaders have a personal “aura.”

Sociologist Max Weber evidenced an interest in charismatic leadership in the 1920s, calling charismatic leaders people who possess legitimate power that arises from “exceptional sanctity, heroism, or exemplary character.”<sup>103</sup> Charismatic leaders “single-handedly” effect changes even in very large organizations. Their personality is a powerful force, and the relationship that they forge with their followers is extremely strong.

The charismatic leadership phenomenon involves a complex interplay between the attributes of the leader and followers’ needs, values, beliefs, and perceptions.<sup>104</sup> At its extreme, leader-follower relationships are characterized by followers’ unquestioning acceptance; trust in the leader’s beliefs; affection; willing obedience to, emulation of, and identification with the leader; emotional involvement with his mission; and feelings of self-efficacy directed toward the leader’s mission.<sup>105</sup> This can work to better the welfare of individuals, such as when Lee Iacocca saved thousands of jobs through his dramatic turnaround of a failing corporate giant, the Chrysler Corporation. It also can be disastrous, as when David Koresh led dozens and dozens of men, women, and children to their fiery death in Waco, Texas. Individuals working for charismatic leaders often have higher task performance, greater task satisfaction, and lower levels of role conflict than those working for leaders with considerate or structuring behaviors.<sup>106</sup> What are the characteristics of these people who can exert such a strong influence over their followers? Charismatic leaders have a strong need for power and the tendency to rely heavily on referent power as their primary power base.<sup>107</sup> Charismatic leaders also are extremely self-confident and convinced of the rightness of their own beliefs and ideals. This self-confidence and strength of conviction make people trust the charismatic leader’s judgment, unconditionally following the leader’s mission and directives for action.<sup>108</sup> The result is a strong bond between leader and followers, a bond built primarily around the leader’s personality.

Although there have been many effective charismatic leaders, those who succeed the most have coupled their charismatic capabilities with behaviors consistent with the same leadership principles followed by other effective leaders. Those who do not add these other dimensions still attract followers but do not meet organizational goals as effectively as they could. They are (at least for a time) the pied pipers of the business world, with lots of followers but no constructive direction.

## ETHICS IN PRACTICE

### *Uber’s Need for an Ethical Leader*

Almost since its initial founding in 2009 as a luxury car service for the San Francisco area, controversy has followed

Uber. Many complaints are against the tactics employed by the company's founder and former CEO, Travis Kalanick, but the effects are found throughout the business and its operations.

In 2009, UberBlack was a "black car" service, a high-end driving service that cost more than a taxi but less than hiring a private driver for the night. It wasn't until 2012 that the company launched UberX, the taxi-esque service most people think of today when they say "Uber." The UberX service contracted with private drivers who provided rides in their personal vehicles. A customer would use Uber's smartphone app to request the ride, and a private driver would show up. Originally launched in San Francisco, the service spread quickly, and by 2017, Uber was in 633 cities. The service was hailed by many as innovative and the free market's answer to high-priced and sometimes unreliable taxi services. But Uber has not been without its critics, both inside and outside of the company.

In 2013, as the UberX service spread, some UberBlack drivers protested at the company's headquarters complaining about poor company benefits and pay. They also claimed that competition from the newly launched UberX service was cutting into their sales and undermining job security. Kalanick rebuffed the protests, basically calling the complaints sour grapes: most of the protestors had been laid off earlier for poor service (Lawler 2013). Controversy also arose over the use of contract drivers rather than full-time employees. Contractors complained about a lack of benefits and low wages. Competitors, especially taxi services, complained that they were being unfairly undercut because Uber didn't have to abide by the same screening process and costs that traditional yellow taxi companies did. Some municipalities agreed, arguing further than Uber's lack of or insufficient screening of drivers put passengers at risk.

Uber quickly generated a reputation as a bully and Kalanick as an unethical leader (Ann 2016). The company has been accused of covering up cases of sexual assault, and Kalanick himself has been quoted as calling the service "Boob-er," a reference to using the service to pick up women (Ann 2016). Uber has been criticized for its recruiting practices; in particular, it has been accused of bribing drivers working for competitors to switch over and drive for Uber (Ann 2016). The company was also caught making false driver requests for competing companies and then canceling the order. The effect was to waste the other driver's time and make it more difficult for customers to secure rides on the competing service (D'Orazio 2014). Susan J. Fowler, former site reliability engineer at Uber, went public with cases of outright sexual harassment within Uber (Fowler 2017). Former employees described Uber's corporate culture as an "a\*\*hole culture" and a "'Hobbesian jungle' where you can never get ahead unless someone else dies." (Wong 2017) One employee described a leadership that encouraged a company practice of developing incomplete solutions for the purpose of beating the competitor to market. Fowler went so far as to compare the experience to *Game of Thrones*, and other former employees even consider "making it" at Uber a black mark on a resume (Wong 2017).

In terms of social acrimony and PR disasters, arguably caused or even encouraged by leadership, Uber's rise to notoriety has arguably been more bad than good. In June 2017, Kalanick made one too many headlines and agreed to step down as the company's CEO.

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#### Questions

1. In the summer of 2017, Transport of London (TfL) began proceedings to revoke Uber's permit to operate in London. How do think Uber's poor corporate reputation may have been a factor in TfL's thinking?
2. What steps do you think Uber's new CEO, Dara Khosrowshahi, needs to take to repair Uber's reputation?
3. Despite Uber's apparent success in launching in multiple markets, it continues to post quarterly losses in the millions and shareholders effectively subsidize 59 percent of every ride (<https://www.reuters.com/article/us-uber-profitability/true-price-of-an-uber-ride-in-question-as-investors-assess-firms-value-idUSKCN1B3103>). How is this an outworking of Uber's overall corporate culture?

## CONCEPT CHECK

1. What are the defining characteristics of transformational and charismatic leaders?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 11.9 - Leadership Needs in the 21st Century

### 9. How do different approaches and styles of leadership impact what is needed now?

Frequent headlines in popular business magazines like *Fortune* and *Business Week* call our attention to a major movement going on in the world of business. Organizations are being reengineered and restructured, and network, virtual, and modular corporations are emerging. People talk about the transnational organization, the boundaryless company, the post-hierarchical organization. By the end of the decade, the organizations that we will be living in, working with, and competing against are likely to be vastly different from what we know today.

The transition will not be easy; uncertainty tends to breed resistance. We are driven by linear and rational thinking, which leads us to believe that “we can get there from here” by making some incremental changes in who we are and what we are currently doing. Existing paradigms frame our perceptions and guide our thinking. Throwing away paradigms that have served us well in the past does not come easily.

A look back tells most observers that the past decade has been characterized by rapid change, intense competition, an explosion of new technologies, chaos, turbulence, and high levels of uncertainty. A quick scan of today's business landscape suggests that this trend is not going away anytime soon. According to Professor Jay A. Conger from Canada's McGill University, “In times of great transition, leadership becomes critically important. Leaders, in essence, offer us a pathway of confidence and direction as we move through seeming chaos. The magnitude of today's changes will demand not only *more* leadership, but *newer forms* of leadership.”<sup>109</sup>

According to Conger, two major forces are defining for us the genius of the next generation of leaders. The first force is the organization's external environment. Global competitiveness is creating some unique leadership demands. The second force is the growing diversity in organizations' internal environments. Diversity will significantly change the relationship between organizational members, work, and the organization in challenging, difficult, and also very positive ways.

What will the leaders of tomorrow be like? Professor Conger suggests that the effective leaders of the 21st century will have to be many things.<sup>110</sup> They will have to be *strategic opportunists*; only organizational visionaries will find strategic opportunities before competitors. They will have to be *globally aware*; with 80 percent of today's organizations facing significant foreign competition, knowledge of foreign markets, global economics, and geopolitics is crucial. They will have to be *capable of managing a highly decentralized organization*; movement toward the high-involvement organization will accelerate as the environmental demands for organizational speed, flexibility, learning, and leanness increase. They will have to be *sensitive to diversity*; during the first few years of the 21st century, fewer than 10 percent of those entering the workforce in North America will be White, Anglo-Saxon males, and the incoming women, minorities, and immigrants will bring with them a very different set of needs and concerns. They will have to be *interpersonally competent*; a highly diverse workforce will necessitate a leader who is extremely aware of and sensitive to multicultural expectations and needs. They will have to be *builders of an organizational community*; work and organizations will serve as a major source of need fulfillment, and in the process leaders will be called on to help build this community in such a way that organizational members develop a sense of ownership for the organization and its mission.

Finally, it is important to note that leadership theory construction and empirical inquiry are an ongoing endeavor. While the study of traits, behavior, and contingency models of leadership provide us with a great deal of insight into leadership, the mosaic is far from complete. During the past 15 years, several new theories of leadership have emerged; among them are leader-member exchange theory, implicit leadership theory, neocharismatic theory, value-based theory of leadership, and visionary leadership,<sup>111</sup> each of which over time will add to our bank of knowledge about leaders and the leadership process.

Leaders of the 21st-century organization have a monumental challenge awaiting them and a wealth of self-enriching and fulfilling opportunities. The challenge and rewards awaiting effective leaders are awesome!

## CONCEPT CHECK

1. What is the role of leadership in the 21st century?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Key Terms

**charisma**

A special personal magnetic charm or appeal that arouses loyalty and enthusiasm in a leader-follower relationship.

**charismatic leader**

A person who possesses legitimate power that arises from “exceptional sanctity, heroism, or exemplary character.”

**consideration**

A “relationship-oriented” leader behavior that is supportive, friendly, and focused on personal needs and interpersonal relationships.

**contingency theory of leadership**

A theory advanced by Dr. Fred E. Fiedler that suggests that different leadership styles are effective as a function of the favorableness of the leadership situation least preferred.

**designated leader**

The person placed in the leadership position by forces outside the group.

**emergent leader**

The person who becomes a group's leader by virtue of processes and dynamics internal to the group.

**formal leader**

That individual who is recognized by those outside the group as the official leader of the group.

**great man theory of leadership**

The belief that some people are born to be leaders and others are not.

**informal leader**

That individual whom members of the group acknowledge as their leader.

**initiating structure**

A “task-oriented” leader behavior that is focused on goal attainment, organizing and scheduling work, solving problems, and maintaining work processes.

**leadership**

A social (interpersonal) influence relationship between two or more persons who depend on each other to attain certain mutual goals in a group situation.

**Least-preferred coworker (LPC)**

The person with whom the leader least likes to work.

**path-goal theory of leadership**

A theory that posits that leadership is path- and goal-oriented, suggesting that different leadership styles are effective as a function of the task confronting the group.

**transformational leader**

A leader who moves and changes things “in a big way” by inspiring others to perform the extraordinary.

**visionary leader**

A leader who influences others through an emotional and/or intellectual attraction to the leader's dreams of what “can be.”

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# Summary of Learning Outcomes

## II.1 The Nature of Leadership

1. What is the nature of leadership and the leadership process?

Leadership is a primary vehicle for fulfilling the directing function of management. Because of its importance, theorists, researchers, and practitioners have devoted a tremendous amount of attention and energy to unlocking the secrets of effective leadership. They have kept at this search for perhaps a greater period of time than for any other single issue related to management.

## II.2 The Leadership Process

2. What are the processes associated with people coming to leadership positions?

Organizations typically have both formal and informal leaders. Their leadership is effective for virtually identical reasons. Leadership and management are not the same. Although effective leadership is a necessary part of effective management, the overall management role is much larger than leadership alone. Managers plan, organize, direct, and control. As leaders, they are engaged primarily in the directing function.

## II.3 Leader Emergence

3. How do leaders influence and move their followers to action?

There are many diverse perspectives on leadership. Some managers treat leadership primarily as an exercise of power. Others believe that a particular belief and attitude structure makes for effective leaders. Still others believe it is possible to identify a collection of leader traits that produces a leader who should be universally effective in any leadership situation. Even today, many believe that a profile of behaviors can universally guarantee successful leadership. Unfortunately, such simple solutions fall short of the reality.

## II.4 The Trait Approach to Leadership

4. What are the trait perspectives on leadership?

## II.5 Behavioral Approaches to Leadership

5. What are the behavioral perspectives on leadership?



It is clear that effective leaders are endowed with the “right stuff,” yet this “stuff” is only a precondition to effective leadership. Leaders need to connect with their followers and bring the right configuration of knowledge, skills, ability, vision, and strategy to the situational demands confronting the group.

## 11.6 Situational (Contingency) Approaches to Leadership

### 6. What are the situational perspectives on leadership?

We now know that there is no one best way to be an effective leader in all circumstances. Leaders need to recognize that how they choose to lead will affect the nature of their followers' compliance with their influence tactics, and ultimately impacts motivation, satisfaction, performance, and group effectiveness. In addition, the nature of the situation—contextual demands and characteristics of the follower—dictates the type of leadership that is likely to be effective. Fiedler focuses on leader traits and argues that the favorableness of the leadership situation dictates the type of leadership approach needed. He recommends selecting leaders to match the situation or changing the situation to match the leader. Path-goal theory focuses on leader behavior that can be adapted to the demands of a particular work environment and organizational members' characteristics. Path-goal theorists believe both that leaders can be matched with the situation and that the situation can be changed to match leaders. Together, these theories make clear that leadership is effective when the characteristics and behavior of the leader match the demands of the situation.

## 11.7 Substitutes for and Neutralizers of Leadership

### 7. What does the concept of “substitute for leadership” mean?

Characteristics of followers, tasks, and organizations can substitute for or neutralize many leader behaviors. Leaders must remain aware of these factors, no matter which perspective on leadership they adopt. Such awareness allows managers to use substitutes for, and neutralizers of, leadership to their benefit, rather than be stymied by their presence.

## 11.8 Transformational, Visionary, and Charismatic Leadership

### 8. What are the characteristics of transactional, transformational, and charismatic leadership?

In recent years, there has been a renewed interest in key leader traits and behaviors. As organizations face increasing amounts of chaos in their external environments, searches for “the right leader” who can bring about major organizational transformations has intensified. This search once again focuses our attention on a set of “key” motives, knowledge, skills, and personality attributes. Emerging from this search has been the identification of the charismatic and transformational leader.

## 11.9 Leadership Needs in the 21st Century

### 9. How do different approaches and styles of leadership impact what is needed now?

Leadership in the high-involvement organization differs dramatically from that in the traditional and control-oriented organization. Leaders external to the team have as one of their primary roles empowering group members and the teams themselves to self-lead and self-manage. Leaders internal to the team are peers; they work alongside and simultaneously facilitate planning, organizing, directing, controlling, and the execution of the team's work.

Although we know a great deal about the determinants of effective leadership, we have much to learn. Each theory presented in this chapter is put into practice by managers every day. None provides the complete answer to what makes leaders effective, but each has something important to offer.

Finally, our understanding of leadership has many shortcomings and limitations. The existing literature is largely based on observations from a Western industrialized context. The extent to which our theories of leadership are bound by our culture, limiting generalization to other cultures, is largely unknown. Cross-cultural leadership research will no doubt intensify as the global economy becomes an ever more dominant force in the world.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Chapter Review Questions

1. Define leadership and distinguish between leadership and management.
2. Discuss the processes associated with people coming to positions of leadership.
3. Discuss the different forms of power available to leaders and the effects associated with each.
4. It has been observed that effective leaders have the “right stuff.” What traits are commonly associated with leader emergence and effective leaders?
5. Both the Ohio State University and University of Michigan leadership studies identified central leader behaviors. What are these behaviors, and how are they different from one another?
6. Blake and Mouton’s work with the Leadership Grid® identified several leadership types. What are they, and how does this leadership model look from the perspective of situation theories of leadership?
7. Identify and describe the three situational variables presented in Fiedler’s contingency theory of leadership.
8. What are the four leadership behaviors in the path-goal theory of leadership?
9. Discuss the differences between the internal and external leadership roles surrounding self-managed work teams.
10. What are substitutes for leadership? What are neutralizers? Give an example of each.
11. What are the distinguishing features of the transformational and the charismatic leader?

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# Management Skills Application Exercises

1. Identify a charismatic leader and a leader with little charisma. What are the traits and skills that allow them to succeed in their roles? How can you incorporate the traits that allow them to be successful in their roles into the skills you will need to have in a leadership position?
2. You have just taken a leadership position where 40 percent of the workforce telecommutes. You want to encourage teamwork and want to ensure that telecommuting is not hurting teamwork. What is your plan to discover how things are working and how to communicate your desire to have effective teamwork?
3. You are at a meeting, and during the meeting someone on the team addresses their manager and points out a crucial mistake that could doom the project. The person says that their manager should have caught it and because of that should resign. As a leader of the group, how would you deal with the subordinate, the manager, and communication with the entire team?

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# Managerial Decision Exercises

1. You are the newly appointed commissioner of a major sports league that is currently in a very public game three of a best-of-seven-game playoff. After an emotional opening ceremony that recognizes a tragic event in the community that is widely praised, you settle in to enjoy the game. Early in the game, a player on one team is seen celebrating a scoring play by acting out a racially insensitive behavior after the play. How would you act in a leadership position? Read the ESPN article [[http://www.espn.com/mlb/story/\\_/id/21199462/rob-manfred-leadership-was-tested-yuli-gurriel-racially-insensitive-behavior-passed](http://www.espn.com/mlb/story/_/id/21199462/rob-manfred-leadership-was-tested-yuli-gurriel-racially-insensitive-behavior-passed)] and comment on how this commissioner acted in this instance.
2. One of the challenges for a new manager in a leadership position is managing stress. Reflect on a time in your life where you have taken a leadership role in a summer job, as a member of a team, or in a study group for this or another course. Develop a stress management plan that includes how you can recognize stress, how you will notice the stress, how you will manage changes to address stress, and how you will seek outside counsel and help, including a mentor to help you manage stress.
3. Few people would want to hire a skilled manager with no leadership skills, and you would not want to hire an inspirational leader who can't manage planning, delegating, or keeping things organized. Draw two "T accounts" with positive attributes on the left and negative attributes on the right for managerial skills and leadership skills that you would look for as a hiring manager for a crucial managerial and leadership position in your organization.

Managerial Skills		Leadership Skills	
+	-	+	-

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# Critical Thinking Case

## *The Leadership Challenge at United*

Anyone who has traveled even a little has at least one airline horror story: being stranded at an airport, obnoxious passengers, missed connections, flight delays, or just bad in-flight food. Even the most seasoned travelers would be hard-pressed to match Dr. David Dao's experience of being forcibly removed, kicking and screaming, from a United Airlines flight. Most airline horror stories don't end in a concussion, missing teeth, and a broken nose.

United Airlines CEO Oscar Munoz's strangely detached response only made things worse. The incident was caught on video, and that video went viral almost immediately. Munoz issued a response that mischaracterized what plainly happened in the video and termed the violent assault as a passenger "re-accommodation" (Taylor 2017). Social media erupted with condemnation, which was echoed by late-night monologues. United was left with a damaged reputation, and its management was left wondering why their processes failed, what to do to mitigate the damage, and how to both restore their reputation and ensure that company values are followed in the future.

William Taylor (2017), in a commentary in *Fortune*, attributes United's "re-accommodation" disaster as the product of company policy, airport security procedures, pilot protocols, and the "wisdom of crowds." At each step, the gate agent, pilot, airport security, and the passengers themselves could have intervened but didn't.

Brian Fielkow, business leader, author, and keynote speaker, writing at Entrepreneur.com, outlined some points that apply to Munoz's response and the first reactions by United. Citing United's core values, Fielkow points to Munoz's failure to address the incident in light of the company's values, take the blame, or even accurately describe what happened on the plane. Any one of these lapses in leadership would have caused confusion or stymied the recovery process. As a leader, Munoz was setting the tone for thousands of people. Seemingly abandoning United's core values likely caused a rift in trust or just simple confusion company-wide. Miscasting the situation in a world of smartphones and social media reach only multiplied the effect. As a leader, Munoz was duty-bound to take responsibility for what literally the entire world saw—a breach of social ethics, let alone United's core values. Failing to do this immediately created a problem larger than poorly planned company policy or just a perfect storm of contributing outside factors. Fielkow is keen to point out another crucial part of a company response— "You can't walk it back" (2017 n.p.). Before responding, leadership should take time to gather the facts and thoroughly consider the possibilities of how the message will be received. Again, Munoz's response failed at several key points, leading to the perception that Munoz's second statement was "an attempt at damage control" (Fielkow 2017 n.p.).

Al Bolea, a leadership trainer, also attributes the incident to leadership failure. In a piece written for *Applied Leadership*, Bolea writes, "It's about front line employees getting the wrong messages from the most senior levels of the company." He contends that the mindset within United put procedures above context in the minds of the employees. What the gate agents should have considered was the company's reputation, which should have prevented them from doing something most airline customers see as "profoundly immoral" (Bolea 2017 n.p.).

William C. Taylor, cofounder of Fast Company, also criticized the lack of leadership across United. As the presumptive leader of the flight, shouldn't the pilot have done something? Why didn't the gate agent think outside the box to solve the problem of getting the crew members from Chicago to Louisville, Kentucky? Why didn't—or couldn't—the gate agent use what Taylor refers to as a "common sense and a little bit of creativity" and prevent a highly embarrassing (and ultimately expensive) fiasco? Taylor muses that he would like to think he would have done more than shoot video, but the passengers on the flight remained quiet and submissive, expressing no group outrage. Finally, Taylor questions the weak initial response from United's CEO, Oscar Munoz, writing, "If CEO Oscar Munoz's goal was to make a disastrous situation even worse, well, he gets credit as a leader for succeeding at that" (2017 n.p.). And of the board, he questions their response, and says that response will be a "make or break test" of the company's character (Taylor 2017).

So what will it take to lead United out of such a public mistake?

According to Brian Fielkow, the incident flew in the face of United's core values, values which should never be

sacrificed. United should have acknowledged this and addressed that failure. United should have held itself accountable for the incident rather than try to deflect blame. Fielkow contends that Munoz's first response was to blame the passenger when Munoz should have accepted responsibility instead. Further, Fielkow writes that companies should anticipate what "can" go wrong, something the gate agents at United failed to do. Increasing passenger compensation to even three times the normal ticket price would have been cheaper than the PR nightmare (and stock price drop) that followed. After Munoz's tepid response failed to quell general complaints about United's handling of the passenger, he tried to issue a second "more appropriate" statement, but by then the damage had been done. Fielkow recommends waiting before issuing a response if need be. It's better to be prepared and issue a suitable response than to try to walk back a bad response. Above all, Fielkow recommends leaders "be human." The first response Munoz gave had little empathy and made him, and United, appear insensitive and callous. A company's first response should be to empathize with the customer, even if the customer is wrong. He writes, "When triaging a difficult problem, above all recognize the human factor" (Fielkow 2017 n.p.).

Writing in *Forbes*, Glenn Llopis emphasizes that how managers react to failure shapes their futures as leaders. Not only how leaders respond, but what is learned from a failure, will affect how future decisions are approached. Remember, you have to be doing something to fail, and if you never fail, then you aren't stretching yourself. Venturing into the unknown and unfamiliar always risks failure (Llopis 2012).

#### Critical Thinking Questions

1. How have other airlines handled similar situations?
2. How much was in United Airlines's control, and how much was actually outside their control? What social or company factors caused a seemingly common practice to escalate to this level?
3. How did the other airlines or the industry respond to the United Airlines incident?

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## 12 - COMMUNICATION

### Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. Understand and describe the communication process.
2. Know the types of communications that occur in organizations.
3. Understand how power, status, purpose, and interpersonal skills affect communications in organizations.
4. Describe how corporate reputations are defined by how an organization communicates to all of its stakeholders.
5. Know why talking, listening, reading, and writing are vital to managing effectively.

### EXPLORING MANAGERIAL CAREERS

*John Legere, T-Mobile*

The chief executive officer is often the face of the company. They are often the North Star of the company, providing guidance and direction for the entire organization. With other stakeholders, such as shareholders, suppliers, regulatory agencies, and customers, CEOs often take more reserved and structured approaches. One CEO who definitely stands out is John Legere, the CEO of T-Mobile. The unconventional CEO of the self-proclaimed “un-carrier” hosts a Sunday morning podcast called “Slow Cooker Sunday” on Facebook Live, and where most CEOs appear on television interviews in standard business attire, Legere appears with shoulder-length hair dressed in a magenta T-shirt, black jacket, and pink sneakers. Whereas most CEOs use well-scripted language to address business issues and competitors, Legere refers to T-Mobile’s largest competitors, AT&T and Verizon, as “dumb and dumber.”

In the mobile phone market, T-Mobile is the number-three player competing with giants AT&T and Verizon and recently came to an agreement to merge with Sprint. Of all the consolidation sweeping through the media and telecommunications arena, T-Mobile and Sprint are the most direct of competitors. Their merger would reduce the number of national wireless carriers from four to three, a move the Federal Communications Commission has firmly opposed in the past. Then again, the wireless market looks a bit different now, as does the administration in power.

John Legere and other CEOs such as Mark Cuban, Elon Musk, and Richard Branson have a more public profile than executives at other companies that keep a lower profile and are more guarded in their public comments, often restricting their public statements to quarterly investor and analyst meetings. It is likely that the personality and communication style that the executives reveal in public is also the way that they relate to their employees. The outgoing personality of someone such as John Legere will motivate some employees, but he might be seen as too much of a cheerleader by other employees.

Sometimes the unscripted comments and colorful language that Legere uses can cause issues with



employees and the public. For instance, some T-Mobile employees in their call center admonished Legere for comments at a press event where he said Verizon and AT&T were “raping” customers for every penny they have. Legere’s comments caused lengthy discussions in online forums such as Reddit about his choice of words. Legere is known for speaking his mind in public and often uses profanity, but many thought this comment crossed the line. While frank, open communication is often appreciated and leads to a clarity of message, senders of communication, be it in a public forum, an internal memo, or even a text message, should always think through the consequences of their words.

Sources: Tara Lachapelle, “T-Mobile’s Argument for Sprint Deal is as Loud as CEO John Legere’s Style,” *The Seattle Times*, July 9, 2018, <https://www.seattletimes.com/business/t-mobiles-argument-for-sprint-deal-is-as-loud-as-ceo-john-legeres-style/>; Janko Roettgers, “T-Mobile CEO John Legere Pokes Fun at Verizon’s Go90 Closure,” *Variety*, June 29, 2018, <https://variety.com/2018/digital/news/john-legere-go90-1202862397/>; Rachel Lerman, “T-Mobile’s Loud, Outspoken John Legere is Not Your Typical CEO,” *The Chicago Tribune*, April 30, 2018, [www.chicagotribune.com/business/sns-tns-bc-tmobile-legere-20180430-story.html](http://www.chicagotribune.com/business/sns-tns-bc-tmobile-legere-20180430-story.html); Steve Kovach, T-Mobile Employees Speak Out and Call CEO’s Recent Rape Comments “Violent” and “Traumatizing,” *Business Insider*, June 27, 2014, <https://www.businessinsider.com/t-mobile-employees-speak-out-legere-rape-comment-2014-6>; Brian X. Chen, One on One: John Legere, the Hip New Chief of T-Mobile USA,” *New York Times*, January 9, 2013, <https://bits.blogs.nytimes.com/2013/01/09/one-on-one-john-legere-the-hip-new-chief-of-t-mobile-usa/>.

We will distinguish between communication between two individuals and communication amongst several individuals (groups) and communication outside the organization. We will show that managers spend a majority of their time in communication with others. We will examine the reasons for communication and discuss the basic model of interpersonal communication, the types of interpersonal communication, and major influences on the communication process. We will also discuss how organizational reputation is defined by communication with stakeholders.

## 12.1 - The Process of Managerial Communication

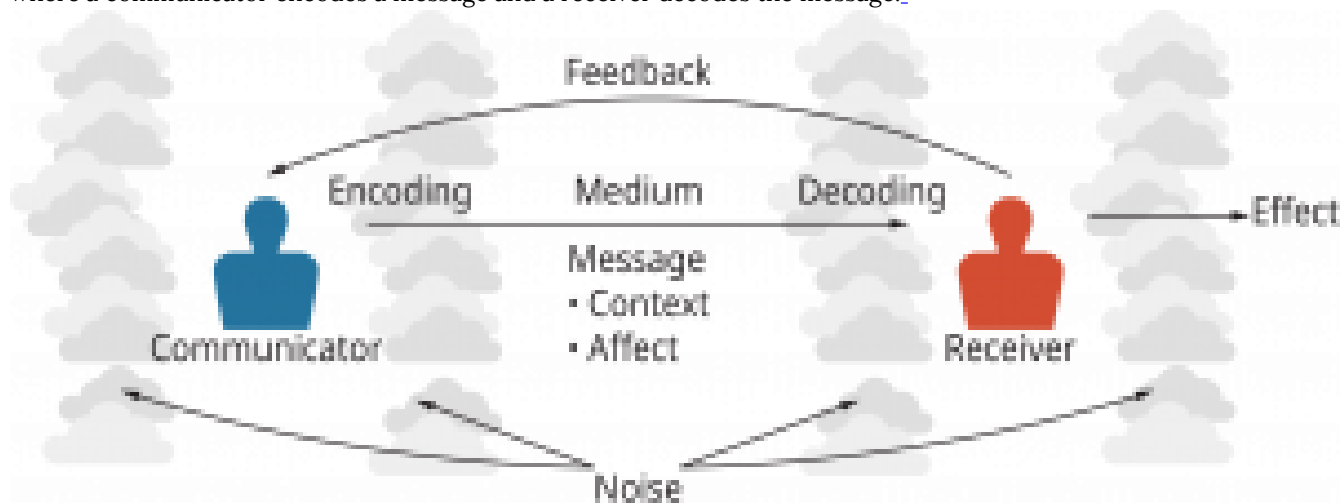
### 1. Understand and describe the communication process.

Interpersonal communication is an important part of being an effective manager:

- It influences the opinions, attitude, motivation, and behaviors of others.
- It expresses our feelings, emotions, and intentions to others.
- It is the vehicle for providing, receiving, and exchanging information regarding events or issues that concern us.
- It reinforces the formal structure of the organization by such means as making use of formal channels of communication.

Interpersonal communication allows employees at all levels of an organization to interact with others, to secure desired results, to request or extend assistance, and to make use of and reinforce the formal design of the organization. These purposes serve not only the individuals involved, but the larger goal of improving the quality of organizational effectiveness.

The model that we present here is an oversimplification of what really happens in communication, but this model will be useful in creating a diagram to be used to discuss the topic. **Exhibit 12.1** illustrates a simple communication episode where a communicator encodes a message and a receiver decodes the message.<sup>1</sup>



**Exhibit 12.1** The Basic Communication Model (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

### Encoding and Decoding

Two important aspects of this model are encoding and decoding. Encoding is the process by which individuals initiating the communication translate their ideas into a systematic set of symbols (language), either written or spoken. Encoding is influenced by the sender's previous experiences with the topic or issue, her emotional state at the time of the message, the importance of the message, and the people involved. Decoding is the process by which the recipient of the message interprets it. The receiver attaches meaning to the message and tries to uncover its underlying intent. Decoding is also influenced by the receiver's previous experiences and frame of reference at the time of receiving the message.

## Feedback

Several types of feedback can occur after a message is sent from the communicator to the receiver. Feedback can be viewed as the last step in completing a communication episode and may take several forms, such as a verbal response, a nod of the head, a response asking for more information, or no response at all. As with the initial message, the response also involves encoding, medium, and decoding.

There are three basic types of feedback that occur in communication.<sup>2</sup> These are informational, corrective, and reinforcing. In informational feedback, the receiver provides nonevaluative information to the communicator. An example is the level of inventory at the end of the month. In corrective feedback, the receiver responds by challenging the original message. The receiver might respond that it is not their responsibility to monitor inventory. In reinforcing feedback, the receiver communicated that they have clearly received the message and its intentions. For instance, the grade that you receive on a term paper (either positive or negative) is reinforcing feedback on your term paper (your original communication).

## Noise

There is, however, a variety of ways that the intended message can get distorted. Factors that distort message clarity are noise. Noise can occur at any point along the model shown in **Exhibit 12.1**, including the decoding process. For example, a manager might be under pressure and issue a directive, “I want this job completed today, and I don’t care what it costs,” when the manager does care what it costs.

### CONCEPT CHECK

1. Describe the communication process.
2. Why is feedback a critical part of the communication process?
3. What are some things that managers can do to reduce noise in communication?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 12.2 - Types of Communications in Organizations

2. Know the types of communications that occur in organizations.

In the communication model described above, three types of communication can be used by either the communicator in the initial transmission phase or the receiver in the feedback phase. These three types are discussed next.

### Oral Communication

This consists of all messages or exchanges of information that are spoken, and it's the most prevalent type of communication.

### Written Communication

This includes e-mail, texts, letters, reports, manuals, and annotations on sticky notes. Although managers prefer oral communication for its efficiency and immediacy, the increase in electronic communication is undeniable. As well, some managers prefer written communication for important messages, such as a change in a company policy, where precision of language and documentation of the message are important.

#### MANAGERIAL LEADERSHIP

##### *Dealing with Information Overload*

One of the challenges in many organizations is dealing with a deluge of emails, texts, voicemails, and other communication. Organizations have become flatter, outsourced many functions, and layered technology to speed communication with an integrated communication programs such as Slack, which allows users to manage all their communication and access shared resources in one place. This can lead to information overload, and crucial messages may be drowned out by the volume in your inbox.

Add the practice of “reply to all,” which can add to the volume of communication, that many coworkers use, and that means that you may get five or six versions of an initial e-mail and need to understand all of the responses as well as the initial communication before responding or deciding that the issue is resolved and no response is needed. Here are suggestions to dealing with e-mail overload upward, horizontally, and downward within your organization and externally to stakeholders and customers.

One way to reduce the volume and the time you spend on e-mail is to turn off the spigot of incoming messages. There are obvious practices that help, such as unsubscribing to e-newsletters or turning off

notifications from social media accounts such as Facebook and Twitter. Also consider whether your colleagues or direct reports are copying you on too many emails as an FYI. If yes, explain that you only need to be updated at certain times or when a final decision is made.

You will also want to set up a system that will organize your inbox into “folders” that will allow you to manage the flow of messages into groups that will allow you to address them appropriately. Your system might look something like this:

1. **Inbox:** Treat this as a holding pen. E-mails shouldn’t stay here any longer than it takes for you to file them into another folder. The exception is when you respond immediately and are waiting for an immediate response.
2. **Today:** This is for items that need a response today.
3. **This week:** This is for messages that require a response before the end of the week.
4. **This month/quarter:** This is for everything that needs a longer-term response. Depending on your role, you may need a monthly or quarterly folder.
5. **FYI:** This is for any items that are for information only and that you may want to refer back to in the future.

This system prioritizes e-mails based on timescales rather than the e-mails’ senders, enabling you to better schedule work and set deadlines.

Another thing to consider is your outgoing e-mail. If your outgoing messages are not specific, too long, unclear, or are copied too widely, your colleagues are likely to follow the same practice when communicating with you. Keep your communication clear and to the point, and managing your outbox will help make your inbound e-mails manageable.

#### Critical Thinking Questions

1. How are you managing your e-mails now? Are you mixing personal and school and work-related e-mails in the same account?
2. How would you communicate to a colleague that is sending too many FYI e-mails, sending too many unclear e-mails, or copying too many people on her messages?

Sources: Amy Gallo, Stop Email Overload, *Harvard Business Review*, February 21, 2012, <https://hbr.org/2012/02/stop-email-overload-1>; Barry Chingel, “How to beat email Overload in 2018”, CIPHER, January 16, 2018, <https://www.ciphr.com/advice/email-overload/>; Monica Seely, “At the Mercy of Your Inbox? How to Cope With Email Overload”, *The Guardian*, November 6, 2017, <https://www.theguardian.com/small-business-network/2017/nov/06/at-the-mercy-of-your-inbox-how-to-cope-with-email-overload>.

## Nonverbal Communication

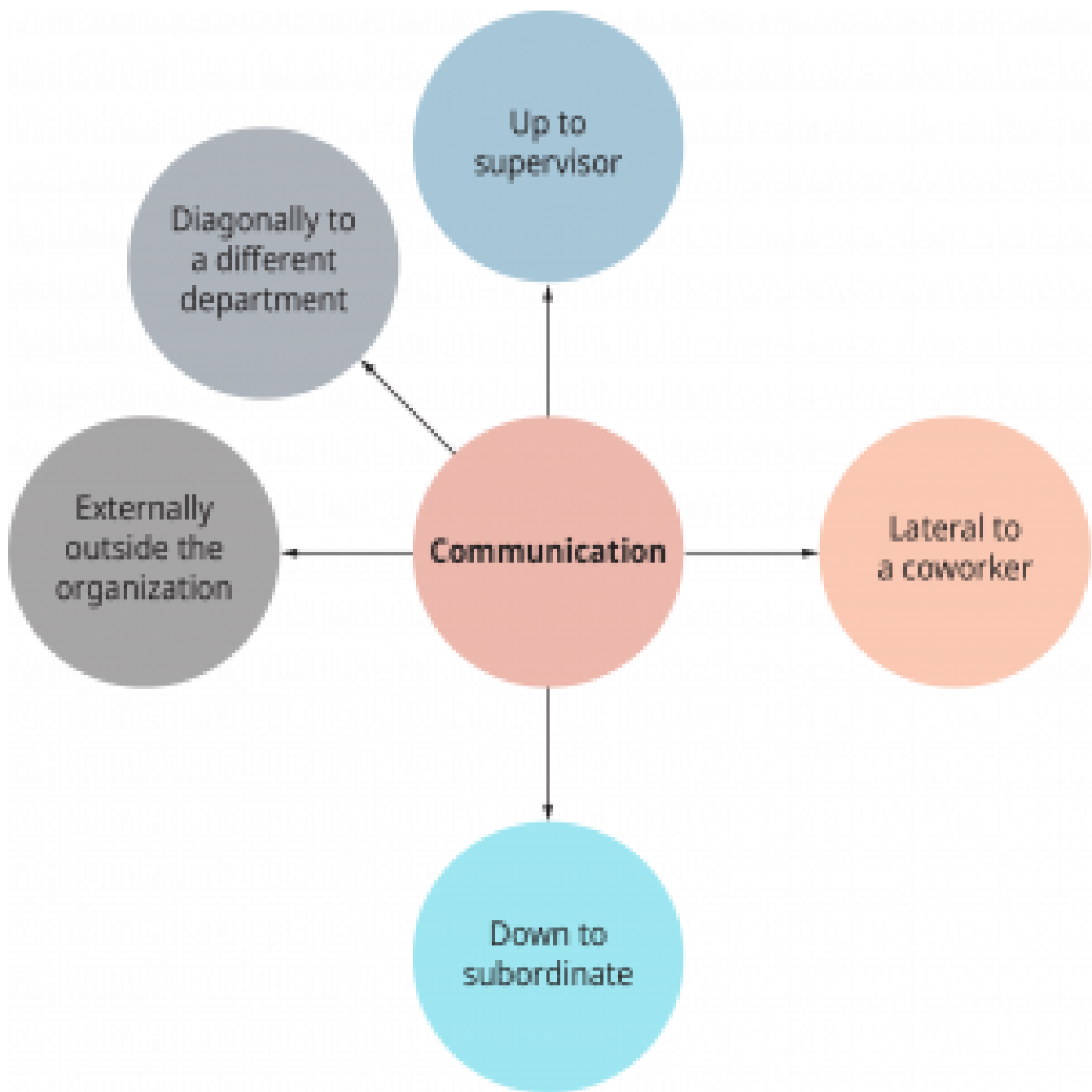
There is also the transformation of information without speaking or writing. Some examples of this are things such as traffic lights and sirens as well as things such as office size and placement, which connote something or someone of importance. As well, things such as body language and facial expression can convey either conscious or unconscious messages to others.

## Major Influences on Interpersonal Communication

Regardless of the type of communication involved, the nature, direction, and quality of interpersonal communication processes can be influenced by several factors.<sup>3</sup>

### *Social Influences*

Communication is a social process, as it takes at least two people to have a communication episode. There is a variety of social influences that can affect the accuracy of the intended message. For examples, status barriers between employees at different levels of the organization can influence things such as addressing a colleague as at a director level as “Ms. Jones” or a coworker at the same level as “Mike.” Prevailing norms and roles can dictate who speaks to whom and how someone responds. **Exhibit 12.2** illustrates a variety of communications that illustrate social influences in the workplace.



**Exhibit 12.2** Patterns of Managerial Communication (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

### *Perception*

In addition, the communication process is heavily influenced by perceptual processes. The extent to which an employee accurately receives job instructions from a manager may be influenced by her perception of the manager, especially if the job instructions conflict with her interest in the job or if they are controversial. If an employee has stereotyped the manager as incompetent, chances are that little that the manager says will be taken seriously. If the boss is well regarded or seen as influential in the company, everything that they say may be interpreted as important.

## *Interaction Involvement*

Communication effectiveness can be influenced by the extent to which one or both parties are involved in conversation. This attentiveness is called interaction attentiveness or interaction involvement.<sup>4</sup> If the intended receiver of the message is preoccupied with other issues, the effectiveness of the message may be diminished. Interaction involvement consists of three interrelated dimensions: responsiveness, perceptiveness, and attentiveness.

## *Organizational Design*

The communication process can also be influenced by the design of the organization. It has often been argued to decentralize an organization because that will lead to a more participative structure and lead to improved communication in the organization. When messages must travel through multiple levels of an organization, the possibility of distortion can also occur, which would be diminished with more face-to-face communication.

### CONCEPT CHECK

1. What are the three major types of communication?
2. How can you manage the inflow of electronic communication?
3. What are the major influences on organizational communication, and how can organizational design affect communication?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



## 12.3 - Factors Affecting Communications and the Roles of Managers

3. Understand how power, status, purpose, and interpersonal skills affect communications in organizations.

### The Roles Managers Play

In Mintzberg's seminal study of managers and their jobs, he found the majority of them clustered around three core management roles.<sup>5</sup>

#### *Interpersonal Roles*

Managers are required to interact with a substantial number of people during a workweek. They host receptions; take clients and customers to dinner; meet with business prospects and partners; conduct hiring and performance interviews; and form alliances, friendships, and personal relationships with many others. Numerous studies have shown that such relationships are the richest source of information for managers because of their immediate and personal nature.<sup>6</sup>

Three of a manager's roles arise directly from formal authority and involve basic interpersonal relationships. First is the figurehead role. As the head of an organizational unit, every manager must perform some ceremonial duties. In Mintzberg's study, chief executives spent 12% of their contact time on ceremonial duties; 17% of their incoming mail dealt with acknowledgments and requests related to their status. One example is a company president who requested free merchandise for a handicapped schoolchild.<sup>7</sup>

Managers are also responsible for the work of the people in their unit, and their actions in this regard are directly related to their role as a leader. The influence of managers is most clearly seen, according to Mintzberg, in the leader role. Formal authority vests them with great potential power. Leadership determines, in large part, how much power they will realize.

Does the leader's role matter? Ask the employees of Chrysler Corporation (now Fiat Chrysler). When Sergio Marchionne, who passed away in 2018, took over the company in the wake of the financial crisis, the once-great auto manufacturer was in bankruptcy, teetering on the verge of extinction. He formed new relationships with the United Auto Workers, reorganized the senior management of the company, and—perhaps, most importantly—convinced the U.S. federal government to guarantee a series of bank loans that would make the company solvent again. The loan guarantees, the union response, and the reaction of the marketplace, especially for the Jeep brand, were due in large measure to Marchionne's leadership style and personal charisma. More recent examples include the return of Starbucks founder Howard Schultz to reenergize and steer his company and Amazon CEO Jeff Bezos and his ability to innovate during a downturn in the economy.<sup>8</sup>

Popular management literature has had little to say about the liaison role until recently. This role, in which managers establish and maintain contacts outside the vertical chain of command, becomes especially important in view of the finding of virtually every study of managerial work that managers spend as much time with peers and other people outside of their units as they do with their own subordinates. Surprisingly, they spend little time with their own superiors. In Rosemary Stewart's (1967) study, 160 British middle and top managers spent 47% of their time with peers, 41% of their time with people inside their unit, and only 12% of their time with superiors. Guest's (1956) study of U.S. manufacturing supervisors revealed similar findings.

## *Informational Roles*

Managers are required to gather, collate, analyze, store, and disseminate many kinds of information. In doing so, they become information resource centers, often storing huge amounts of information in their own heads, moving quickly from the role of gatherer to the role of disseminator in minutes. Although many business organizations install large, expensive management information systems to perform many of those functions, nothing can match the speed and intuitive power of a well-trained manager's brain for information processing. Not surprisingly, most managers prefer it that way.

As monitors, managers are constantly scanning the environment for information, talking with liaison contacts and subordinates, and receiving unsolicited information, much of it because of their network of personal contacts. A good portion of this information arrives in verbal form, often as gossip, hearsay, and speculation.<sup>9</sup>

In the disseminator role, managers pass privileged information directly to subordinates, who might otherwise have no access to it. Managers must decide not only who should receive such information, but how much of it, how often, and in what form. Increasingly, managers are being asked to decide whether subordinates, peers, customers, business partners, and others should have direct access to information 24 hours a day without having to contact the manager directly.<sup>10</sup>

In the spokesperson role, managers send information to people outside of their organizations: an executive makes a speech to lobby for an organizational cause, or a supervisor suggests a product modification to a supplier. Increasingly, managers are also being asked to deal with representatives of the news media, providing both factual and opinion-based responses that will be printed or broadcast to vast unseen audiences, often directly or with little editing. The risks in such circumstances are enormous, but so too are the potential rewards in terms of brand recognition, public image, and organizational visibility.<sup>11</sup>

## *Decisional Roles*

Ultimately, managers are charged with the responsibility of making decisions on behalf of both the organization and the stakeholders with an interest in it. Such decisions are often made under circumstances of high ambiguity and with inadequate information. Often, the other two managerial roles—interpersonal and informational—will assist a manager in making difficult decisions in which outcomes are not clear and interests are often conflicting.

In the role of entrepreneur, managers seek to improve their businesses, adapt to changing market conditions, and react to opportunities as they present themselves. Managers who take a longer-term view of their responsibilities are among the first to realize that they will need to reinvent themselves, their product and service lines, their marketing strategies, and their ways of doing business as older methods become obsolete and competitors gain advantage.

While the entrepreneur role describes managers who initiate change, the disturbance or crisis handler role depicts managers who must involuntarily react to conditions. Crises can arise because bad managers let circumstances deteriorate or spin out of control, but just as often good managers find themselves in the midst of a crisis that they could not have anticipated but must react to just the same.<sup>12</sup>

The third decisional role of resource allocator involves managers making decisions about who gets what, how much, when, and why. Resources, including funding, equipment, human labor, office or production space, and even the boss's time, are all limited, and demand inevitably outstrips supply. Managers must make sensible decisions about such matters while still retaining, motivating, and developing the best of their employees.

The final decisional role is that of negotiator. Managers spend considerable amounts of time in negotiations: over budget allocations, labor and collective bargaining agreements, and other formal dispute resolutions. During a week, managers will often make dozens of decisions that are the result of brief but important negotiations between and among employees, customers and clients, suppliers, and others with whom managers must deal.<sup>13</sup>

## CONCEPT CHECK

1. What are the major roles that managers play in communicating with employees?
2. Why are negotiations often brought in to communications by managers?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 12.4 - Managerial Communication and Corporate Reputation

4. Describe how corporate reputations are defined by how an organization communicates to its stakeholders.

Management communication is a central discipline in the study of communication and corporate reputation. An understanding of language and its inherent powers, combined with the skill to speak, write, listen, and form interpersonal relationships, will determine whether companies succeed or fail and whether they are rewarded or penalized for their reputations.

At the midpoint of the twentieth century, Peter Drucker wrote, “Managers have to learn to know language, to understand what words are and what they mean. Perhaps most important, they have to acquire respect for language as [our] most precious gift and heritage. The manager must understand the meaning of the old definition of rhetoric as ‘the art which draws men’s hearts to the love of true knowledge.’”<sup>14</sup>

Later, Eccles and Nohria reframed Drucker’s view to offer a perspective of management that few others have seen: “To see management in its proper light, managers need first to take language seriously.”<sup>15</sup> In particular, they argue, a coherent view of management must focus on three issues: the use of rhetoric to achieve a manager’s goals, the shaping of a managerial identity, and taking action to achieve the goals of the organizations that employ us. Above all, they say, “the essence of what management is all about [is] the effective use of language to get things done.”<sup>16</sup> One of the things managers get done is the creation, management, and monitoring of corporate reputation.

The job of becoming a competent, effective manager thus becomes one of understanding language and action. It also involves finding ways to shape how others see and think of you in *your* role as a manager. Many noted researchers have examined the important relationship between communication and action within large and complex organizations and conclude that the two are inseparable. Without the right words, used in the right way, it is unlikely that the right reputations develop. “Words do matter,” write Eccles and Nohria. “They matter very much. Without words we have no way of expressing strategic concepts, structural forms, or designs for performance measurement systems.” Language, they conclude, “is too important to managers to be taken for granted or, even worse, abused.”<sup>17</sup>

So, if language is a manager’s key to corporate reputation management, the next question is obvious: How good are managers at using language? Managers’ ability to act—to hire a talented workforce, to change an organization’s reputation, to launch a new product line—depends entirely on how effectively they use management communication, both as a speaker and as a listener. Managers’ effectiveness as a speaker and writer will determine how well they are able to manage the firm’s reputation. And their effectiveness as listeners will determine how well they understand and respond to others and can change the organization in response to their feedback.

We will now examine the role management communication plays in corporate reputation formation, management, and change and the position occupied by rhetoric in the life of business organizations. Though, this chapter will focus on the skills, abilities, and competencies for using language, attempting to influence others, and responding to the requirements of peers, superiors, stakeholders, and the organization in which managers and employees work.

Management communication is about the movement of information and the skills that facilitate it—speaking, writing, listening, and processes of critical thinking. It’s also about understanding who your organization is (identity), who others think your organization is (reputation), and the contributions individuals can make to the success of their business considering their organization’s existing reputation. It is also about confidence—the knowledge that one can speak and write well, listen with great skill as others speak, and both seek out and provide the feedback essential to creating, managing, or changing their organization’s reputation.

At the heart of this chapter, though, is the notion that communication, in many ways, is the work of managers. We will now examine the roles of writing and speaking in the role of management, as well as other specific applications and challenges managers face as they play their role in the creation, maintenance, and change of corporate reputation.

## CONCEPT CHECK

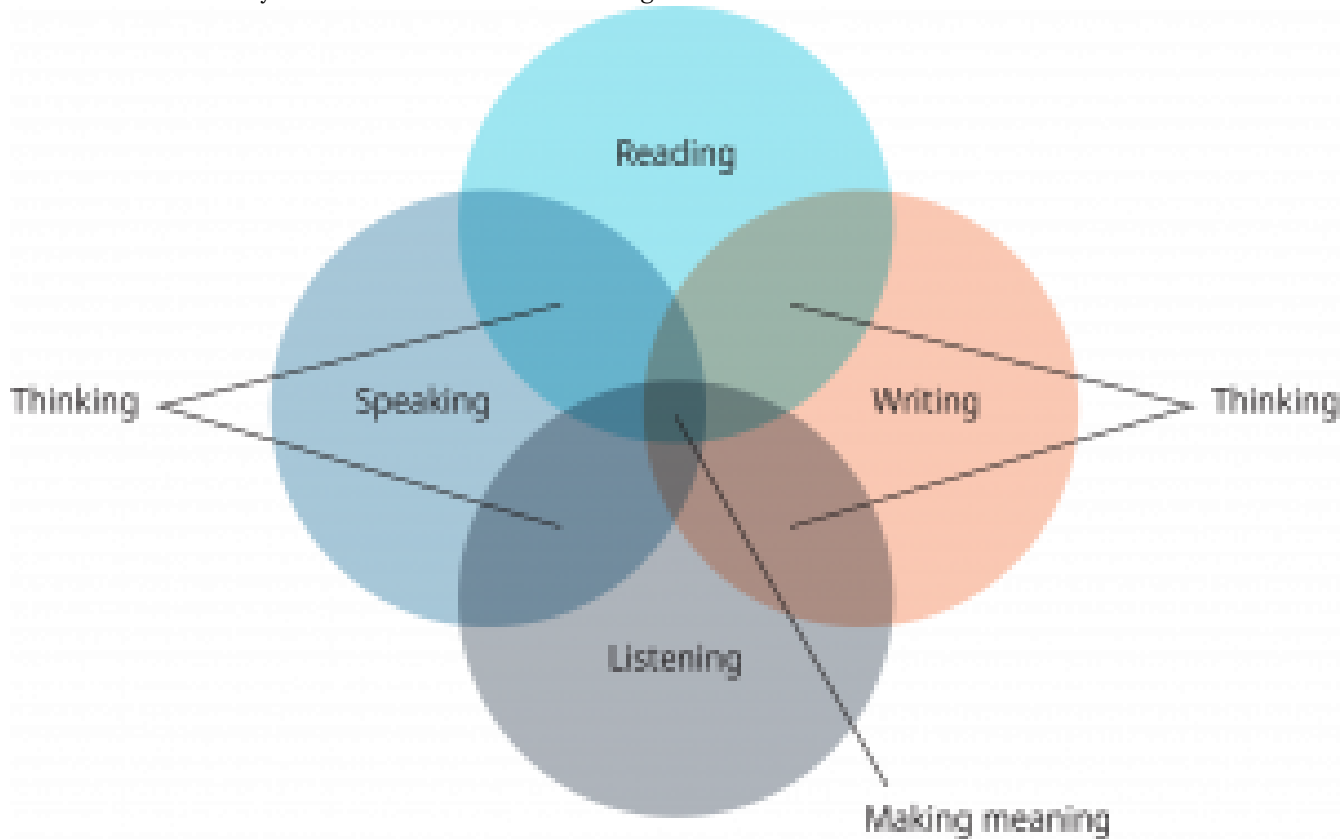
1. How are corporate reputations affected by the communication of managers and public statements?
2. Why is corporate reputation important?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 12.5 - The Major Channels of Management Communication: Talking, Listening, Reading, and Writing

5. Know why talking, listening, reading, and writing are vital to managing effectively.

The major channels of managerial communication displayed in **Exhibit 12.3** are talking, listening, reading, and writing. Among these, talking is the predominant method of communicating, but as e-mail and texting increase, reading and writing are increasing. Managers across industries, according to Deirdre Borden, spend about 75% of their time in verbal interaction. Those daily interactions include the following.



**Exhibit 12.3** Reading, Writing, Speaking, and Listening: How They Help in Creating Meaning (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

### One-on-One Conversations

Increasingly, managers find that information is passed orally, often face-to-face in offices, hallways, conference rooms, cafeterias, restrooms, athletic facilities, parking lots, and literally dozens of other venues. An enormous amount of information is exchanged, validated, confirmed, and passed back and forth under highly informal circumstances.

## Telephone Conversations

Managers spend an astounding amount of time on the telephone these days. Curiously, the amount of time per telephone call is decreasing, but the number of calls per day is increasing. With the nearly universal availability of cellular and satellite telephone service, very few people are out of reach of the office for very long. The decision to switch off a cellular telephone, in fact, is now considered a decision in favor of work-life balance.

## Video Teleconferencing

Bridging time zones as well as cultures, videoconferencing facilities make direct conversations with employees, colleagues, customers, and business partners across the nation or around the world a simple matter. Carrier Corporation, the air-conditioning manufacturer, is now typical of firms using desktop videoconferencing to conduct everything from staff meetings to technical training. Engineers at Carrier's Farmington, Connecticut, headquarters can hook up with service managers in branch offices thousands of miles away to explain new product developments, demonstrate repair techniques, and update field staff on matters that would, just recently, have required extensive travel or expensive, broadcast-quality television programming. Their exchanges are informal, conversational, and not much different than they would be if the people were in the same room.<sup>18</sup>

## Presentations to Small Groups

Managers frequently find themselves making presentations, formal and informal, to groups of three to eight people for many different reasons: they pass along information given to them by executives, they review the status of projects in process, and they explain changes in everything from working schedules to organizational goals. Such presentations are sometimes supported by overhead transparencies or printed outlines, but they are oral in nature and retain much of the conversational character of one-to-one conversations.

## Public Speaking to Larger Audiences

Most managers are unable to escape the periodic requirement to speak to larger audiences of several dozen or, perhaps, several hundred people. Such presentations are usually more formal in structure and are often supported by PowerPoint or Prezi software that can deliver data from text files, graphics, photos, and even motion clips from streaming video. Despite the more formal atmosphere and sophisticated audio-visual support systems, such presentations still involve one manager talking to others, framing, shaping, and passing information to an audience.

A series of scientific studies, beginning with Rankin, Nichols and Stevens, and Wolvin and Coakley, confirm: most managers spend the largest portion of their day talking and listening.<sup>19</sup> Werner's thesis, in fact, found that North American adults spend more than 78% of their communication time either talking or listening to others who are talking.

According to Werner and others who study the communication habits of postmodern business organizations, managers are involved in more than just speeches and presentations from the dais or teleconference podium. They spend their days in meetings, on the telephone, conducting interviews, giving tours, supervising informal visits to their facilities, and at a wide variety of social events.<sup>20</sup>

Each of these activities may look to some managers like an obligation imposed by the job. Shrewd managers see them

as opportunities to hear what others are thinking, to gather information informally from the grapevine, to listen in on office gossip, to pass along viewpoints that haven't yet made their way to the more formal channels of communication, or to catch up with a colleague or friend in a more relaxed setting. No matter what the intention of each manager who engages in these activities, the information they produce and the insight that follows from them can be put to work the same day to achieve organizational and personal objectives. "To understand why effective managers behave as they do," writes Kotter, "it is essential first to recognize two fundamental challenges and dilemmas found in most of their jobs." Managers must first figure out what to do, despite an enormous amount of potentially relevant information (along with much that is not), and then they must get things done "through a large and diverse group of people despite having little direct control over most of them."<sup>21</sup>

## The Role of Writing

Writing plays an important role in the life of any organization. In some organizations, it becomes more important than in others. At Procter & Gamble, for example, brand managers cannot raise a work-related issue in a team meeting unless the ideas are first circulated in writing. For P&G managers, this approach means explaining their ideas in explicit detail in a standard one-to-three-page memo, complete with background, financial discussion, implementation details, and justification for the ideas proposed.

Other organizations are more oral in their traditions—3M Canada is a "spoken" organization—but the fact remains: the most important projects, decisions, and ideas end up in writing. Writing also provides analysis, justification, documentation, and analytic discipline, particularly as managers approach important decisions that will affect the profitability and strategic direction of the company.

Writing is a career sifter. If managers demonstrate their inability to put ideas on paper in a clear, unambiguous fashion, they're not likely to last. Stories of bad writers who've been shown the door early in their careers are legion. Managers' principal objective, at least during the first few years of their career, is to keep their name out of such stories. Remember: those who are most likely to notice the quality and skill in managers' written documents are the very people most likely to matter to managers' future.

Managers do most of their own writing and editing. The days when managers could lean back and thoughtfully dictate a letter or memo to a skilled secretarial assistant are mostly gone. Some senior executives know how efficient dictation can be, especially with a top-notch administrative assistant taking shorthand, but how many managers have that advantage today? Very few, mostly because buying a computer and printer is substantially cheaper than hiring another employee. Managers at all levels of most organizations draft, review, edit, and dispatch their own correspondence, reports, and proposals.

Documents take on lives of their own. Once it's gone from the manager's desk, it isn't theirs anymore. When they sign a letter and put it in the mail, it's no longer their letter—it's the property of the person or organization it was sent to. As a result, the recipient is free to do as she sees fit with the writing, including using it against the sender. If the ideas are ill-considered or not well expressed, others in the organization who are not especially sympathetic to the manager's views may head for the copy machine with the manager's work in hand. The advice for managers is simple: do not mail the first draft, and do not ever sign your name to a document you are not proud of.

## Communication Is Invention

Without question, communication is a process of invention. Managers literally create meaning through communication. A company, for example, is not in default until a team of auditors sits down to examine the books and review the matter.



Only after extended discussion do the accountants conclude that the company is, in fact, in default. It is their discussion that creates the outcome. Until that point, default was simply one of many possibilities.

The fact is managers create meaning through communication. It is largely through discussion and verbal exchange—often heated and passionate—that managers decide who they wish to be: market leaders, takeover artists, innovators, or defenders of the economy. It is only through communication that meaning is created for shareholders, employees, customers, and others. Those long, detailed, and intense discussions determine how much the company will declare in dividends this year, whether the company is willing to risk a strike or labor action, and how soon to roll out the new product line customers are asking for. Additionally, it is important to note that managers usually figure things out by talking about them as much as they talk about the things they have already figured out. Talk serves as a wonderful palliative: justifying, analyzing, dissecting, reassuring, and analyzing the events that confront managers each day.

## Information Is Socially Constructed

If we are to understand just how important human discourse is in the life of a business, several points seem especially important.

Information is created, shared, and interpreted by people. Meaning is a truly human phenomenon. An issue is only important if people think it is. Facts are facts only if we can agree upon their definition. Perceptions and assumptions are as important as truth itself in a discussion about what a manager should do next.<sup>22</sup> Information never speaks for itself. It is not uncommon for a manager to rise to address a group of her colleagues and say, “The numbers speak for themselves.” Frankly, the numbers never speak for themselves. They almost always require some sort of interpretation, some sort of explanation or context. Do not assume that others see the facts in the same way managers do, and never assume that what is seen is the truth. Others may see the same set of facts or evidence but may not reach the same conclusions. Few things in life are self-explanatory.

Context always drives meaning. The backdrop to a message is always of paramount importance to the listener, viewer, or reader in reaching a reasonable, rational conclusion about what they see and hear. What’s in the news these days as we take up this subject? What moment in history do we occupy? What related or relevant information is under consideration as this new message arrives? We cannot possibly derive meaning from one message without considering everything else that surrounds it.

A messenger always accompanies a message. It is difficult to separate a message from its messenger. We often want to react more to the source of the information than we do to the information itself. That’s natural and entirely normal. People speak for a reason, and we often judge their reasons for speaking before analyzing what they have to say. Keep in mind that, in every organization, message recipients will judge the value, power, purpose, intent, and outcomes of the messages they receive by the source of those messages as much as by the content and intent of the messages themselves. If the messages managers send are to have the impact hoped for, they must come from a source the receiver knows, respects, and understands.

## Managers’ Greatest Challenge

Every manager knows communication is vital, but every manager also seems to “know” that she is great at it. Managers’ greatest challenge is to admit to flaws in their skill set and work tirelessly to improve them. First, managers must admit to the flaws.

Larkin and Larkin write, “Deep down, managers believe they are communicating effectively. In ten years of management consulting, we have never had a manager say to us that he or she was a poor communicator. They

admit to the occasional screw-up, but overall, everyone, without exception, believes he or she is basically a good communicator.”<sup>23</sup>

## Managers’ Task as Professionals

As a professional manager, the first task is to recognize and understand one’s strengths and weaknesses as a communicator. Until these communication tasks at which one is most and least skilled are identified, there will be little opportunity for improvement and advancement.

Foremost among managers’ goals should be to improve existing skills. Improve one’s ability to do what is done best. Be alert to opportunities, however, to develop new skills. Managers should add to their inventory of abilities to keep themselves employable and promotable.

Two other suggestions come to mind for improving managers’ professional standing. First, acquire a knowledge base that will work for the years ahead. That means speaking with and listening to other professionals in their company, industry, and community. They should be alert to trends that could affect their company’s products and services, as well as their own future.

It also means reading. Managers should read at least one national newspaper each day, including the *Wall Street Journal*, the *New York Times*, or the *Financial Times*, as well as a local newspaper. Their reading should include weekly news magazines, such as *U.S. News & World Report*, *Bloomberg’s Business Week*, and the *Economist*. Subscribe to monthly magazines such as *Fast Company* and *Fortune*. And they should read at least one new hardcover title a month. A dozen books each year is the bare minimum on which one should depend for new ideas, insights, and managerial guidance.

Managers’ final challenge is to develop the confidence needed to succeed as a manager, particularly under conditions of uncertainty, change, and challenge.

### ETHICS IN PRACTICE

#### *Disney and H-1B Visas*

On January 30, 2015, The Walt Disney Company laid off 250 of its IT workers. In a letter to the laid-off workers, Disney outlined the conditions for receipt of a “stay bonus,” which would entitle each worker to a lump-sum payment of 10% of her annual salary.

Of course, there was a catch. Only those workers who trained their replacements over a 90-day period would receive the bonus. One American worker in his 40s who agreed to Disney’s severance terms explained how it worked in action:

“The first 30 days was all capturing what I did. The next 30 days, they worked side by side with me, and the last 30 days, they took over my job completely. I had to make sure they were doing my job correctly.”

To outside observers, this added insult to injury. It was bad enough to replace U.S. workers with cheaper,

foreign labor. But to ask, let alone strong-arm, the laid-off workers into training their replacements seemed a bit much.

However unfortunate, layoffs are commonplace. But this was different. From the timing to the apparent neglect of employee pride, the sequence of events struck a nerve. For many, the issue was simple, and Disney's actions seemed wrong at a visceral level. As criticism mounted, it became clear that this story would develop legs. Disney had a problem.

For David Powers and Leo Perrero, each a 10-year information technology (IT) veteran at Disney, the invitation came from a vice president of the company. It had to be good news, the men thought. After all, they were not far removed from strong performance reviews—perhaps they would be awarded performance bonuses. Well, not exactly. Leo Perrero, one of the summoned workers, explains what happened next.

“I’m in the room with about two-dozen people, and very shortly thereafter an executive delivers the news that all of our jobs are ending in 90 days, and that we have 90 days to train our replacements or we won’t get a bonus that we’ve been offered.”

Powers explained the deflating effect of the news: “When a guillotine falls down on you, in that moment you’re dead . . . and I was dead.”

These layoffs and the hiring of foreign workers under the H-1B program lay at the center of this issue. Initially introduced by the Immigration and Nationality Act of 1965, subsequent modifications produced the current iteration of the H-1B visa program in 1990. Importantly, at that time, the United States faced a shortage of skilled workers necessary to fill highly technical jobs. Enter the H-1B visa program as the solution. This program permits U.S. employers to temporarily employ foreign workers in highly specialized occupations. “Specialty occupations” are defined as those in the fields of architecture, engineering, mathematics, science, medicine, and others that require technical and skilled expertise.

Congress limited the number of H-1B visas issued to 85,000 per year. That total is divided into two subcategories: “65,000 new H-1B visas issued for overseas workers in professional or specialty occupation positions, and an additional 20,000 visas available for those with an advanced degree from a U.S. academic institution.” Further, foreign workers are not able to apply for an H-1B visa. Instead, a U.S. employer must petition on their behalf no earlier than six months before the starting date of employment.

In order to be eligible for an employer to apply a foreign worker for an H-1B visa, the worker needed to meet certain requirements, such as an employee-employer relationship with the petitioning U.S. employer and a position in a specialty occupation related to the employee’s field of study, where the employee must meet one of the following criteria: a bachelor’s degree or the foreign equivalent of a bachelor’s degree, a degree that is standard for the position, or previous qualified experience within the specialty occupation.

If approved, the initial term of the visa is three years, which may be extended an additional three years. While residing in the United States on an H-1B visa, a worker may apply to become a permanent resident and receive a green card, which would entitle the worker to remain indefinitely.

U.S. employers are required to file a Labor Condition Application (LCA) on behalf of each foreign worker they seek to employ. That application must be approved by the U.S. Department of Labor. The LCA requires the employer to assure that the foreign worker will be paid a wage and be provided working conditions and benefits that meet or exceed the local prevailing market and to assure that the foreign worker will not displace a U.S. worker in the employer’s workforce.

Given these representations, U.S. employers have increasingly been criticized for abuse of the H-1B

program. Most significantly, there is rising sentiment that U.S. employers are displacing domestic workers in favor of cheaper foreign labor. Research indicates that a U.S. worker's salary for these specialty occupations often exceeds \$100,000, while that of a foreign worker is roughly \$62,000 for the very same job. The latter figure is telling, since \$60,000 is the threshold below which a salary would trigger a penalty.

Disney faced huge backlash and negative press because of the layoffs and hiring of foreign workers. Because of this, Disney had communication challenges, both internally and externally.

Disney executives framed the layoffs as part of a larger plan of reorganization intended to enable its IT division to focus on driving innovation. Walt Disney World spokesperson Jacquee Wahler gave the following explanation:

"We have restructured our global technology organization to *significantly increase our cast member focus on future innovation and new capabilities*, and are continuing to work with leading technical firms to maintain our existing systems as needed." (Italics added for emphasis.)

That statement is consistent with a leaked memo drafted by Disney Parks and Resort CIO Tilak Mandadi, which he sent to select employees on November 10, 2014 (not including those who would be laid off), to explain the rationale for the impending layoffs. The memo read, in part, as follows:

"To enable a majority of our team to *shift focus to new capabilities*, we have executed five new managed services agreements to support testing services and application maintenance. Last week, we began working with both our internal subject matter experts and the suppliers to start transition planning for these agreements. We expect knowledge transfer to start later this month and last through January. Those Cast Members who are involved will be contacted in the next several weeks."

Responding to the critical *New York Times* article, Disney represented that when all was said and done, the company had in fact produced a net jobs increase. According to Disney spokesperson Kim Prunty:

"Disney has created almost 30,000 new jobs in the U.S. over the past decade, and the recent changes to our parks' IT team resulted in a larger organization with 70 additional in-house positions in the U.S. External support firms are responsible for complying with all applicable employment laws for their employees."

New jobs were promised due to the restructuring, Disney officials said, and employees targeted for termination were pushed to apply for those positions. According to a confidential Disney source, of the approximately 250 laid-off employees, 120 found new jobs within Disney, 40 took early retirement, and 90 were unable to secure new jobs with Disney.

On June 11, 2015, Senator Richard Durbin of Illinois and Senator Jeffrey Sessions of Alabama released a statement regarding a bipartisan letter issued to the attorney general, the Department Homeland Security, and the Department of Labor.

"A number of U.S. employers, including some large, well-known, publicly-traded corporations, have laid off thousands of American workers and replaced them with H-1B visa holders . . . . To add insult to injury, many of the replaced American employees report that they have been forced to train the foreign workers who are taking their jobs. That's just plain wrong and we'll continue to press the Administration to help solve this problem."

In response to request for comment on the communications issues raised by the Disney layoffs and aftermath, *New York Times* columnist Julia Preston shared the following exclusive analysis:

“I would say Disney’s handling of those lay-offs is a case study in how not to do things. But in the end it’s not about the communications, it’s about the company. Those layoffs showed a company that was not living up to its core vaunted family values and no amount of shouting by their communications folks could change the facts of what happened.”

#### Questions for Discussion

1. Is it ethical for U.S. companies to lay off workers and hire foreign workers under the H-1B program? Should foreign countries restrict the hiring of foreign workers that meet their workforce requirements?
2. Discuss the internal and external communications that Disney employed in this situation. The examples here are of the formal written communications. What should Disney have been communicating verbally to their employees and externally?

Sources: Preston, Julia, *Pink Slips at Disney. But First, Training Foreign Replacements*, *The New York Times* June 3, 2015, <http://www.nytimes.com/2015/06/04/us/last-task-after-layoff-at-disney-train-foreign-replacements.html>; Vargas, Rebecca, *EXCLUSIVE: Former Employees Speak Out About Disney’s Outsourcing of High-Tech Jobs*, WWSB ABC 7 (Oct. 28, 2015), [http://www.mysuncoast.com/news/local/exclusive-former-employees-speak-out-about-disney-s-outsourcing-of/article\\_d8867148-7d8c-11e5-ae40-fb05081380c1.html](http://www.mysuncoast.com/news/local/exclusive-former-employees-speak-out-about-disney-s-outsourcing-of/article_d8867148-7d8c-11e5-ae40-fb05081380c1.html); Boyle, Mathew, *Ahead of GOP Debate, Two Ex-Disney Workers Displaced by H1B Foreigners Speak Out for First Time*, *Breitbart.com*, October 28, 2015, <http://www.breitbart.com/big-government/2015/10/28/ahead-of-gop-debate-two-ex-disney-workers-displaced-by-h1b-foreigners-speak-out-for-first-time>; Sandra Pedicini, *Tech Workers File Lawsuits Against Disney Over H-1B Visas*, *Orlando Sentinel*, published January 25, 2016, accessed February 6, 2016, available at <http://www.orlandosentinel.com/business/os-disney-h1b-visa-lawsuit-20160125-story.html>; U.S. Citizenship and Immigration Services, *Understanding H-1B Requirements*, accessed February 6, 2016, available at <https://www.uscis.gov/eir/visa-guide/h-1b-specialty-occupation/understanding-h-1b-requirements>; May, Caroline, *Sessions, Durbin: Department Of Labor Has Launched Investigation Into H-1B Abuses*, *Breitbart.com* (June 11, 2015), <http://www.breitbart.com/big-government/2015/06/11/sessions-durbin-department-of-labor-has-launched-investigation-into-h-1b-abuses/>; Email from Julia Preston, National Immigration Correspondent, *The New York Times*, to Bryan Shannon, co-author of this case study, dated February 10, 2016.

## CONCEPT CHECK

1. What are the four components of communication discussed in this section?
2. Why is it important to understand your limitations in communicating to others and in larger groups?
3. Why should managers always strive to improve their skills?

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# Key Terms

**communicator**

The individual, group, or organization that needs or wants to share information with another individual, group, or organization.

**decoding**

Interpreting and understanding and making sense of a message.

**encoding**

Translating a message into symbols or language that a receiver can understand.

**figurehead role**

A necessary **role** for a manager who wants to inspire people within the organization to feel connected to each other and to the institution, to support the policies and decisions made on behalf of the organization, and to work harder for the good of the institution.

**interaction attentiveness/ interaction involvement**

A measure of how the receiver of a message is paying close attention and is alert or observant.

**noise**

Anything that interferes with the communication process.

**receiver**

The individual, group, or organization for which information is intended.

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# Summary of Learning Outcomes

## 12.1 The Process of Managerial Communication

1. Understand and describe the communication process.

The basic model of interpersonal communication consists of an encoded message, a decoded message, feedback, and noise. Noise refers to the distortions that inhibit message clarity.

## 12.2 Types of Communications in Organizations

2. Know the types of communications that occur in organizations.

Interpersonal communication can be oral, written, or nonverbal. Body language refers to conveying messages to others through such techniques as facial expressions, posture, and eye movements.

## 12.3 Factors Affecting Communications and the Roles of Managers

3. Understand how power, status, purpose, and interpersonal skills affect communications in organizations.

Interpersonal communication is influenced by social situations, perception, interaction involvement, and organizational design. Organizational communication can travel upward, downward, or horizontally. Each direction of information flow has specific challenges.

## 12.4 Managerial Communication and Corporate Reputation

4. Describe how corporate reputations are defined by how an organization communicates to all of its stakeholders.

It is important for managers to understand what your organization stands for (identity), what others think your organization is (reputation), and the contributions individuals can make to the success of the business considering their organization's existing reputation. It is also about confidence—the knowledge that one can speak and write well, listen with great skill as others speak, and both seek out and provide the feedback essential to creating, managing, or changing their organization's reputation.



## 12.5 The Major Channels of Management Communication Are Talking, Listening, Reading, and Writing

5. Describe the roles that managers perform in organizations.

There are special communication roles that can be identified. Managers may serve as gatekeepers, liaisons, or opinion leaders. They can also assume some combination of these roles. It is important to recognize that communication processes involve people in different functions and that all functions need to operate effectively to achieve organizational objectives.

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# Chapter Review Questions

1. Describe the communication process.
2. Why is feedback a critical part of the communication process?
3. What are some things that managers can do to reduce noise in communication?
4. Compare and contrast the three primary forms of interpersonal communication.
5. Describe the various individual communication roles in organizations.
6. How can managers better manage their effectiveness by managing e-mail communication?
7. Which communication roles are most important in facilitating managerial effectiveness?
8. Identify barriers to effective communication.
9. How can barriers to effective communication be overcome by managers?

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# Management Skills Application Exercises

1. The e-mails below are not written as clearly or concisely as they could be. In addition, they may have problems in organization or tone or mechanical errors. Rewrite them so they are appropriate for the audience and their purpose. Correct grammatical and mechanical errors. Finally, add a subject line to each.

## **E-Mail 1**

To: Employees of The Enormously Successful Corporation  
From: CEO of The Enormously Successful Corporation  
Subject:

Stop bringing bottled soft drinks, juices and plastic straws to work. Its an environment problem that increases our waste and the quality of our water is great. People don't realize how much wasted energy goes into shipping all that stuff around, and plastic bottles, aluminum cans and straws are ruining our oceans and filling land fills. Have you seen the floating island of waste in the Pacific Ocean? Some of this stuff comes from other countries like Canada Dry I think is from canada and we are taking there water and Canadians will be thirsty. Fancy drinks isn't as good as the water we have and tastes better anyway.

## **E-Mail 2**

To: All Employees  
From: Management  
Subject:

Our Committee to Improve Inter-Office Communication has decided that there needs to be an update and revision of our policy on emailing messages to and from those who work with us as employees of this company. The following are the results of the committee's decisions, and constitute recommendations for the improvement of every aspect of email communication.

1. Too much wordiness means people have to read the same thing over and over repeatedly, time after time. Eliminating unnecessary words, emails can be made to be shorter and more to the point, making them concise and taking less time to read.
  2. You are only allowed to send and receive messages between 8:30AM east coast time and 4:30PM east coast time. You are also not allowed to read e-mails outside of these times. We know that for those of you on the west coast or travelling internationally it will reduce the time that you are allowed to attend to e-mail, but we need this to get it under control.
  3. You are only allowed to have up to 3 recipients on each e-mail. If more people need to be informed it is up to the people to inform them.
2. Write a self-evaluation that focuses specifically on your class participation in this course. Making comments during class allows you to improve your ability to speak extemporaneously, which is exactly what you will have to do in all kinds of business situations (e.g., meetings, asking questions at presentations, one-on-one conversations). Thus, write a short memo (two or three paragraphs) in which you describe the frequency with which you make comments in class, the nature of those comments, and what is easy and difficult for you when it comes to speaking up in class.

If you have made few (or no) comments during class, this is a time for us to come up with a plan to help you overcome your shyness. Our experience is that as soon as a person talks in front of a group once or twice, it becomes much easier—so we need to come up with a way to help you break the ice.

Finally, please comment on what you see as the strengths and weaknesses of your discussions and presentations in this class.

3. Refer to the photo in **Exhibit 16.3**. Comment on the body language exhibited by each person at the meeting and how engaged they are in the communication.
4. In the movie *The Martian*, astronaut Mark Watney (played by Matt Damon) is stranded on Mars with limited ability to communicate with mission control. Watney holds up questions to a camera that can transmit photographs of his questions, and mission control could respond by pointing the camera at a “yes” or “no” card with the camera. Eventually, they are able to exchange “text” messages but no voice exchanges. Also, there is a significant time delay between the sending and receipt of the messages. Which part of the communication process would have to be addressed to ensure that the encoding of the messages, the decoding of the messages, and that noise is minimized by Watney and mission control?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Managerial Decision Exercises

1. Ginni Rometty is the CEO of IBM. Shortly after taking on the role of CEO and being frustrated by the progress and sales performance, Rometty released a five-minute video to all 400,000 plus IBM employees criticizing the lack of securing deals to competitors and lashed out at the sales organization for poor sales in the preceding quarter. Six months later, Rometty sent another critical message, this time via e-mail. How effective will the video and e-mail be in communicating with employees? How should she follow up to these messages?
2. Social media, such as Facebook, is now widespread. Place yourself as a manager that has just received a “friend” request from one of your direct reports. Do you accept, reject, or ignore the request? Why, and what additional communication would you have regarding this with the employee?
3. During a cross-functional meeting, one of the attendees who reports to a manager who is also at the meeting accuses one of your reports of not being fit for the position she is in. You disagree and feel that your report is a good fit for her role. How do you handle this?

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# Critical Thinking Case

## *Facebook, Inc.*

Facebook has been in the news with criticism of its privacy policies, sharing customer information with Fusion GPS, and criticism regarding the attempts to influence the 2016 election. In March 2014, Facebook released a study entitled “Experimental evidence of massive-scale emotional contagion through social networks.” It was published in the *Proceedings of the National Academy of Sciences (PNAS)*, a prestigious, peer-reviewed scientific journal. The paper explains how social media can readily transfer emotional states from person to person through Facebook’s News Feed platform. Facebook conducted an experiment on members to see how people would respond to changes in a percentage of both positive and negative posts. The results suggest that emotional contagion does occur online and that users’ positive expressions can generate positive reaction, while, in turn, negative expression can generate negative reaction.

Facebook has two separate value propositions aimed at two different markets with entirely different goals.

Originally, Facebook’s main market was its end users—people looking to connect with family and friends. At first, it was aimed only at college students at a handful of elite schools. The site is now open to anyone with an Internet connection. Users can share status updates and photographs with friends and family. And all of this comes at no cost to the users.

Facebook’s other major market is advertisers, who buy information about Facebook’s users. The company regularly gathers data about page views and browsing behavior of users in order to display targeted advertisements to users for the benefit of its advertising partners.

The value proposition of the Facebook News Feed experiment was to determine whether emotional manipulation would be possible through the use of social networks. This clearly could be of great value to one of Facebook’s target audiences—its advertisers.

The results suggest that the emotions of friends on social networks influence our own emotions, thereby demonstrating emotional contagion via social networks. Emotional contagion is the tendency to feel and express emotions similar to and influenced by those of others. Originally, it was studied by psychologists as the transference of emotions between two people.

According to Sandra Collins, a social psychologist and University of Notre Dame professor of management, it is clearly unethical to conduct psychological experiments without the informed consent of the test subjects. While tests do not always measure what the people conducting the tests claim, the subjects need to at least know that they are, indeed, part of a test. The subjects of this test on Facebook were not explicitly informed that they were participating in an emotional contagion experiment. Facebook did not obtain informed consent as it is generally defined by researchers, nor did it allow participants to opt out.

When information about the experiment was released, the media response was overwhelmingly critical. Tech blogs, newspapers, and media reports reacted quickly.

Josh Constone of TechCrunch wrote:

“ . . . there is some material danger to experiments that depress people. Some people who are at risk of depression were almost surely part of Facebook’s study group that were shown a more depressing feed, which could be considered dangerous. Facebook will endure a whole new level of backlash if any of those participants were found to have committed suicide or had other depression-related outcomes after the study.”

The *New York Times* quoted Brian Blau, a technology analyst with the research firm Gartner, “Facebook didn’t do anything illegal, but they didn’t do right by their customers. Doing psychological testing on people crosses the line.” Facebook should have informed its users, he said. “They keep on pushing the boundaries, and this is one of the reasons people are upset.”

While some of the researchers have since expressed some regret about the experiment, Facebook as a company was

unapologetic about the experiment. The company maintained that it received consent from its users through its terms of service. A Facebook spokesperson defended the research, saying, “We do research to improve our services and make the content people see on Facebook as relevant and engaging as possible. . . . We carefully consider what research we do and have a strong internal review process.”

With the more recent events, Facebook is changing the privacy settings but still collects an enormous amount of information about its users and can use that information to manipulate what users see. Additionally, these items are not listed on Facebook’s main terms of service page. Users must click on a link inside a different set of terms to arrive at the data policy page, making these terms onerous to find. This positioning raises questions about how Facebook will employ its users’ behaviors in the future.

#### Critical Thinking Questions

1. How should Facebook respond to the 2014 research situation? How could an earlier response have helped the company avoid the 2018 controversies and keep the trust of its users?
2. Should the company promise to never again conduct a survey of this sort? Should it go even further and explicitly ban research intended to manipulate the responses of its users?
3. How can Facebook balance the concerns of its users with the necessity of generating revenue through advertising?
4. What processes or structures should Facebook establish to make sure it does not encounter these issues again?
5. Respond in writing to the issues presented in this case by preparing two documents: a communication strategy memo and a professional business letter to advertisers.

Sources: Kramer, Adam; Guillory, Jamie; and Hancock, Jeffrey, “Experimental evidence of massive scale emotional contagion through social networks,” *PNAS (Proceedings of the National Academy of Sciences of the United States of America)*. March 25, 2014 <http://www.pnas.org/content/111/24/8788.full>; Laja, Peep. “Useful Value Proposition Examples (and How to Create a Good One),” *ConversionXL*, 2015 <http://conversionxl.com/value-proposition-examples-how-to-create/>; Yadav, Sid. “Facebook – The Complete Biography,” *Mashable*, Aug. 25, 2006. <http://mashable.com/2006/08/25/facebook-profile/#orb9TmeYHiqK>; Felix, Samantha, “This Is How Facebook Is Tracking Your Internet Activity,” *Business Insider*, Sept. 9, 2012 <http://www.businessinsider.com/this-is-how-facebook-is-tracking-your-internet-activity-2012-9>;

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# 13 - SERVICE AND MANUFACTURING

## Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. Why is production and operations management important in both manufacturing and service firms?
2. What types of production processes do manufacturers and service firms use?
3. How do organizations decide where to put their production facilities? What choices must be made in designing the facility?
4. Why are resource-planning tasks such as inventory management and supplier relations critical to production?
5. How do operations managers schedule and control production?
6. How can quality-management and lean-manufacturing techniques help firms improve production and operations management?
7. What roles do technology and automation play in manufacturing and service-industry operations management?
8. What key trends are affecting the way companies manage production and operations?

## EXPLORING BUSINESS CAREERS

### *Deborah Butler, Caterpillar*

Deborah Butler is a certified Master Black Belt, but don't expect to see her working with Jet Li anytime soon. In fact, her job has little to do with martial arts. Employed by Caterpillar, "the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines," Butler's Master Black Belt status reflects her expertise in Six Sigma, the process Caterpillar employees use to continually manage, improve, and create processes, products, and services. "Sigma" refers to the maximum number of defects tolerated in production or service delivery; Six Sigma is the highest level of quality control, demanding no more than 3.4 defects per million parts. That means if you were to use Six Sigma in your college career, you would miss only *one half of a single question* in over four years of test-taking!

Caterpillar was the first corporation to take Six Sigma global, deploying it corporate-wide in 2001 not only to its almost 300 facilities, but also eventually to every dealer and more than 850 key suppliers throughout the world. The corporation hails the process as a key element of its overall operations management, attributing increased profits, improved customer service, and supply-chain efficiency to Six Sigma.

Caterpillar's more than 300 Master Black Belts lead projects that use Six Sigma and train the company's approximately 3,300 Black Belts in the principles of the process. Butler is currently in charge of updating and implementing *Our Values in Action: Caterpillar's Worldwide Code of Conduct*. Outlining the four core values of integrity, excellence, teamwork, and commitment, the updated code of conduct embodies two important aspects of Caterpillar's philosophy on Six Sigma.

Sigma is a Greek letter that represents a statistical unit of measurement and defines standard deviation. Caterpillar uses this standard deviation for the number of errors in a product, which equates to 3.4 errors per million. Six Sigma is designed to reduce the number of errors in a process by a step-by-step approach. Caterpillar uses the Six Sigma methodology that utilizes the process of gathering information, analyzing the data, and then making decisions based on the facts. This process ensures that Caterpillar is meeting the requirements of the customer.



Caterpillar recognizes that employees are the heart of any operation. Therefore, Caterpillar employees use Six Sigma to improve as people and as workers as much as to improve the products they produce. The core values, reflected in a series of action statements such as “We put Integrity in action when we compete fairly,” are the product of a yearlong development process involving Butler’s global team. As part of the project research, the team interviewed thousands of Caterpillar employees, from officers of the company to production and hourly workers, for the purpose of, as Butler says, “bringing to the surface the values that have made Caterpillar a successful enterprise, enhancing behavioral expectations, and accurately expressing Caterpillar’s corporate culture.”

Caterpillar is not content simply to produce *Our Values in Action* and leave it at that, however, and the second aspect of its Six Sigma philosophy is that employees must bring the process to their lives. Butler has worked to inject the code of conduct’s values into employees’ day-to-day work. If an employee writes about safety-related changes, for example, she would not just list the changes. Instead, she might write first: “According to Our Values In Action, we put Commitment in action when we protect the health and safety of others and ourselves. As such, we are implementing the following changes. . . .” In this way, the code becomes a living part of corporate culture, a critical component of operations management.

Sources: Heather McBroom, “6 Sigma: Foundation for Quality at Caterpillar,” *Peoria Magazine*, <http://www.peoriamagazines.com>, accessed February 20, 2018; John Gillett, Ross Fink, and Nick Bevington, “How Caterpillar Uses 6 Sigma to Execute Strategy,” *Strategic Finance Magazine*, <http://sfmagazine.com>, accessed February 20, 2018; company website, “Christopher Six Sigma Black Belt,” <https://www.caterpillar.com>, accessed February 20, 2018.

Nearly every type of business organization needs to find the most efficient and effective methods of producing the goods or services it sells to its customers. Technological advances, ongoing competition, and consumer expectations force companies to rethink where, when, and how they will produce products or services.

Manufacturers have discovered that it is no longer enough to simply push products through the factory and onto the market. Consumers demand high quality at reasonable prices. They also expect manufacturers to deliver products in a timely manner. Firms that can’t meet these expectations often face strong competition from businesses that can. To compete, many manufacturers are streamlining how they make their products—by automating their factories, developing new production processes, focusing on quality-control techniques, and improving relationships with suppliers.

Service organizations also face challenges. Their customers are demanding better service, shorter waiting periods, and more individualized attention. Like manufacturers, service companies are using new methods to deliver what their customers need and want. Banks, for example, are using technology such as online banking and mobile apps to make their services more accessible to customers. Colleges offer online courses to accommodate the schedules of working students. Tax services file tax returns via the cloud.

This chapter examines how manufacturers and service firms manage and control the creation of products and services. We’ll discuss production planning, including the choices firms must make concerning the type of production process they will use; the location where production will occur; the design of the facility; and the management of resources needed in production. Next, we’ll explain routing and scheduling, two critical tasks for controlling production and operations efficiency. Then we will look at how firms can improve production and operations by employing quality management and lean-manufacturing techniques. Finally, we will review some of the trends affecting production and operations management.

# 13.1 - Production and Operations Management—An Overview

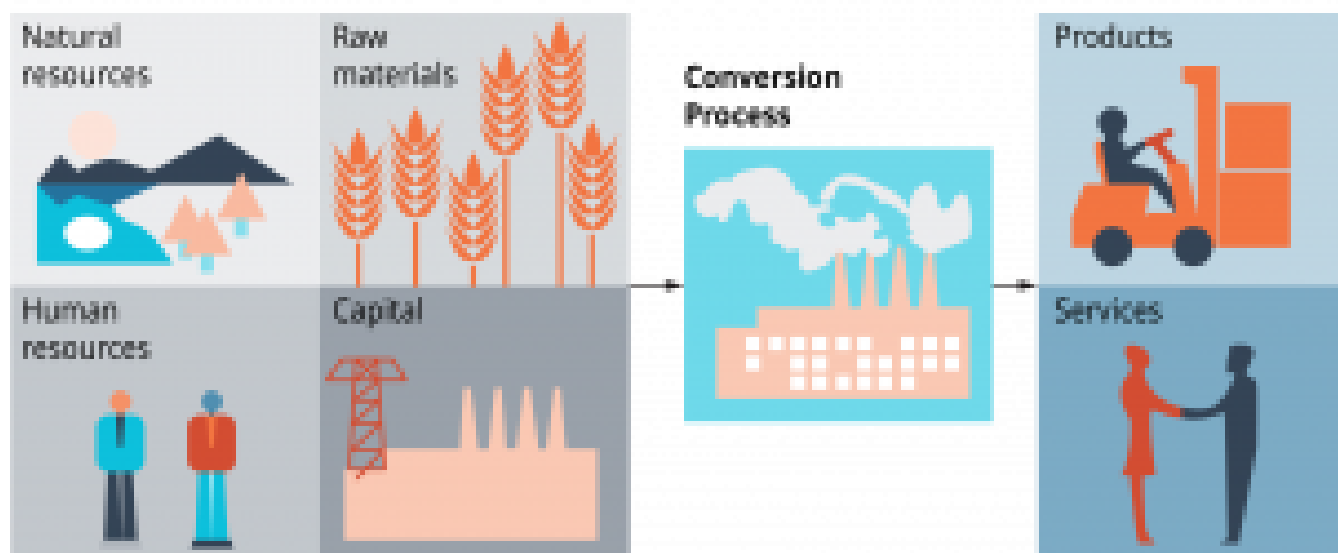
## 1. Why is production and operations management important in both manufacturing and service firms?

Production, the creation of products and services, is an essential function in every firm. Production turns inputs, such as natural resources, raw materials, human resources, and capital, into outputs, which are products and services. This process is shown in **Exhibit 13.1**. Managing this conversion process is the role of operations management.

The goal of customer satisfaction is an important part of effective production and operations. In the past, the manufacturing function in most companies was inwardly focused. Manufacturing had little contact with customers and didn't always understand their needs and desires. In the 1980s, many U.S. industries, such as automotive, steel, and electronics, lost customers to foreign competitors because their production systems could not provide the quality customers demanded. As a result, today most American companies, both large and small, consider a focus on quality to be a central component of effective operations management.

### Inputs

(factors of production)



**Exhibit 13.1** Production Process for Products and Services (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

Stronger links between marketing and manufacturing also encourage production managers to be more outwardly focused and to consider decisions in light of their effect on customer satisfaction. Service companies find that making operating decisions with customer satisfaction in mind can be a competitive advantage.

Operations managers, the people charged with managing and supervising the conversion process, play a vital role in today's firm. They control about three-fourths of a firm's assets, including inventories, wages, and benefits. They also work closely with other major divisions of the firm, such as marketing, finance, accounting, and human resources, to ensure that the firm produces its goods profitably and satisfies its customers. Marketing personnel help them decide which products to make or which services to offer. Accounting and human resources help them face the challenge of combining people and resources to produce high-quality goods on time and at reasonable cost. They are involved in the development and design of goods and determine what production processes will be most effective.

Production and operations management involve three main types of decisions, typically made at three different stages:

1. *Production planning.* The first decisions facing operations managers come at the *planning stage*. At this stage, managers decide where, when, and how production will occur. They determine site locations and obtain the necessary resources.
2. *Production control.* At this stage, the decision-making process focuses on controlling quality and costs, scheduling, and the actual day-to-day operations of running a factory or service facility.
3. *Improving production and operations.* The final stage of operations management focuses on developing more efficient methods of producing the firm's goods or services.

All three decisions are ongoing and may occur simultaneously. In the following sections, we will take a closer look at the decisions and considerations firms face in each stage of production and operations management.

## Gearing Up: Production Planning

An important part of operations management is production planning. Production planning allows the firm to consider the competitive environment and its own strategic goals to find the best production methods. Good production planning has to balance goals that may conflict, such as providing high-quality service while keeping operating costs low, or keeping profits high while maintaining adequate inventories of finished products. Sometimes accomplishing all these goals is difficult.

Production planning involves three phases. Long-term planning has a time frame of three to five years. It focuses on which goods to produce, how many to produce, and where they should be produced. Medium-term planning decisions cover about two years. They concern the layout of factory or service facilities, where and how to obtain the resources needed for production, and labor issues. Short-term planning, within a one-year time frame, converts these broader goals into specific production plans and materials management strategies.

Four important decisions must be made in production planning. They involve the type of production process that will be used, site selection, facility layout, and resource planning.

### CONCEPT CHECK

1. What are the three types of decisions that must be made in production planning?
2. What are the three phases of production planning?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 13.2 - The Production Process: How Do We Make It?

### 2. What types of production processes do manufacturers and service firms use?

In production planning, the first decision involves which type of production process—the way a good or service is created—best fits with company goals and customer demand. An important consideration is the type of good or service being produced, because different goods may require different production processes. In general, there are three types of production: mass production, mass customization, and customization. In addition to production type, operations managers also classify production processes in two ways: (1) how inputs are converted into outputs and (2) the timing of the process.

#### One for All: Mass Production

Mass production, manufacturing many identical goods at once, was a product of the Industrial Revolution. Henry Ford's Model-T automobile is a good example of early mass production. Each car turned out by Ford's factory was identical, right down to its color. If you wanted a car in any color except black, you were out of luck. Canned goods, over-the-counter drugs, and household appliances are other examples of goods that are mass-produced. The emphasis in mass production is on keeping manufacturing costs low by producing uniform products using repetitive and standardized processes. As products became more complicated to produce, mass production also became more complex. Automobile manufacturers, for example, must now incorporate more sophisticated electronics into their car designs. As a result, the number of assembly stations in most automobile manufacturing plants has increased.

#### Just for You: Customizing Goods

In mass customization, goods are produced using mass-production techniques, but only up to a point. At that point, the product or service is custom-tailored to the needs or desires of individual customers. For example, American Leather, a Dallas-based furniture manufacturer, uses mass customization to produce couches and chairs to customer specifications within 30 days. The basic frames in the furniture are the same, but automated cutting machinery precuts the color and type of leather ordered by each customer. Using mass-production techniques, they are then added to each frame.

Customization is the opposite of mass production. In customization, the firm produces goods or services one at a time according to the specific needs or wants of individual customers. Unlike mass customization, each product or service produced is unique. For example, a print shop may handle a variety of projects, including newsletters, brochures, stationery, and reports. Each print job varies in quantity, type of printing process, binding, color of ink, and type of paper. A manufacturing firm that produces goods in response to customer orders is called a job shop.



**Exhibit 13.2** Classification of Production Types (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

Mass Production	Mass Customization	Customization
Highly uniform products or services Many products made sequentially	Uniform standardized production to a point, then unique features added to each product	Each product or service produced according to individual customer requirements
<b>Examples:</b> Breakfast cereals, soft drinks, and computer keyboards	<b>Examples:</b> Dell Computers, tract homes, and Taylor Made golf clubs	<b>Examples:</b> Custom homes, legal services, and haircuts

Some types of service businesses also deliver customized services. Doctors, for instance, must consider the illnesses and circumstances of each individual patient before developing a customized treatment plan. Real estate agents may develop a customized service plan for each customer based on the type of house the person is selling or wants to buy. The differences between mass production, mass customization, and customization are summarized in **Exhibit 13.2**.

## Converting Inputs to Outputs

As previously stated, production involves converting *inputs* (natural resources, raw materials, human resources, capital) into *outputs* (products or services). In a manufacturing company, the inputs, the production process, and the final outputs are usually obvious. Harley-Davidson, for instance, converts steel, rubber, paint, and other inputs into motorcycles. But the production process in a service company involves a less obvious conversion. For example, a hospital converts the knowledge and skills of its medical personnel, along with equipment and supplies from a variety of sources, into health care services for patients. **Table 13.1** provides examples of the inputs and outputs used by various other businesses.

There are two basic processes for converting inputs into outputs. In process manufacturing, the basic inputs (natural resources, raw materials) are broken down into one or more outputs (products). For instance, bauxite (the input) is processed to extract aluminum (the output). The assembly process is just the opposite. The basic inputs, like natural resources, raw materials, or human resources, are either *combined* to create the output or *transformed* into the output. An airplane, for example, is created by assembling thousands of parts, which are its raw material inputs. Steel manufacturers use heat to transform iron and other materials into steel. In services, customers may play a role in the transformation process. For example, a tax preparation service combines the knowledge of the tax preparer with the client's information about personal finances in order to complete the tax return.

## Production Timing

A second consideration in choosing a production process is timing. A continuous process uses long production runs

that may last days, weeks, or months without equipment shutdowns. This is best for high-volume, low-variety products with standardized parts, such as nails, glass, and paper. Some services also use a continuous process. Your local electric company is an example. Per-unit costs are low, and production is easy to schedule.

**Converting Inputs to Outputs**

Type of Organization	Input	Output
Airline	Pilots, flight attendants, reservations system, ticketing agents, customers, airplanes, maintenance crews, ground facilities	Movement of customers and freight
Grocery store	Merchandise, building, clerks, supervisors, store fixtures, shopping carts, customers	Groceries for customers
High school	Faculty, curriculum, buildings, classrooms, library, auditorium, gymnasium, students, staff, supplies	Graduates, public service
Manufacturer	Machinery, raw materials, plant, workers, managers	Finished products for consumers and other firms
Restaurant	Food, cooking equipment, servers, chefs, dishwashers, host, patrons, furniture, fixtures	Meals for patrons

Table 13.1

In an intermittent process, short production runs are used to make batches of different products. Machines are shut down to change them to make different products at different times. This process is best for low-volume, high-variety products such as those produced by mass customization or customization. Job shops are examples of firms using an intermittent process.

Although some service companies use continuous processes, most service firms rely on intermittent processes. For instance, a restaurant preparing gourmet meals, a physician performing surgical procedures, and an advertising agency developing ad campaigns for business clients all customize their services to suit each customer. They use the intermittent process. Note that their “production runs” may be very short—one grilled salmon or one physical exam at a time.

CONCEPT CHECK

1. Describe the different types of production processes.
2. How are inputs transformed into outputs in a variety of industries?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 13.3 - Location, Location, Location: Where Do We Make It?

3. How do organizations decide where to put their production facilities? What choices must be made in designing the facility?

A big decision that managers must make early in production and operations planning is where to put the facility, be it a factory or a service office. The facility's location affects operating and shipping costs and, ultimately, the price of the product or service and the company's ability to compete. Mistakes made at this stage can be expensive, because moving a factory or service facility once production begins is difficult and costly. Firms must weigh a number of factors to make the right decision.

### Availability of Production Inputs

As we discussed earlier, organizations need certain resources to produce products and services for sale. Access to these resources, or inputs, is a huge consideration in site selection. Executives must assess the availability of raw materials, parts, equipment, and available manpower for each site under consideration. The cost of shipping raw materials and finished goods can be as much as 25 percent of a manufacturer's total cost, so locating a factory where these and other costs are as low as possible can make a major contribution to a firm's success.

Companies that use heavy or bulky raw materials, for example, may choose to be located close to their suppliers. Mining companies want to be near ore deposits, oil refiners near oil fields, paper mills near forests, and food processors near farms. Bottlers are discovering that rural western communities in need of an economic boost make rich water sources. In Los Lunas, New Mexico, it made sense for Niagara Purified Drinking Water to produce purified bottled water in a 166,000 square foot building that was vacant. The business helps diversify the town's economy and created 40 new, much-needed jobs.<sup>1</sup>

The availability and cost of labor are also critical to both manufacturing and service businesses, and the unionization of local labor is another point to consider in many industries. Payroll costs can vary widely from one location to another due to differences in the cost of living; the number of jobs available; and the size, skills, and productivity of the local workforce. In the case of the water-bottling company, a ready pool of relatively inexpensive labor was available due to high unemployment in the areas.

### Marketing Factors

Businesses must evaluate how their facility location will affect their ability to serve their customers. For some firms it may not be necessary to be located near customers. Instead, the firm will need to assess the difficulty and costs of distributing its goods to customers from its chosen location. Other firms may find that locating near customers can provide marketing advantages. When a factory or service center is close to customers, the firm can often offer better service at a lower cost. Other firms may gain a competitive advantage by locating their facilities so that customers can easily buy their products or services. The location of competitors may also be a consideration. And businesses with more than one facility may need to consider how far to spread their locations in order to maximize market coverage.

## Manufacturing Environment

Another factor to consider is the manufacturing environment in a potential location. Some localities have a strong existing manufacturing base. When a large number of manufacturers in a certain industry are already located in an area, that area is likely to offer greater availability of resources, such as manufacturing workers, better accessibility to suppliers and transportation, and other factors that can increase a plant's operating efficiency.

Nestlé is proposing to open a new bottled water plant in the desert city of Phoenix. The plants have provided much-needed employment to replace jobs lost in the recession of 2008. The city of Phoenix faced opposition to the plant because some locals thought that diverting water from tap water to a for-profit entity was not a sound idea. Phoenix officials contend that the source of water is adequate for decades to come.<sup>2</sup>

## Local Incentives

Incentives offered by countries, states, or cities may also influence site selection. Tax breaks are a common incentive. A locality may reduce the amount of taxes a firm must pay on income, real estate, utilities, or payroll. Local governments may offer financial assistance and/or exemptions from certain regulations to attract or keep production facilities in their area. For example, many U.S. cities are competing to attract a second Amazon headquarters and, in addition to touting local attractions and a strong workforce, most of them are offering a host of tax incentives.<sup>3</sup>

## International Location Considerations

There are often sound financial reasons for considering a foreign location. Labor costs are considerably lower in countries such as Singapore, China, India, and Mexico. Foreign countries may also have fewer regulations governing how factories operate. A foreign location may also move production closer to new markets. Automobile manufacturers such as Toyota, BMW, and Hyundai are among many that build plants in the United States to reduce shipping costs.

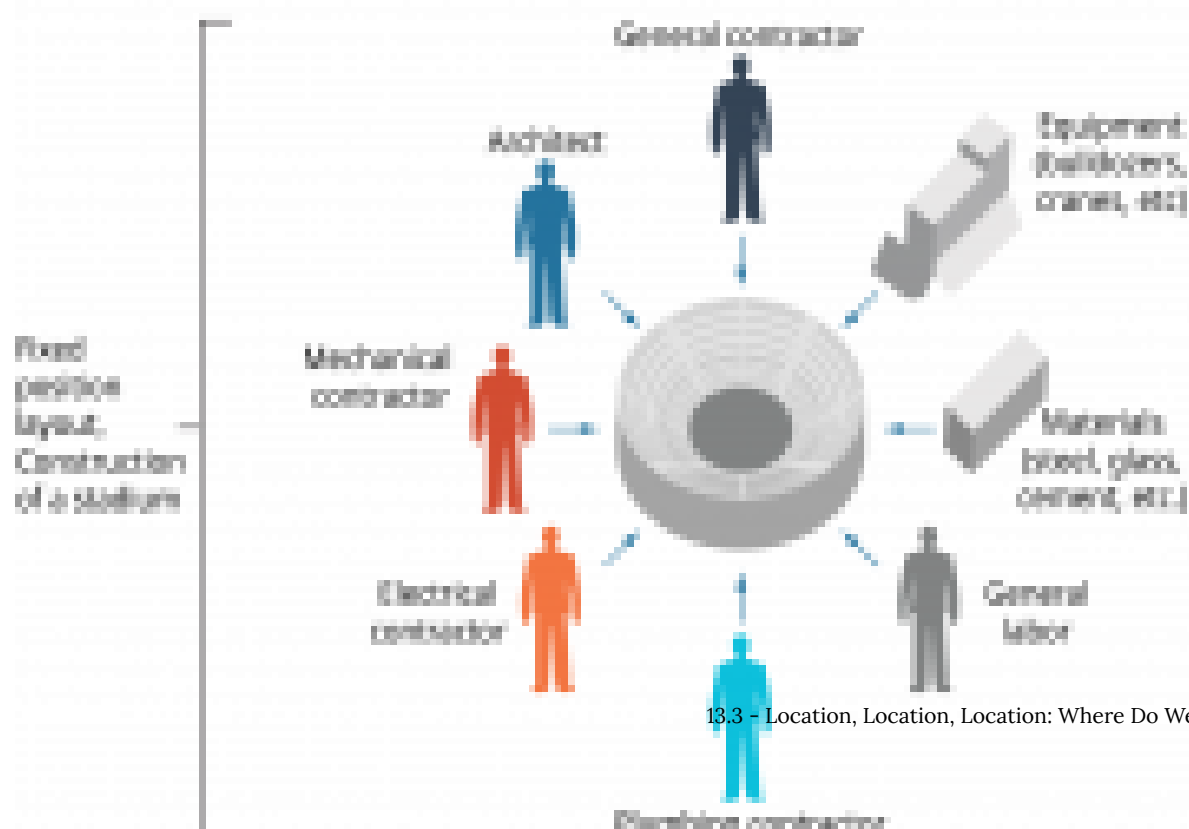
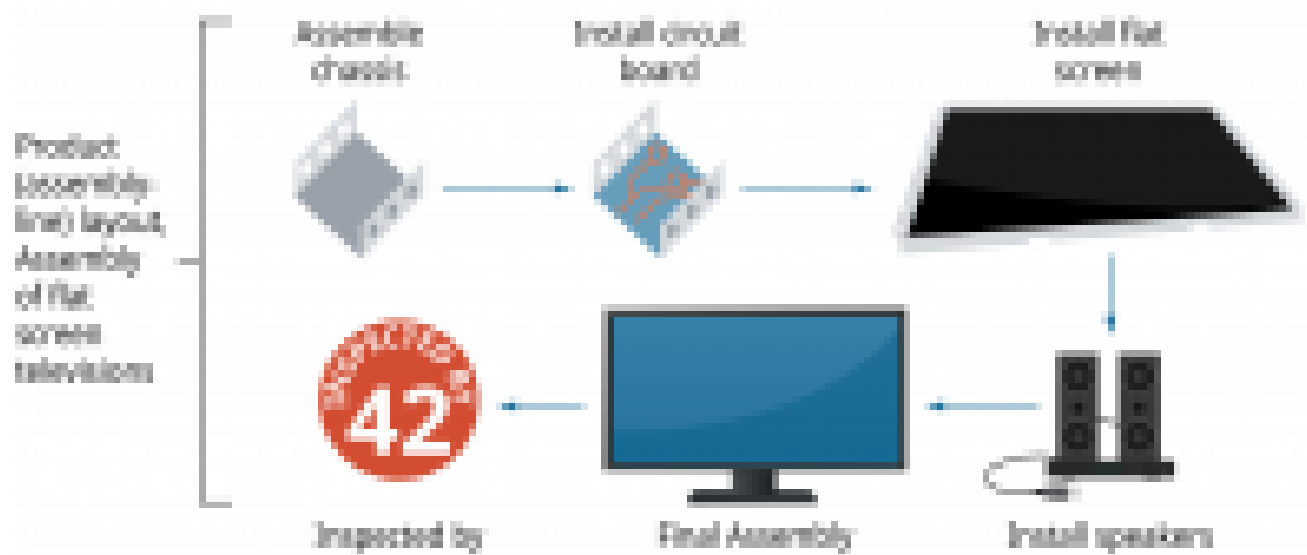
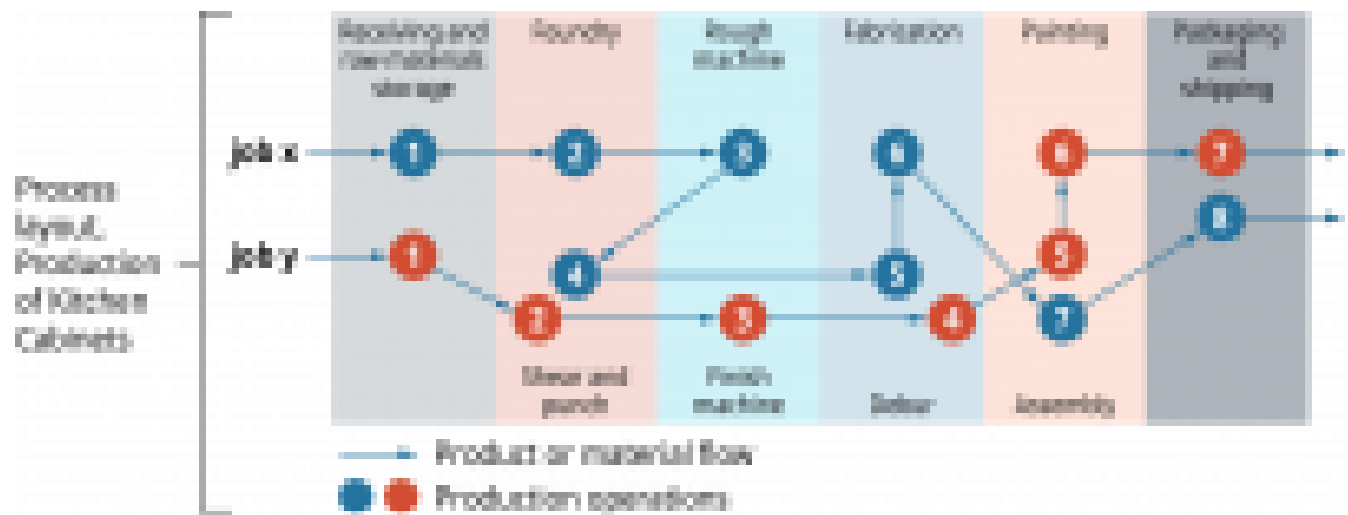
## Designing the Facility

After the site location decision has been made, the next focus in production planning is the facility's layout. The goal is to determine the most efficient and effective design for the particular production process. A manufacturer might opt for a U-shaped production line, for example, rather than a long, straight one, to allow products and workers to move more quickly from one area to another.

Service organizations must also consider layout, but they are more concerned with how it affects customer behavior. It may be more convenient for a hospital to place its freight elevators in the center of the building, for example, but doing so may block the flow of patients, visitors, and medical personnel between floors and departments.

There are three main types of facility layouts: process, product, and fixed-position. All three layouts are illustrated in **Exhibit 13.3**. Cellular manufacturing is another type of facility layout.





## Process Layout: All Welders Stand Here

The process layout arranges workflow around the production process. All workers performing similar tasks are grouped together. Products pass from one workstation to another (but not necessarily to every workstation). For example, all grinding would be done in one area, all assembling in another, and all inspection in yet another. The process layout is best for firms that produce small numbers of a wide variety of products, typically using general-purpose machines that can be changed rapidly to new operations for different product designs. For example, a manufacturer of custom machinery would use a process layout.

## Product Layout: Moving Down the Line

Products that require a continuous or repetitive production process use the product (or assembly-line) layout. When large quantities of a product must be processed on an ongoing basis, the workstations or departments are arranged in a line with products moving along the line. Automobile and appliance manufacturers, as well as food-processing plants, usually use a product layout. Service companies may also use a product layout for routine processing operations.

## Fixed-Position Layout: Staying Put

Some products cannot be put on an assembly line or moved about in a plant. A fixed-position layout lets the product stay in one place while workers and machinery move to it as needed. Products that are impossible to move—ships, airplanes, and construction projects—are typically produced using a fixed-position layout. Limited space at the project site often means that parts of the product must be assembled at other sites, transported to the fixed site, and then assembled. The fixed-position layout is also common for on-site services such as housecleaning services, pest control, and landscaping.

## Cellular Manufacturing: A Start-to-Finish Focus

Cellular manufacturing combines some aspects of both product and fixed-position layouts. Work cells are small, self-contained production units that include several machines and workers arranged in a compact, sequential order. Each work cell performs all or most of the tasks necessary to complete a manufacturing order. There are usually five to 10 workers in a cell, and they are trained to be able to do any of the steps in the production process. The goal is to create a team environment wherein team members are involved in production from beginning to end.

## CONCEPT CHECK

1. What factors does a firm consider when making a site-selection decision?
2. What should be considered when deciding on a production approach?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 13.4 - Pulling It Together: Resource Planning

### 4. Why are resource-planning tasks such as inventory management and supplier relations critical to production?

As part of the production-planning process, firms must ensure that the resources needed for production—such as raw materials, parts, equipment, and labor—will be available at strategic moments in the production process. This can be a huge challenge. The components used to build just one Boeing airplane, for instance, number in the millions. Cost is also an important factor. In many industries, the cost of materials and supplies used in the production process amounts to as much as half of sales revenues. Resource planning is therefore a big part of any firm's production strategy.

Resource planning begins by specifying which raw materials, parts, and components will be required, and when, to produce finished goods. To determine the amount of each item needed, the expected quantity of finished goods must be forecast. A bill of material is then drawn up that lists the items and the number of each required to make the product. Purchasing, or *procurement*, is the process of buying production inputs from various sources.

### Make or Buy?

The firm must decide whether to make its own production materials or buy them from outside sources. This is the make-or-buy decision. The quantity of items needed is one consideration. If a part is used in only one of many products, buying the part may be more cost-effective than making it. Buying standard items, such as screws, bolts, rivets, and nails, is usually cheaper and easier than producing them internally. Purchasing larger components from another manufacturer can be cost-effective as well. When items are purchased from an outside source instead of being made internally, it is called outsourcing. Harley-Davidson, for example, purchases its tires, brake systems, and other motorcycle components from manufacturers that make them to Harley's specifications. However, if a product has special design features that need to be kept secret to protect a competitive advantage, a firm may decide to produce all parts internally.

In deciding whether to make or buy, a firm must also consider whether outside sources can provide the high-quality supplies it needs in a reliable manner. Having to shut down production because vital parts aren't delivered on time can be a costly disaster. Just as bad are inferior parts or materials, which can damage a firm's reputation for producing high-quality goods. Therefore, firms that buy some or all of their production materials from outside sources should make building strong relationships with quality suppliers a priority.

### Inventory Management: Not Just Parts

A firm's inventory is the supply of goods it holds for use in production or for sale to customers. Deciding how much inventory to keep on hand is one of the biggest challenges facing operations managers. On the one hand, with large inventories, the firm can meet most production and customer demands. Buying in large quantities can also allow a company to take advantage of quantity discounts. On the other hand, large inventories can tie up the firm's money, are expensive to store, and can become obsolete.

Inventory management involves deciding how much of each type of inventory to keep on hand and the ordering, receiving, storing, and tracking of it. The goal of inventory management is to keep down the costs of ordering and holding inventories while maintaining enough on hand for production and sales. Good inventory management enhances product quality, makes operations more efficient, and increases profits. Poor inventory management can result in dissatisfied customers, financial difficulties, and even bankruptcy.

One way to determine the best inventory levels is to look at three costs: holding inventory, frequent reordering, and not keeping enough inventory on hand. Managers must measure all three costs and try to minimize them.

To control inventory levels, managers often track the use of certain inventory items. Most companies keep a perpetual inventory, a continuously updated list of inventory levels, orders, sales, and receipts, for all major items. Today, companies mostly use computers to track inventory levels, calculate order quantities, and issue purchase orders at the right times.

## Computerized Resource Planning

Many manufacturing companies have adopted computerized systems to control the flow of resources and inventory. Materials requirement planning (MRP) is one such system. MRP uses a master schedule to ensure that the materials, labor, and equipment needed for production are at the right places in the right amounts at the right times. The schedule is based on forecasts of demand for the company's products. It says exactly what will be manufactured during the next few weeks or months and when the work will take place. Sophisticated computer programs coordinate all the elements of MRP. The computer comes up with materials requirements by comparing production needs to the materials the company already has on hand. Orders are placed so items will be on hand when they are needed for production. MRP helps ensure a smooth flow of finished products.

Manufacturing resource planning II (MRPII) was developed in the late 1980s to expand on MRP. It uses a complex computerized system to integrate data from many departments, including finance, marketing, accounting, engineering, and manufacturing. MRPII can generate a production plan for the firm, as well as management reports, forecasts, and financial statements. The system lets managers make more accurate forecasts and assess the impact of production plans on profitability. If one department's plans change, the effects of these changes on other departments are transmitted throughout the company.

Whereas MRP and MRPII systems are focused internally, enterprise resource planning (ERP) systems go a step further and incorporate information about the firm's suppliers and customers into the flow of data. ERP unites all of a firm's major departments into a single software program. For instance, production can call up sales information and know immediately how many units must be produced to meet customer orders. By providing information about the availability of resources, including both the human resources and materials needed for production, the system allows for better cost control and eliminates production delays. The system automatically notes any changes, such as the closure of a plant for maintenance and repairs on a certain date or a supplier's inability to meet a delivery date, so that all functions adjust accordingly. Both large and small organizations use ERP to improve operations.

## Keeping the Goods Flowing: Supply-Chain Management

In the past, the relationship between purchasers and suppliers was often competitive and antagonistic. Businesses used many suppliers and switched among them frequently. During contract negotiations, each side would try to get better terms at the expense of the other. Communication between purchasers and suppliers was often limited to purchase orders and billing statements.

Today, however, many firms are moving toward a new concept in supplier relationships. The emphasis is increasingly on developing a strong supply chain. The supply chain can be thought of as the entire sequence of securing inputs, producing goods, and delivering goods to customers. If any links in this process are weak, chances are customers—the end point of the supply chain—will end up dissatisfied.

Effective supply-chain strategies reduce costs. For example, integration of the shipper and customer's supply chains allows companies to automate more processes and save time. Technology also improves supply-chain efficiency by

tracking goods through the various supply-chain stages and helping with logistics. With better information about production and inventory, companies can order and receive goods at the optimal point to keep inventory holding costs low.

Companies also need contingency plans for supply-chain disruptions. Is there an alternative source of supply if a blizzard closes the airport so that cargo planes can't land or a drought causes crop failures in the Midwest? By thinking ahead, companies can avert major losses. The length and distance involved in a supply line is also a consideration. Importing parts from or outsourcing manufacturing to Asia creates a long supply chain for a manufacturer in Europe or the United States. Perhaps there are closer suppliers or manufacturers who can meet a company's needs at a lower overall cost. Companies should also reevaluate outsourcing decisions periodically.

## Strategies for Supply-Chain Management

Ensuring a strong supply chain requires that firms implement supply-chain management strategies. Supply-chain management focuses on smoothing transitions along the supply chain, with the ultimate goal of satisfying customers with quality products and services. A critical element of effective supply-chain management is to develop tight bonds with suppliers. This may mean reducing the number of suppliers used and asking them to offer more services or better prices in return for an ongoing relationship.

General Motors plans to pare the number of its suppliers to give larger, longer-term contracts to a strategically selected group to be based in a new supplier park near its Texas-based SUV plant. GM is one of several manufacturing firms reconsidering far-flung suppliers in their supply chain. Global parts networks have long been seen as critical to cutting costs, but more companies are concluding they're a risky bet due to political shifts, protectionist measures, and natural disasters.<sup>4</sup>

Instead of being viewed as “outsiders” in the production process, many suppliers play an important role in supporting the operations of their customers. They are expected to meet high quality standards, offer suggestions that can help reduce production costs, and even contribute to the design of new products.

## EXPANDING AROUND THE GLOBE

### *Sophisticated Supply-Chain Strategies Keep Products on the Move*

Headquartered in Tokyo but with offices around the world, shipping company MOL (Mitsui O.S.K. Lines, Ltd.) is taking integrating with its customers to new levels. It is joining its customers in a series of joint ventures to build and operate dedicated vessels for as long as 25 years. One such joint venture teamed MOL with a Chinese steel mill to build and sail ships bringing Brazilian iron ore and coal across the Pacific Ocean for processing.

Sophisticated supply-chain systems that control every aspect of production and transportation are the key to making offshore manufacturing work. Supply-chain software that monitors operations and continually makes adjustments ensures that all processes are running at peak efficiency. By tightly mapping an entire sequence—from order to final delivery—and by automating it as much as possible, supply-chain management can deliver products from across the world while at the same time cutting costs. Companies that can carry a small inventory and get paid faster improve their cash flow and profitability.

Acer, a \$7 billion Taiwanese computer and electronics maker, brings components from around the world and assembles them into everything from PC notebooks to TVs at factories in Taiwan and mainland China. It then reverses the flow by shipping these products to international buyers. “Acer sold four million portable systems. Without a solid

supply-chain infrastructure behind us we couldn't hope to do it," says Sumit Agnihotry, Acer's American director of notebook product marketing.

The synchronizing of trade is essential. If goods don't get into the stores in time, sales might be lost or the company might have to carry larger inventories to avoid sellouts, which would cut into its profits. Companies need to continually monitor demand and react quickly by adjusting production. "This gets increasingly difficult when the supply chain stretches across thousands of miles and a dozen time zones," says David Bovet, managing director of Mercer Management Consulting, a Boston-based firm that advises on business tactics. "There are strategies that smart companies are using to bring costs down to earth. Getting the most of lower labor costs overseas requires an emphasis on transportation, and supply-chain skills are a required core competency," he says. His advice to global manufacturers: cooperate with shippers, and integrate supply chains into one cohesive system.

An important aspect of a solid supply chain is the availability of inventory, as the needs of the customer cannot be met without an in-stock supply of products. Inventory can refer to components such as the goods and materials on hand. In international global supply, some things to consider are the availability of labor, geography, and local regulations.

There needs to be a well-developed strategy in order to have a successful supply chain. Strategies include knowing your customers and their needs and planning what you want to achieve and how you are going to make it happen.

The acknowledged master of supply-chain dynamics is Dell, with its global logistics control room lined with big screens that monitor its shipping lanes at all times. Alongside Dell executives are representatives of its logistics suppliers for guidance and quick action if anything goes wrong.

Risk is the name of the game when it comes to international trade, and companies need to decide whether to play it safe with extra inventory or scramble if a disaster like a port strike occurs. Either way, they need to have contingency plans and be ready to react, and solid supply-chain strategies will ensure they are prepared for any eventuality.

Sources: "About MOL," <http://www.mol.co.jp>, accessed February 20, 2018; "Supply Chain," <http://www.dell.com>, accessed February 20, 2018; "Our Supply Chain," <https://www.acer-group.com>, accessed February 20, 2018; Muddassir Ahmed, "How to Create a Supply Chain Strategic Plan That Will Work for (Nearly) Any Business," <http://muddassirism.com>, December 4, 2016; Pamela Hyatt, "The 5 Essential Stages in Developing a Successful Supply Chain," *Trade Ready*, <http://www.tradeready.ca>, February 12, 2016; Crystal Gilliam, "7 Tips for Effective Inventory Management in a Global Supply Chain," *Trade Gecko*, <https://www.tradegecko.com>, October 19, 2015.

#### Critical Thinking Questions

1. Why are solid supply-chain strategies so important?
2. What problems is a company likely to experience without such strategies in place?

## E-Procurement, Electronic Data Interchange, and Blockchain

Effective supply chain management depends on strong communications with suppliers. Technology, particularly the internet, is providing new ways to do this. E-procurement, the process of purchasing supplies and materials online, is booming. Many manufacturing firms use the internet to keep key suppliers informed about their requirements. Intel, for example, has set up a special website for its suppliers and potential suppliers. Would-be suppliers can visit the site to get information about doing business with Intel; once they are approved, they can access a secure area to make bids on Intel's current and future resource needs.

The internet also streamlines purchasing by providing firms with quick access to a huge database of information about the products and services of hundreds of potential suppliers. Many large companies now participate in *reverse auctions* online, which can slash procurement costs. In a reverse auction, the manufacturer posts its specifications for the materials it requires. Potential suppliers then bid against each other to get the job. However, there are risks with reverse auctions. It can be difficult to establish and build ongoing relationships with specific suppliers using reverse auctions because the job ultimately goes to the lowest bidder. Therefore, reverse auctions may not be an effective

procurement process for critical production materials. Other types of corporations can use these auctions as well. The U.S. Army utilizes reverse auctions to leverage technology to fight the reality and perception that it is inefficient in its procurement practices. The General Services Administration found that government agencies had 31 suppliers that were charging between \$9.76 and \$48.77 for the same hammer.<sup>5</sup> In 2005 the U.S. Army began to partner with FedBid, Inc., the largest commercial marketplace for reverse auctions, for a variety of products, from paper to computers to helicopters. Costs dropped by \$388 million according to independent government cost estimates over the past decade.<sup>6</sup>

Another communications tool is electronic data interchange (EDI), in which two trading partners exchange information electronically. EDI can be conducted via a linked computer system or over the internet. The advantages of exchanging information with suppliers electronically include speed, accuracy, and lowered communication costs. EDI plays a critical role in Ford Motor Company's efforts to produce and distribute vehicles worldwide. With the emergence of blockchain technology, there is the potential to automate these types of processes to cover multiple transactions with a variety of participating organizations.<sup>7</sup>

## CONCEPT CHECK

1. What are the approaches to inventory that businesses can consider?
2. How is technology being used in resource planning?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



# 13.5 - Production and Operations Control

## 5. How do operations managers schedule and control production?

Every company needs to have systems in place to see that production and operations are carried out as planned and to correct errors when they are not. The coordination of materials, equipment, and human resources to achieve production and operating efficiencies is called *production control*. Two of its key aspects are routing and scheduling.

### Routing: Where to Next?

Routing is the first step in production control. It sets out a work flow, the sequence of machines and operations through which a product or service progresses from start to finish. Routing depends on the type of goods being produced and the facility layout. Good routing procedures increase productivity and cut unnecessary costs.

One useful tool for routing is value-stream mapping, whereby production managers “map” the flow from suppliers through the factory to customers. Simple icons represent the materials and information needed at various points in the flow. Value-stream mapping can help identify where bottlenecks may occur in the production process and is a valuable tool for visualizing how to improve production routing.

Awning manufacturer Rader Awning & Upholstery used value-stream mapping to automate some of its operations. With the assistance of New Mexico Manufacturing Extension Partnership (MEP), the company evaluated how orders were processed from sales to manufacturing over two days. With the implementation of the processes suggested by MEP, productivity improved by 20 percent per salesperson, production defects decreased by 15 percent, and installation corrections dropped by 25 percent.<sup>8</sup>

### Scheduling: When Do We Do It?

Closely related to routing is scheduling. Scheduling involves specifying and controlling the time required for each step in the production process. The operations manager prepares timetables showing the most efficient sequence of production and then tries to ensure that the necessary materials and labor are in the right place at the right time.

Scheduling is important to both manufacturing and service firms. The production manager in a factory schedules material deliveries, work shifts, and production processes. Trucking companies schedule drivers, clerks, truck maintenance, and repairs in accordance with customer transportation needs. Scheduling at a college entails deciding when to offer which courses, in which classrooms, with which instructors. A museum must schedule special exhibits, ship works to be displayed, market its offerings, and conduct educational programs and tours. Scheduling can range from simple to complex. Giving numbers to customers waiting to be served in a bakery and making interview appointments with job applicants are examples of simple scheduling. Organizations that must produce large quantities of products or services or service a diverse customer base face more complex scheduling problems.

Three common scheduling tools used for complex situations are Gantt charts, the critical path method, and PERT.

## *Tracking Progress with Gantt Charts*

Named after their originator, Henry Gantt, Gantt charts are bar graphs plotted on a time line that show the relationship between scheduled and actual production.

In the example shown in **Exhibit 13.4**, the left side of the chart lists the activities required to complete the job or project. Both the scheduled time and the actual time required for each activity are shown, so the manager can easily judge progress.

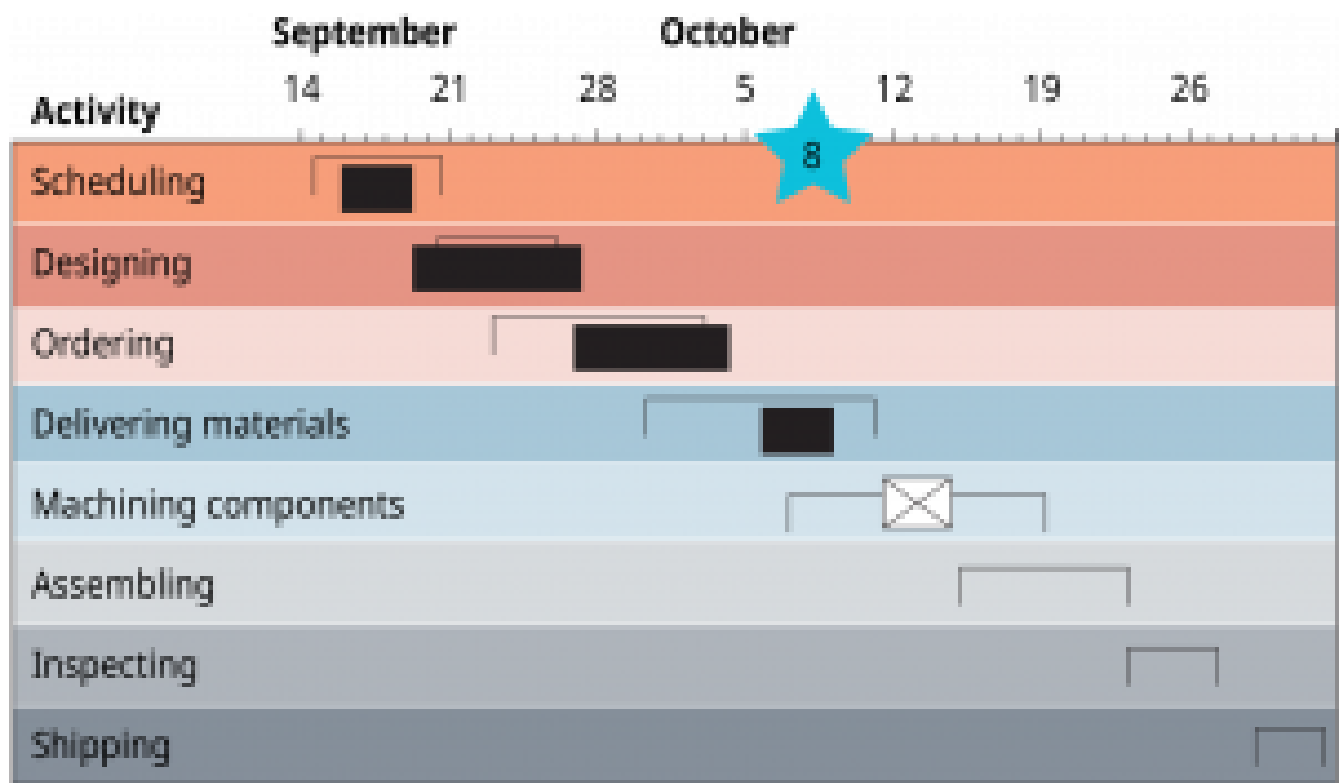
Gantt charts are most helpful when only a few tasks are involved, when task times are relatively long (days or weeks rather than hours), and when job routes are short and simple. One of the biggest shortcomings of Gantt charts is that they are static. They also fail to show how tasks are related. These problems can be solved, however, by using two other scheduling techniques, the critical path method and PERT.

## *The Big Picture: Critical Path Method and PERT*

To control large projects, operations managers need to closely monitor resources, costs, quality, and budgets. They also must be able to see the “big picture”—the interrelationships of the many different tasks necessary to complete the project. Finally, they must be able to revise scheduling and divert resources quickly if any tasks fall behind schedule. The critical path method (CPM) and the program evaluation and review technique (PERT) are related project management tools that were developed in the 1950s to help managers accomplish this.

In the critical path method (CPM), the manager identifies all of the activities required to complete the project, the relationships between these activities, and the order in which they need to be completed. Then, the manager develops a diagram that uses arrows to show how the tasks are dependent on each other. The longest path through these linked activities is called the critical path. If the tasks on the critical path are not completed on time, the entire project will fall behind schedule.

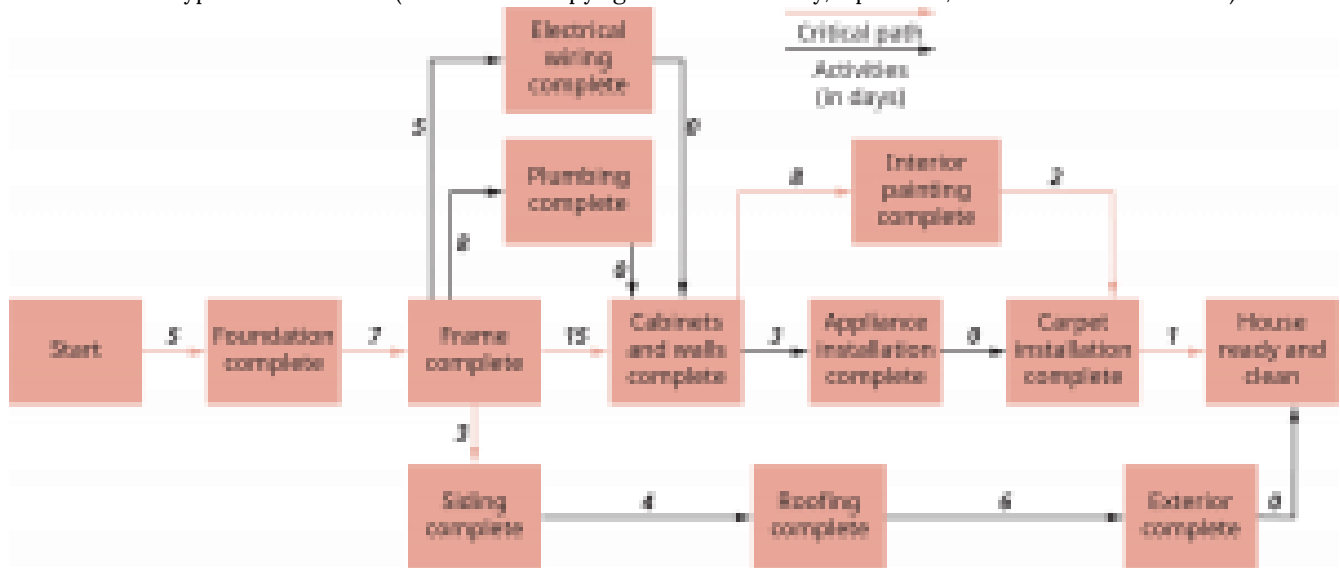
To better understand how CPM works, look at **Exhibit 13.5**, which shows a CPM diagram for constructing a house. All of the tasks required to finish the house and an estimated time for each have been identified. The arrows indicate the links between the various steps and their required sequence. As you can see, most of the jobs to be done can't be started until the house's foundation and frame are completed. It will take five days to finish the foundation and another seven days to erect the house frame. The activities linked by brown arrows form the critical path for this project. It tells us that the fastest possible time the house can be built is 38 days, the total time needed for all of the critical path tasks. The noncritical path jobs, those connected with black arrows, can be delayed a bit or done early. Short delays in installing appliances or roofing won't delay construction of the house because these activities don't lie on the critical path.



### Symbols:

- Scheduled start of activity
- Scheduled end of activity
- Review date
- Completed work
- Time not available (because of machine maintenance, material shortages, and so on)

**Exhibit 13.4** A Typical Gantt Chart (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)



**Exhibit 13.5** A CPM Network for Building a House (Attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license.)

Like CPM, the program evaluation and review technique (PERT) helps managers identify critical tasks and assess how

delays in certain activities will affect operations or production. In both methods, managers use diagrams to see how operations and production will flow. PERT differs from CPM in one important respect. CPM assumes that the amount of time needed to finish a task is known with certainty; therefore, the CPM diagram shows only one number for the time needed to complete each activity. In contrast, PERT assigns three time estimates for each activity: an optimistic time for completion, the most probable time, and a pessimistic time. These estimates allow managers to anticipate delays and potential problems and schedule accordingly.

### CONCEPT CHECK

1. What is production control, and what are its key aspects?
2. How can value-stream mapping improve routing efficiency?
3. Identify and describe three commonly used scheduling tools.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 13.6 - Looking for a Better Way: Improving Production and Operations

6. How can quality-management and lean-manufacturing techniques help firms improve production and operations management?

Competing in today's business world is challenging. To compete effectively, firms must keep production costs down. At the same time, however, it's becoming increasingly complex to produce and deliver the high-quality goods and services customers demand. Methods to help meet these challenges include quality-management techniques, lean manufacturing, and technology and automation.

### Putting Quality First

Successful businesses recognize that quality and productivity must go hand in hand. Quality goods and services meet customer expectations by providing reliable performance. Defective products waste materials and time, increasing costs. Worse, poor quality causes customer dissatisfaction, which usually results in lost sales.

A consumer measures quality by how well a product serves its purpose. From the manufacturer's point of view, quality is the degree to which the product conforms to a set of predetermined standards. Quality control involves creating quality standards, producing goods that meet them, and measuring finished goods and services against them. It takes more than just inspecting goods at the end of the assembly line to ensure quality control, however. Quality control requires a company-wide dedication to managing and working in a way that builds excellence into every facet of operations.

Dr. W. Edwards Deming, an American management consultant, was the first to say that quality control should be a company-wide goal. His ideas were adopted by the Japanese in the 1950s but largely ignored in the United States until the 1970s. Deming believed that quality control starts with top management, who must foster a company-wide culture dedicated to producing quality.

Deming's concept of Total Quality Management (TQM) emphasizes the use of quality principles in all aspects of a company's production and operations. It recognizes that all employees involved with bringing a product or service to customers—marketing, purchasing, accounting, shipping, manufacturing—contribute to its quality. TQM focuses on continuous improvement, a commitment to constantly seek better ways of doing things in order to achieve greater efficiency and improve quality. Company-wide teams work together to prevent problems and systematically improve key processes instead of troubleshooting problems only as they arise. Continuous improvement continually measures performance using statistical techniques and looks for ways to apply new technologies and innovative production methods.

Another quality-control method is the Six Sigma quality program. Six Sigma is a company-wide process that focuses on measuring the number of defects that occur and systematically eliminating them in order to get as close to “zero defects” as possible. In fact, Six Sigma quality aims to have every process produce no more than 3.4 defects per million. Six Sigma focuses on designing products that not only have fewer defects but that also satisfy customer needs. A key process of Six Sigma is called DMAIC. This stands for Define, Measure, Analyze, Improve, and Control. Employees at all levels define what needs to be done to ensure quality, then measure and analyze production results using statistics to see if standards are met. They are also charged with finding ways to improve and control quality.

General Electric was one of the first companies to institute Six Sigma throughout the organization. GE employees

are trained in Six Sigma concepts, and many analysts believe this has given GE a competitive manufacturing advantage. Service firms and government entities have applied Six Sigma to their quality initiatives as well.

### *Malcolm Baldrige National Quality Award*

Named for a former secretary of commerce, the Malcolm Baldrige National Quality Award was established by the U.S. Congress in 1987 to recognize U.S. companies that offer goods and services of world-class quality. The award promotes awareness of quality and allows the business community to assess which quality control programs are most effective.

Administered by the U.S. Department of Commerce's National Institute of Standards and Technologies (NIST), the award's most important criterion is a firm's effectiveness at meeting customer expectations, as well as demonstrating that it offers quality goods and services. To qualify for the award, a company must also show continuous improvement in internal operations. Company leaders and employees must be active participants in the firm's quality program, and they must respond quickly to data and analysis.

Organizations in a wide variety of industries have won the Baldrige Award since it was first presented in 1987. In 2017, for example, the Baldrige Award winners included Bristol Tennessee Essential Services, an electricity and fiber services utility company, in the small business sector; the city of Fort Collins, Colorado, in the nonprofit sector; and Southcentral Foundation in Anchorage, Alaska, in the health care sector.<sup>9</sup>

### *Worldwide Excellence: International Quality Standards*

The International Organization for Standardization (ISO), located in Geneva, Switzerland, is an industry organization that has developed standards of quality that are used by businesses around the world. ISO 9000, introduced in the 1980s, is a set of five technical standards designed to offer a uniform way of determining whether manufacturing plants and service organizations conform to sound quality procedures. To register, a company must go through an audit of its manufacturing and customer service processes, covering everything from how it designs, produces, and installs its products, to how it inspects, packages, and markets them. Over 500,000 organizations worldwide have met ISO 9000 standards.

ISO 14000, launched after ISO 9000, was designed in response to environmental issues such as global warming and water pollution and promotes clean production processes. To meet ISO 14000 standards, a company must commit to continually improving environmental management and reducing pollution resulting from its production processes.

## Lean Manufacturing Trims the Fat

Manufacturers are discovering that they can better respond to rapidly changing customer demands, while keeping inventory and production costs down, by adopting lean-manufacturing techniques. Lean manufacturing streamlines production by eliminating steps in the production process that do not add benefits customers want. In other words, *non-value-added production processes* are cut so that the company can concentrate its production and operations resources on items essential to satisfying customers. Toyota was a pioneer in developing these techniques, but today manufacturers in many industries have adopted the lean-manufacturing philosophy.

Another Japanese concept, just-in-time (JIT), goes hand in hand with lean manufacturing. JIT is based on the belief that materials should arrive exactly when they are needed for production, rather than being stored on-site. Relying closely on computerized systems such as MRP, MRPII, and ERP, manufacturers determine what parts will be needed and when and then order them from suppliers so they arrive "just in time." Under the JIT system, inventory and

products are “pulled” through the production process in response to customer demand. JIT requires close teamwork between vendors and purchasing and production personnel because any delays in deliveries of supplies could bring JIT production to a halt.

Unexpected events like the September 11 terrorist attacks or the shutdown of ports due to Hurricane Harvey and the devastation and flooding caused by Hurricane Maria in Puerto Rico can cause chaos in the supply chains of manufacturers, resulting in problems for firms relying on JIT. But if employed properly, and in spite of these risks, a JIT system can greatly reduce inventory-holding costs and smooth production highs and lows.

## CONCEPT CHECK

1. How can managers use techniques to improve efficiency?
2. Define Six Sigma.
3. What was Edward Demming’s contribution to operations management?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 13.7 - Transforming the Factory Floor with Technology

### 7. What roles do technology and automation play in manufacturing and service-industry operations management?

Technology is helping many firms improve their operating efficiency and ability to compete. Computer systems in particular are enabling manufacturers to automate factories in ways never before possible. Among the technologies helping to automate manufacturing are computer-aided design and manufacturing systems, robotics, flexible manufacturing systems, and computer-integrated manufacturing.

### Computer-Aided Design and Manufacturing Systems

Computers have transformed the design and manufacturing processes in many industries. In computer-aided design (CAD), computers are used to design and test new products and modify existing ones. Engineers use these systems to draw products and look at them from different angles. They can analyze the products, make changes, and test prototypes before manufacturing a single item. Computer-aided manufacturing (CAM) uses computers to develop and control the production process. These systems analyze the steps required to make the product, then automatically send instructions to the machines that do the work. CAD/CAM systems combine the advantages of CAD and CAM by integrating design, testing, and manufacturing control into one linked computer system. The system helps design the product, control the flow of resources needed to produce the product, and operate the production process. Companies can further improve the design and manufacturing processes through the use of additive manufacturing, commonly referred to as 3D printing. Specialized printers can create products or parts for use in early prototypes, and some industries print certain components on site rather than shipping them.

Cardianove Inc., a Montreal-based manufacturer of medical and surgical equipment, used CAD software to develop the world's smallest heart pump. The company says using computer-aided design shaved two years off the normal design time for cardiac devices. The company's CAD program ran complex three-dimensional simulations to confirm that the design would function properly inside the human body. Using CAD software, Cardianove tested over 100 virtual prototypes before the top three designs were produced for real-life testing.

### Robotics

Robots are computer-controlled machines that can perform tasks independently. Robotics is the technology involved in designing, constructing, and operating robots. The first robot, or "steel-collar worker," was used by General Motors in 1961. Robots can be mobile or fixed in one place. Fixed robots have an arm that moves and does what the computer instructs. Some robots are quite simple, with limited movement for a few tasks such as cutting sheet metal and spot welding. Others are complex, with hands or grippers that can be programmed to perform a series of movements. Some robots are even equipped with sensing devices for sight and touch.

Robots usually operate with little or no human intervention. Replacing human effort with robots is most effective for tasks requiring accuracy, speed, or strength. Although manufacturers such as Harley-Davidson are most likely to use robots, some service firms are also finding them useful. Hospitals, for example, may use robots to sort and process blood samples, freeing medical personnel from a tedious, sometimes hazardous, repetitive task.



## Adaptable Factories: Flexible and Computer-Integrated Manufacturing Systems

A flexible manufacturing system (FMS) automates a factory by blending computers, robots, machine tools, and materials-and-parts-handling machinery into an integrated system. These systems combine automated workstations with computer-controlled transportation devices. Automatic guided vehicles (AGV) move materials between workstations and into and out of the system.

## ETHICS IN PRACTICE

### *Can Technology Save Your Life?*

Using robots to perform surgery once seemed like a futuristic fantasy, but not anymore. An estimated 1.5 million robotic procedures have been performed by the da Vinci Surgical System according to its creator, Intuitive Surgical.

So what accounts for the surge in robotic surgeries? Some preliminary studies suggest improved outcomes for patients. Surgeons who use the da Vinci Surgical System find that patients have less blood loss and pain, lower risks of complications, shorter hospital stays, and quicker recovery times than those who have open surgery—or even, in some cases, laparoscopic procedures that are also performed through multiple small incisions.

In October 2005, Dr. Francis Sutter, chief of cardiology at the Heart Center at Lankenau Hospital near Philadelphia, did the first da Vinci double bypass. His patient, a 65-year-old man, had just a single two-inch incision on the left side of his chest and was walking 30 minutes a day just a week and a half after surgery. Tests show his heart function to be normal again.

So what are the downsides? At a price of \$1.3 million each, the cost of the robots can be a barrier. Because insurance companies pay a fixed amount for a procedure regardless of how it is performed, the hospital is left to pick up the tab for the more expensive robotic surgeries. Sutter's center held fundraisers to help pay for the da Vinci Surgical System. And some surgeons are reluctant to commit the time necessary to learn robotic techniques. There is also a concern that once a hospital invests in such an expensive system, surgeons may feel pressured to use it and steer patients toward surgery over other treatment options.

Other types of technology also improve health care. At Aurora St. Luke's Medical Center in Milwaukee, intensive-care nurses check a patient coming out of heart-bypass surgery—from a building several miles away. This is the Aurora eICU, from which a team of doctors and nurses keep constant watch on more than 10 intensive care units in four different hospitals spread across eastern Wisconsin. "The idea is not to make care more remote," says David Rein, the unit's medical director, "but to bring expertise to the patient's bedside faster than we ever could before."

Monitors display vital signs and the patient's electronic chart, with details on medications, lab tests and X-ray results, and notes on the patient's condition. Cameras can zoom in so closely that monitoring staff can see the capillaries in a patient's eyes.

A survey recently found that patient mortality was 7.2 percent lower in hospitals that were "wired," which has a lot of health care researchers excited. Although the survey doesn't prove that technology causes better patient outcomes, it does show there is a strong connection.

Of course, robotic surgery raises some ethical issues. Recent developments suggest ethical issues that may arise when implementing technology into health care practices. Dr. Bertalan Meskó, who wrote the book *The Guide to the Future of Medicine*, identified such issues, including the hacking of medical devices, defending our privacy, scanning ourselves at home (without medical guidance), how society changes if we can prolong life, and possible bioterrorism due to technological advances.

Critical Thinking Questions

1. How is technology being used to streamline hospital operations, improve the quality of patient care, and provide better outcomes for patients?
2. What criteria should hospitals use to evaluate whether these expensive technologies are worthwhile investments?

Sources: Bertalan Meskó, “Ethical Issues of the Future of Medicine: The Top 10,” *Medical Futurist*, <http://medicalfuturist.com>, accessed February 20, 2018; Thomas Macaulay, “Could the ‘World’s Smallest Surgical Robot’ Make Keyhole Surgery Mainstream?” *Tech World*, <https://www.techworld.com>, December 28, 2017; Greg Adamson, “Ethics and Technology,” *IEEE Standards University*, <https://www.standardsuniversity.org>, March 13, 2017; Nayef Al-Rodhan, “The Many Ethical Implications of Emerging Technologies,” *Scientific American*, <https://www.scientificamerican.com>, March 13, 2015; Nick Glass and Matthew Knight, “Would You Have Surgery at the Hands of a Robot?” *CNN*, <http://www.cnn.com>, August 5, 2013; Josh Fishman, “Can High Tech Save Your Life?” *U.S. News & World Report*, August 1, 2005, p. 45–52.

Flexible manufacturing systems are expensive. But once in place, a system requires little labor to operate and provides consistent product quality. It can also be adjusted easily and inexpensively. FMS equipment can quickly be reprogrammed to perform a variety of jobs. These systems work well when small batches of a variety of products are required or when each product is made to individual customer specifications.

Computer-integrated manufacturing (CIM) combines computerized manufacturing processes (such as robots and flexible manufacturing systems) with other computerized systems that control design, inventory, production, and purchasing. With CIM, when a part is redesigned in the CAD system, the changes are quickly transmitted both to the machines producing the part and to all other departments that need to know about and plan for the change.

## Technology and Automation at Your Service

Manufacturers are not the only businesses benefiting from technology. Nonmanufacturing firms are also using automation to improve customer service and productivity. Banks now offer services to customers through automated teller machines (ATM), via automated telephone systems, and even over the internet. Retail stores of all kinds use point-of-sale (POS) terminals that track inventories, identify items that need to be reordered, and tell which products are selling well. Walmart, the leader in retailing automation, has its own satellite system connecting POS terminals directly to its distribution centers and headquarters.

### CONCEPT CHECK

1. Describe total quality management and the role that Six Sigma, ISO 9000, and ISO14000 play in it.
2. How can lean manufacturing and just-in-time inventory management help a firm improve its production and operations?
3. How are both manufacturing and nonmanufacturing firms using technology and automation to improve operations?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>

## 13.8 - Trends in Production and Operations Management

### 8. What key trends are affecting the way companies manage production and operations?

What trends will impact U.S. production and operations management both now and in the future? Manufacturing employment has added one million manufacturing factory jobs since the end of the great recession, up to a level of 12.5 million in December 2017. U.S. exports have quadrupled over the past 25 years, and the integration of technology into manufacturing processes has made U.S. manufacturers more competitive. These statistics portray a U.S. economy that is steaming ahead.<sup>10</sup>

Yet rapid changes in technology and intense global competition—particularly from Asia—create anxiety about the future. Is technology replacing too many jobs? Or, with qualified workers predicted to be in short supply, is the increased reliance on technology imperative to the United States' ability to compete in a global marketplace? Will the United States lose its edge in the ongoing war for leadership in innovation? And what should it be doing to ensure that today's students are tomorrow's innovators and scientists?

Recent surveys show finding qualified workers continues to be a major concern facing U.S. industry today. If the United States is to maintain its competitive edge, more investment—both private and federal—is needed for science and research. And what about the crucial role of technology? These are some of the trends facing companies today that we will examine.

U.S. workers no longer compete simply against one another but also against workers in less-developed countries with lower wages and increasing access to modern technology and production techniques. This is particularly true for manufacturers who account for the bulk of U.S. exports and compete directly with most imports. A more integrated global economy with more import competition and more export opportunities offers both new challenges and new opportunities to the United States and its workforce. To maintain its position as the world's leading innovator, it is essential that the United States remain committed to innovation and the concerted development of a more highly educated and skilled workforce.

### Looming Workforce Crisis Threatens U.S. Competitiveness

According to the latest National Association of Manufacturers Skills Gap Report, manufacturing executives rank a “high-performing workforce” as the most important factor in their firms' future success. This finding concurs with a recent study by the U.S. Department of Labor, which concluded that 85 percent of future jobs in the United States will require advanced training, an associate degree, or a four-year college degree. Minimum skills will be adequate for only 15 percent of future jobs.

But the National Association of Manufacturers predicts that 3.5 million new jobs will be filled over the next decade, but two million jobs will go unfilled due to a skills gap. When asked to identify the most serious problem for their company, survey respondents ranked “finding qualified employees” above high energy costs and the burdens of taxes, federal regulations, and litigation. Only the cost of health insurance and import competition ranked as more pressing concerns.

As demand for better-educated and more highly skilled workers begins to grow, troubling trends project a severe shortage of such workers. U.S. employers already struggling to find qualified workers will face an increasing shortage of such workers in coming years. To make matters worse, trends in U.S. secondary education suggest that even those future workers who stay in school to study math and science may not receive globally competitive educations.<sup>11</sup>

## American Innovation Leadership at Risk

A recently released report shows the United States is in danger of losing its global lead in science and innovation for the first time since World War II. The report was prepared by the Task Force on the Future of American Innovation, a coalition of leaders from industry, science, and higher education. Although the United States is still out front of the world's innovation curve, competing countries are climbing the technology ladder quickly, and the only way the United States can continue to create high-wage, value-added jobs is to climb the innovation ladder faster than the rest of the world.

The task force identified dwindling federal investment in science and research as a root cause of the problem. Federal research as a share of GDP has declined 40 percent over the past 40 years.<sup>12</sup> The U.S. share of worldwide high-tech exports has been in a 10-year decline since 2008, after a dramatic rise from \$77 billion in 1990 to \$221 billion in 2008. The latest data has the U.S. high-tech exports at \$153 billion. Similarly, graduate science and engineering enrollment is declining in the United States while on the rise in China, India, and elsewhere. In addition, retirements from science and engineering jobs here at home could lead to a critical shortage of U.S. talent in these fields in the near future.<sup>13</sup>

So what needs to be done to reverse this alarming trend? More robust investment is part of the solution because federally funded, peer-reviewed, and patented scientific advances are essential to innovation. Such basic research helped bring us lasers, the World Wide Web, magnetic resonance imaging (MRI), and fiber optics. National Association of Manufacturers President Jay Timmons noted that, "Modern manufacturing offers high-paying, long-term careers. It's a high-tech, sleek industry. It's time to close the skills gap and develop the next generation of the manufacturing workforce."<sup>14</sup>

## Business Process Management (BPM)—The Next Big Thing?

The twenty-first century is the age of the scattered corporation. With an assortment of partners and an army of suppliers often spread across thousands of miles, many companies find themselves with global design, supply, and logistics chains stretched to the breaking point. Few firms these days can afford to go it alone with their own raw materials, in-house production processes, and exclusive distribution systems.<sup>15</sup>

"Business Process Management is the glue to bind it all together," says Eric Austvold, research director at AMR Research. "It provides a unified system for business." This technology has the power to integrate and optimize a company's sprawling functions by automating much of what it does. The results speak for themselves. BPM has saved U.S. firms \$117 billion a year on inventory costs alone. Defense contractor Lockheed Martin recently used a BPM system to resolve differences among the hundreds of businesses that it acquired, unifying them into a whole and saving \$50 million per year by making better use of existing resources and data.

BPM is the key to the success of such corporate high-flyers as Walmart and Dell, which collect, digest, and utilize all sorts of production, sales, and shipping data to continually hone their operations. So how does BPM actually work? When a Dell system is ordered online, rather than waiting for a person to get the ball rolling, a flurry of electronic traffic flows back and forth between suppliers so that every part arrives within a few hours and the computer's assembly, as well as software loading and testing, are scheduled. Production runs like a well-oiled clock so customers get their computers quickly, and Dell can bill them on shipment. A well-thought-through BPM system can even reschedule production runs, reroute deliveries, or shift work to alternate plants. The key, says Byron Canady of Dell, is "to stay close to customers and the supply chain."<sup>16</sup>

The amount of available data—business intelligence (BI), enterprise resource planning (ERP), customer relationship management (CRM), and other systems—is staggering. "Companies are flooded with information," says Jeanne Baker, chair of the industry support group Business Process Management Initiative (BPMI) and vice president of technology at Sterling Commerce. "The challenge is to make sense of it all. How you leverage the value chain is the true competitive

advantage of the 21st century.” According to Baker, “BPMI drives growth through the automation of business processes, particularly the processes that integrate organizations. These provide the best opportunities for growth. Studies have shown companies that have good collaborative processes experience 15 percent less inventory; 17 percent stronger order fulfillment; 35 percent shorter cash-to-cash cycles; 10 percent less stock outs; 7 to 8 percent increase in revenues from savings; and overall sales increases.”<sup>17</sup>

## CONCEPT CHECK

1. Describe the impact of the anticipated worker shortage on U.S. business.
2. How are today’s educational trends affecting the future of manufacturing?
3. What is business process management (BPM), and how do businesses use it to improve operations management?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Key Terms

**assembly process**

A production process in which the basic inputs are either combined to create the output or transformed into the output.

**bill of material**

A list of the items and the number of each required to make a given product.

**blockchain technology**

Refers to a decentralized “public ledger” of all transactions that have ever been executed. It is constantly expanding, as “completed” blocks are added to the ledger with each new transaction.

**business process management (BPM)**

A unified system that has the power to integrate and optimize a company’s sprawling functions by automating much of what it does.

**CAD/CAM systems**

Linked computer systems that combine the advantages of computer-aided design and computer-aided manufacturing. The system helps design the product, control the flow of resources needed to produce the product, and operate the production process.

**cellular manufacturing**

Production technique that uses small, self-contained production units, each performing all or most of the tasks necessary to complete a manufacturing order.

**computer-aided design (CAD)**

The use of computers to design and test new products and modify existing ones.

**computer-aided manufacturing (CAM)**

The use of computers to develop and control the production process.

**computer-integrated manufacturing (CIM)**

The combination of computerized manufacturing processes (such as robots and flexible manufacturing systems) with other computerized systems that control design, inventory, production, and purchasing.

**continuous improvement**

A commitment to constantly seek better ways of doing things in order to achieve greater efficiency and improve quality.

**continuous process**

A production process that uses long production runs lasting days, weeks, or months without equipment shutdowns; generally used for high-volume, low-variety products with standardized parts.

**critical path**

In a critical path method network, the longest path through the linked activities.

**critical path method (CPM)**

A scheduling tool that enables a manager to determine the critical path of activities for a project—the activities that will cause the entire project to fall behind schedule if they are not completed on time.

**customization**

The production of goods or services one at a time according to the specific needs or wants of individual customers.

**e-procurement**

The process of purchasing supplies and materials online using the internet.

**electronic data interchange (EDI)**

The electronic exchange of information between two trading partners.

**enterprise resource planning (ERP)**

A computerized resource-planning system that incorporates information about the firm's suppliers and customers with its internally generated data.

**fixed-position layout**

A facility arrangement in which the product stays in one place and workers and machinery move to it as needed.

**flexible manufacturing system (FMS)**

A system that combines automated workstations with computer-controlled transportation devices—automatic guided vehicles (AGV)—that move materials between workstations and into and out of the system.

**Gantt charts**

Bar graphs plotted on a time line that show the relationship between scheduled and actual production.

**intermittent process**

A production process that uses short production runs to make batches of different products; generally used for low-volume, high-variety products.

**inventory**

The supply of goods that a firm holds for use in production or for sale to customers.

**inventory management**

The determination of how much of each type of inventory a firm will keep on hand and the ordering, receiving, storing, and tracking of inventory.

**ISO 14000**

A set of technical standards designed by the International Organization for Standardization to promote clean production processes to protect the environment.

**ISO 9000**

A set of five technical standards of quality management created by the International Organization for Standardization to provide a uniform way of determining whether manufacturing plants and service organizations conform to sound quality procedures.

**job shop**

A manufacturing firm that produces goods in response to customer orders.

**just-in-time (JIT)**

A system in which materials arrive exactly when they are needed for production, rather than being stored on-site.

**lean manufacturing**

Streamlining production by eliminating steps in the production process that do not add benefits that customers want.

**make-or-buy decision**

The determination by a firm of whether to make its own production materials or to buy them from outside sources.

**Malcolm Baldrige National Quality Award**

An award given to recognize U.S. companies that offer goods and services of world-class quality; established by Congress in 1987 and named for a former secretary of commerce.

**manufacturing resource planning II (MRPII)**

A complex computerized system that integrates data from many departments to allow managers to more accurately forecast and assess the impact of production plans on profitability.

**mass customization**

A manufacturing process in which goods are mass-produced up to a point and then custom-tailored to the needs or desires of individual customers.

**mass production**

The manufacture of many identical goods at once.

**materials requirement planning (MRP)**

A computerized system of controlling the flow of resources and inventory. A master schedule is used to ensure



that the materials, labor, and equipment needed for production are at the right places in the right amounts at the right times.

**operations management**

Management of the production process.

**outsourcing**

The purchase of items from an outside source rather than making them internally.

**perpetual inventory**

A continuously updated list of inventory levels, orders, sales, and receipts.

**process layout**

A facility arrangement in which work flows according to the production process. All workers performing similar tasks are grouped together, and products pass from one workstation to another.

**process manufacturing**

A production process in which the basic input is broken down into one or more outputs (products).

**product (or assembly-line) layout**

A facility arrangement in which workstations or departments are arranged in a line with products moving along the line.

**production**

The creation of products and services by turning inputs, such as natural resources, raw materials, human resources, and capital, into outputs, which are products and services.

**production planning**

The aspect of operations management in which the firm considers the competitive environment and its own strategic goals in an effort to find the best production methods.

**production process**

The way a good or service is created.

**program evaluation and review technique (PERT)**

A scheduling tool that is similar to the CPM method but assigns three time estimates for each activity (optimistic, most probable, and pessimistic); allows managers to anticipate delays and potential problems and schedule accordingly.

**purchasing**

The process of buying production inputs from various sources; also called *procurement*.

**quality**

Goods and services that meet customer expectations by providing reliable performance.

**quality control**

The process of creating quality standards, producing goods that meet them, and measuring finished goods and services against them.

**robotics**

The technology involved in designing, constructing, and operating computer-controlled machines that can perform tasks independently.

**routing**

The aspect of production control that involves setting out the work flow—the sequence of machines and operations through which the product or service progresses from start to finish.

**scheduling**

The aspect of production control that involves specifying and controlling the time required for each step in the production process.

**Six Sigma**

A quality-control process that relies on defining what needs to be done to ensure quality, measuring and analyzing production results statistically, and finding ways to improve and control quality.

**supply chain**

The entire sequence of securing inputs, producing goods, and delivering goods to customers.

**supply-chain management**

The process of smoothing transitions along the supply chain so that the firm can satisfy its customers with quality products and services; focuses on developing tight bonds with suppliers.

**Total Quality Management (TQM)**

The use of quality principles in all aspects of a company's production and operations.

**value-stream mapping**

Routing technique that uses simple icons to visually represent the flow of materials and information from suppliers through the factory to customers.

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# Summary of Learning Outcomes

## 13.1 Production and Operations Management—An Overview

1. Why is production and operations management important in both manufacturing and service firms?

In the 1980s, many U.S. manufacturers lost customers to foreign competitors because their production and operations management systems did not support the high-quality, reasonably priced products consumers demanded. Service organizations also rely on effective operations management in order to satisfy consumers. Operations managers, the personnel charged with managing and supervising the conversion of inputs into outputs, work closely with other functions in organizations to help ensure quality, customer satisfaction, and financial success.

## 13.2 The Production Process: How Do We Make It?

2. What types of production processes do manufacturers and service firms use?

Products are made using one of three types of production processes. In mass production, many identical goods are produced at once, keeping production costs low. Mass production, therefore, relies heavily on standardization, mechanization, and specialization. When mass customization is used, goods are produced using mass-production techniques up to a point, after which the product or service is custom-tailored to individual customers by adding special features. When a firm's production process is built around customization, the firm makes many products one at a time according to the very specific needs or wants of individual customers.

## 13.3 Location, Location, Location: Where Do We Make It?

3. How do organizations decide where to put their production facilities? What choices must be made in designing the facility?

Site selection affects operating costs, the price of the product or service, and the company's ability to compete. In choosing a production site, firms must weigh the availability of resources—raw materials, manpower, and even capital—needed for production, as well as the ability to serve customers and take advantage of marketing opportunities. Other factors include the availability of local incentives and the manufacturing environment. Once a site is selected, the firm must choose an appropriate design for the facility. The three main production facility designs are process, product, and fixed-position layouts. Cellular manufacturing is another type of facility layout.

## 13.4 Pulling It Together: Resource Planning

4. Why are resource-planning tasks such as inventory management and supplier relations critical to production?

Production converts input resources, such as raw materials and labor, into outputs, finished products and services.

Firms must ensure that the resources needed for production will be available at strategic moments in the production process. If they are not, productivity, customer satisfaction, and quality may suffer. Carefully managing inventory can help cut production costs while maintaining enough supply for production and sales. Through good relationships with suppliers, firms can get better prices, reliable resources, and support services that can improve production efficiency.

## 13.5 Production and Operations Control

### 5. How do operations managers schedule and control production?

Routing is the first step in scheduling and controlling production. Routing analyzes the steps needed in production and sets out a workflow, the sequence of machines and operations through which a product or service progresses from start to finish. Good routing increases productivity and can eliminate unnecessary cost. Scheduling involves specifying and controlling the time and resources required for each step in the production process. Operations managers use three methods to schedule production: Gantt charts, the critical path method, and PERT.

## 13.6 Looking for a Better Way: Improving Production and Operations

### 6. How can quality-management and lean-manufacturing techniques help firms improve production and operations management?

Quality and productivity go hand in hand. Defective products waste materials and time, increasing costs. Poor quality also leads to dissatisfied customers. By implementing quality-control methods, firms can reduce these problems and streamline production. Lean manufacturing also helps streamline production by eliminating unnecessary steps in the production process. When activities that don't add value for customers are eliminated, manufacturers can respond to changing market conditions with greater flexibility and ease.

## 13.7 Transforming the Factory Floor with Technology

### 7. What roles do technology and automation play in manufacturing and service-industry operations management?

Many firms are improving their operational efficiency by using technology to automate parts of production. Computer-aided design and manufacturing systems, for example, help design new products, control the flow of resources needed for production, and even operate much of the production process. By using robotics, human time and effort can be minimized. Factories are being automated by blending computers, robots, and machinery into flexible manufacturing systems that require less labor to operate. Service firms are automating operations too, using technology to cut labor costs and control quality.

## 13.8 Trends in Production and Operations Management

### 8. What key trends are affecting the way companies manage production and operations?

Data show the U.S. economy steaming steadily ahead, but dramatic advances in technology, predicted worker shortages, and global competition create challenges for the future. How will companies balance their technology and workforce needs? Will the United States maintain its lead in the ongoing war for leadership in innovation? And what should it be doing to convert today's students into tomorrow's innovators and scientists? Surveys indicate that finding qualified workers continues to be a major concern facing U.S. industry today. If the United States is to maintain its competitive edge, more private and federal investment is needed for science and research. And what of the increasingly crucial role of technology? These are some of the trends facing companies today.

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# Preparing for Tomorrow's Workplace Skills

1. Tom Lawrence and Sally Zickle are co-owners of L-Z Marketing, an advertising agency. Last week, they landed a major aerospace manufacturer as a client. The company wants the agency to create its annual report. Tom, who develops the art for the agency, needs about a week to develop the preliminary report design, another two weeks to set the type, and three weeks to get the report printed. Sally writes the material for the report and doesn't need as much time: two days to meet with the client to review the company's financial information and about three weeks to write the report copy. Of course, Tom can't set type until Sally has finished writing the report. Sally will also need three days to proofread the report before it goes to the printer. Develop either a Gantt chart or a critical path diagram for Tom and Sally to use in scheduling the project. Explain why you chose the method you did. How long will it take Tom and Sally to finish the project if there are no unforeseen delays? (Resources, Systems)
2. Look for ways that technology and automation are used at your school, in the local supermarket, and at your doctor's office. As a class, discuss how automation affects the service you receive from each of these organizations. Does one organization use any types of automation that might be effectively used by one of the others? Explain. (Interpersonal, Information)
3. Pick a small business in your community. Make a list of the resources critical to the firm's production and operations. What would happen if the business suddenly couldn't acquire any of these resources? Divide the class into small groups and discuss strategies that small businesses can use to manage their supply chain. (Resources, Information, Interpersonal)
4. Broadway Fashions is a manufacturer of women's dresses. The company's factory has 50 employees. Production begins when the fabric is cut according to specified patterns. After being cut, the pieces for each dress style are placed into bundles, which then move through the factory from worker to worker. Each worker opens each bundle and does one assembly task, such as sewing on collars, hemming dresses, or adding decorative items such as appliqués. Then, the worker puts the bundle back together and passes it on to the next person in the production process. Finished dresses are pressed and packaged for shipment. Draw a diagram showing the production process layout in Broadway Fashions' factory. What type of factory layout and process is Broadway using? Discuss the pros and cons of this choice. Could Broadway improve production efficiency by using a different production process or factory layout? How? Draw a diagram to explain how this might look. (Resources, Systems)
5. As discussed in this chapter, many U.S. firms have moved their manufacturing operations to overseas locations in the past decade. Although there can be sound financial benefits to this choice, moving production overseas can also raise new challenges for operations managers. Identify several of these challenges, and offer suggestions for how operations managers can use the concepts in this chapter to minimize or solve them. (Resources, Information)
6. **Team Exercise** Reliance Systems, headquartered in Oklahoma City, is a manufacturer of computer keyboards. The company plans to build a new factory and hopes to find a location with access to low-cost but skilled workers, national and international transportation, and favorable government incentives. Working in teams, assign tasks, and use the internet and your school library to research possible site locations, both domestic and international. Choose a location you feel would best meet the company's needs. Make a group presentation to the class explaining why you have chosen this location. Include information about the location's labor force, similar manufacturing facilities already located there, availability of resources and materials, possible local incentives, political and economic environment in the location, and any other factors you feel make this an attractive location. After all teams have presented their proposed locations, as a class rank all of the locations and decide the top two Reliance should investigate further. (Interpersonal, Information)
7. Your teacher has just announced a huge assignment, due in three weeks. Develop a Gantt chart to plan and schedule more effectively.
  - Break the assignment down into smaller tasks: pick a topic; conduct research at the library or on the internet;

organize your notes; develop an outline; and write, type, and proofread the paper.

- Estimate how much time each task will take.
- Across the top of a piece of paper, list all the days until the assignment is due. Along the side of the paper, list all the tasks you've identified in the order they need to be done.
- Starting with the first task, block out the number of days you estimate each task will take. Include days that you won't be able to work on the project.
- Track the actual time spent on each task.

After you complete and submit your assignment, compare your time estimates to the actual time each task took. How can these findings help you with future assignments? (Resources, Systems)

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# Ethics Activity

A recent spate of mine disasters that caused numerous fatalities refocused national attention on the question: is management doing enough to protect employees on the job? Recent serious Occupational Safety and Health Administration (OSHA) violations resulting in the deaths of two workers from falls due to the lack of harnesses or guardrails suggest there is still a long way to go.

Companies are responsible for providing a safe workplace for employees. So why do accidents like these continue to happen? In a word—money. It takes money to purchase harnesses, install guardrails, and otherwise ensure a safe and healthy work environment. And even more is needed to employ the staff necessary to enforce company safety policies. It is often less costly for a company to just pay the fines that are levied for violations.

As a supervisor at a company with frequent violations of OSHA regulations, you worry about your employees' safety. But each time your company needs to implement a new safety feature, end-of-year employee bonuses get smaller. The money has to come from somewhere, management claims.

Using a web search tool, locate articles about this topic, and then write responses to the following questions. Be sure to support your arguments and cite your sources.

**Ethical Dilemma:** Do you report safety violations to management in the hope they will be corrected before someone gets hurt, or do you stage a total work stoppage to force management's hand, knowing that either way you risk losing popularity at every level, and very possibly your job? Or, of course, you could say nothing and hope for the best. It is not a problem you created, and you're just there to do a job, after all.

Sources: George Avalos, "PG&E Violated Safety Rules, Was Late on Thousands of Wine Country Electricity Inspections and Work Orders," *The Mercury News*, <https://www.mercurynews.com>, October 25, 2017; Barry Meier and Danielle Ivory, "Worker Safety Rules Are Among Those Under Fire in Trump Era," *The New York Times*, <https://www.nytimes.com>, March 13, 2017; Kenneth Cheng, "Senior Managers Could Be Taken to Task for Workplace Safety Violations," *Today Online*, <http://www.todayonline.com>, March 7, 2017.

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# Working the Net

1. Use the Google search engine, **<http://www.google.com>**, to conduct a search for “supplier information,” and visit the websites of several firms (for example, Walmart, Northrop Grumman, Verizon, etc.). Compare the requirements companies set for their suppliers. How do they differ? How are they similar?
2. Visit *Site Selection* magazine, **<http://www.siteselection.com>**. Click on Area Spotlights for information about the manufacturing environment in various U.S. locations. Pick three to four areas to read about. Using this information, what locations would you recommend for firms in the following industries: general services, telecommunications, automotive manufacturing, and electronics manufacturing? Explain.
3. Manufacturers face many federal, state, and local regulations. Visit the National Association of Manufacturers at **<http://www.nam.org>**. Pick two or three legislative or regulatory issues discussed under their Policy sections, and use a search engine such as Yahoo! (**<http://www.yahoo.com>**) to find more information.
4. Using a search engine to search for information about technologies such as ERP, CAD/CAM systems, or robotics. Find at least three suppliers for one of these technologies. Visit their websites, and discuss how their clients are using their products to automate production.
5. Research either the Malcolm Baldrige National Quality Award or the ISO 9000 Quality Standards program on the internet. Write an executive summary that explains the basic requirements and costs of participating. What are the benefits of participating? Include a brief example of a company that has participated and their experiences. Include a list of relevant website links for further reading.

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# Critical Thinking Case

## *Innovation and E-mail Rules*

This chapter provides insights into how manufacturing and service organizations can implement processes and controls to increase efficiency, manage expenditures, and increase profits for the organization. For companies such as General Motors that need to manage suppliers and make sure that all components are procured on time and at the best costs to ensure the final assembly runs efficiently, and for service organizations such as Marriott, which wants to have clean rooms and an efficient check-in process when guests arrive, the main lessons of this chapter are readily apparent.

All companies, however, need to innovate continuously to improve their products and services. Automobile companies such as General Motors have to constantly measure customer tastes and needs and provide products that meet and exceed their expectations. Likewise, Marriott needs to cater to the needs of business and leisure travelers in a variety of locations.

Perhaps no company in recent years has captured the attention of the public more than Tesla and SpaceX, both headed by CEO Elon Musk. Tesla is named after the inventor Nicola Tesla, a contemporary of Thomas Edison, who designed the first electric engine. SpaceX is a company that is known for innovation such as reusing rocket launchers to reduce costs. While Tesla and SpaceX still manage their operations with all the processes covered in this chapter, their constant innovation requires new processes.

Perhaps no aspect of modern business has had a bigger impact than the proliferation of e-mail. No longer confined to the desktop, e-mail messages are delivered via mobile devices, and managers must find ways to manage the proliferation of communication to keep on top of things.

Elon Musk communicated the processes and rules for communicating at Tesla in this e-mail to all employees.

Subject: Communication Within Tesla

There are two schools of thought about how information should flow within companies. By far the most common way is chain of command, which means that you always flow communication through your manager. The problem with this approach is that, while it serves to enhance the power of the manager, it fails to serve the company.

Instead of a problem getting solved quickly, where a person in one dept talks to a person in another dept and makes the right thing happen, people are forced to talk to their manager who talks to their manager who talks to the manager in the other dept who talks to someone on his team. Then the info has to flow back the other way again. This is incredibly dumb. Any manager who allows this to happen, let alone encourages it, will soon find themselves working at another company. No kidding.

Anyone at Tesla can and should email/talk to anyone else according to what they think is the fastest way to solve a problem for the benefit of the whole company. You can talk to your manager's manager without his permission, you can talk directly to a VP in another dept, you can talk to me, you can talk to anyone without anyone else's permission. Moreover, you should consider yourself obligated to do so until the right thing happens. The point here is not random chitchat, but rather ensuring that we execute ultra-fast and well. We obviously cannot compete with the big car companies in size, so we must do so with intelligence and agility.

One final point is that managers should work hard to ensure that they are not creating silos within the company that create an us vs. them mentality or impede communication in any way. This is unfortunately a natural tendency and needs to be actively fought. How can it possibly help Tesla for depts to erect barriers between themselves or see their success as relative within the company instead of collective? We are all in the same boat. Always view yourself as working for the good of the company and never your dept.

Thanks,

Elon

## Critical Thinking Questions

1. Why would an e-mail rules memo like this work better at an innovation-driven company such as Tesla rather than at a manufacturing-driven company such as General Motors?
2. What are the potential problems that could arise out of this approach to e-mail?

Sources: Justin Bariso, "This Email From Elon Musk to Tesla Employees Describes What Great Communication Looks Like," *Inc.*, <https://www.inc.com>, accessed February 20, 2018; John F. Wasik, "Tesla the Car Is a Household Name. Long Ago, So Was Nikola Tesla," *The New York Times*, <https://www.nytimes.com>, December 30, 2017; Ken Costlow, "Ground Broken on New General Motors Supplier Park," *Arlington Voice*, <https://arlingtonvoice.com>, June 19, 2017.

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# Hot Links Address Book

1. See how American Leather brings it all together to create beautiful customized couches at **<https://www.americanleather.com>**.
2. What characteristics contribute to a city's manufacturing climate? Find out by reading more at *Industry Week's* website: **<http://www.industryweek.com>**.
3. How do companies decide whether to make or buy? Find out more at the Outsourcing Institute, a professional association where buyers and sellers network and connect: **<http://www.outsourcing.com>**.
4. Learn how to build your own Gantt chart at **[https://www.mindtools.com/pages/article/newPPM\\_03.htm](https://www.mindtools.com/pages/article/newPPM_03.htm)**.
5. What does it take to win the Malcolm Baldrige National Quality Award? Get the details at **<https://www.nist.gov/baldrige/baldrige-award>**.
6. Want to know more about how robots work? Find out at **<https://science.howstuffworks.com/robot.htm>**.

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# 14 - PERSONALITY, PERCEPTION AND ATTRIBUTION

## Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. How do managers and organizations appropriately select individuals for particular jobs?
2. How do people with different abilities, skills, and personalities build effective work teams?
3. How do managers and employees deal effectively with individual differences in the workplace?
4. How can organizations foster a work environment that allows employees an opportunity to develop and grow?
5. How do managers know how to get the best from each employee?
6. What is the role of ethical behavior in managerial actions?
7. How do you manage and do business with people from different cultures?

## EXPLORING MANAGERIAL CAREERS

### *Building Back Trust on the Back End*

One institution that has been around for generations is banking. However, many individuals have lost faith in the banking system, and who's to blame them? Big banks have let the general consumer down with security breaches and countless stories of scandals. One glaring example is Wells Fargo & Co., who are still recovering their brand from their admission of creating nearly two million accounts for customers without their permission. But this problem is not new. The approach to bolstering this trust factor is, however, taking on a new perspective with some quick adaptation and managerial foresight. One CEO, Cathie Mahon, chief executive officer of the National Federation of Community Development Credit Unions, is not taking the disparities between credit unions and big banks lying down. Credit unions have always operated differently from big banks, and one key factor is that they are nonprofit while their big-bank counterparts are for-profit enterprises. This also can mean that they offer higher interest rates on deposits due to their size. Mahon has begun a keen undertaking to educate and empower low-income residents about financial resources. Her most recent endeavor is to provide a platform called CU Impact that keeps customers more informed about their balances, creates more trustworthy auto-pay features, more information delivered at ATMs as well. The improvements to the back-end reliability within the credit union system sustain the small, community feel of the credit union, while providing powerful, trustworthy systems that restore faith in their business. Her willingness to embrace technology and embrace differences of customers, employees, and the company structure overall made her the key to success for the future of their business.

Sources: Cohen, Arianne, "The CEO Who's Leveling the Playing Field Between Credit Unions and Big

Banks,” *Bloomberg Businessweek*, July 9, 2018, <https://www.bloomberg.com/news/articles/2018-07-09/the-ceo-who-s-leveling-the-playing-field-between-credit-unions-and-big-banks>; Koren, James Rufus, “It’s been a year since the Wells Fargo scandal broke—and new problems are still surfacing,” *Los Angeles Times*, September 8, 2017, <http://www.latimes.com/business/la-fi-wells-fargo-one-year-20170908-story.html>.

# 14.1 - Individual and Cultural Factors in Employee Performance

## 1. How do managers and organizations appropriately select individuals for particular jobs?

As we can see in the example of Cathie Mahon, our unique personal characteristics can have a dramatic influence on both individual behavior and the behavior of those around us. To succeed in any managerial position, it is necessary to have the appropriate skills and abilities for the situation. Moreover, when selecting subordinates, managers have similar concerns. In short, individual differences can play a major role in how well someone performs on the job. They can even influence whether someone gets the job in the first place. Because of this, we begin this section with a look at individual differences in the workplace.

Several factors can be identified that influence employee behavior and performance. One early model of job performance argued simply that performance was largely a function of *ability* and *motivation*.<sup>1</sup> Using this simple model as a guide, we can divide our discussion of individual factors in performance into two categories: those that influence our *capacity to respond* and those that influence our *will or desire to respond*. The first category includes such factors as mental and physical abilities, personality traits, perceptual capabilities, and stress-tolerance levels. The second category includes those variables dealing with employee motivation. Both of these sets of factors are discussed in this part of the book as a prelude to more complex analyses of overall organizational performance.

Specifically, we begin our analysis in this chapter with a look at individual differences, including employee abilities and skills, personality variables, and work values. We will also examine the nature of culture and cultural diversity as it affects behavior in organizations both at home and abroad. Later we look at perception and job attitudes, and we review basic learning and reinforcement techniques. The basic theories of employee motivation are then introduced, including the concept of employee needs. More complex cognitive models of motivation will be examined, and finally, we review contemporary approaches to performance appraisals and reward systems in organizations. All told, this coverage aims to introduce the reader to the more salient aspects of individual behavior as they relate to organizational behavior and effectiveness.

### CONCEPT CHECK

1. What are the various abilities and skills that should be considered when hiring employees?
2. How should the personality differences and work values be taken into account when selecting employees?
3. What is the role of cultural diversity in selecting employees?

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# 14.2 - Employee Abilities and Skills

## 2. How do people with different abilities, skills, and personalities build effective work teams?

We begin with a look at *employee abilities and skills*. Abilities and skills generally represent those physical and intellectual characteristics that are relatively stable over time and that help determine an employee's capability to respond. Recognizing them is important in understanding organizational behavior, because they often bound an employee's ability to do the job. For example, if a clerk-typist simply does not have the manual dexterity to master the fundamentals of typing or keyboard entry, her performance will likely suffer. Similarly, a sales representative who has a hard time with simple numerical calculations will probably not do well on the job.

### Mental Abilities

It is possible to divide our discussion of abilities and skills into two sections: mental abilities and physical abilities. Mental abilities are an individual's intellectual capabilities and are closely linked to how a person makes decisions and processes information. Included here are such factors as verbal comprehension, inductive reasoning, and memory. A summary is shown in **Table 14.1**.

Dimensions of Mental Abilities
<ul style="list-style-type: none"><li>• <i>Verbal comprehension</i>. The ability to understand the meanings of words and their relations to each other.</li><li>• <i>Word fluency</i>. The ability to name objects or use words to form sentences that express an idea.</li><li>• <i>Number aptitude</i>. The ability to make numerical calculations speedily and accurately.</li><li>• <i>Inductive reasoning</i>. The ability to discover a rule or principle and apply it to the solution of a problem.</li><li>• <i>Memory</i>. The ability to remember lists of words and numbers and other associations.</li><li>• <i>Spatial aptitude</i>. The ability to perceive fixed geometric figures and their relations with other geometric figures.</li><li>• <i>Perceptual speed</i>. The ability to perceive visual details quickly and accurately.</li></ul>

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From a managerial standpoint, a key aspect of mental ability is cognitive complexity. Cognitive complexity represents a person's capacity to acquire and sort through various pieces of information from the environment and organize them in such a way that they make sense. People with high cognitive complexity tend to use more information—and to see the relationships between aspects of this information—than people with low cognitive complexity. For example, if a manager was assigned a particular problem, would they have the capacity to break the problem down into its various facets and understand how these various facets relate to one another? A manager with low cognitive complexity would tend to see only one or two salient aspects of the problem, whereas a manager with higher cognitive complexity would understand more of the nuances and subtleties of the problem as they relate to each other and to other problems.

People with low cognitive complexity typically exhibit the following characteristics:<sup>2</sup>

They tend to be categorical and stereotypical. Cognitive structures that depend upon simple fixed rules of integration tend to reduce the possibility of thinking in terms of degrees.

Internal conflict appears to be minimized with simple structures. Since few alternative relationships are generated, closure is quick.

Behavior is apparently anchored in external conditions. There is less personal contribution in simple structures.

Fewer rules cover a wider range of phenomena. There is less distinction between separate situations.

On the other hand, people with high levels of cognitive complexity are typically characterized by the following:<sup>3</sup>



Their cognitive system is less deterministic. Numerous alternative relationships are generated and considered. The environment is tracked in numerous ways. There is less compartmentalization of the environment. The individual utilizes more internal processes. The self as an individual operates on the process.

Research on cognitive complexity has focused on two important areas from a managerial standpoint: leadership style and decision-making. In the area of leadership, it has been found that managers rated high on cognitive complexity are better able to handle complex situations, such as rapid changes in the external environment. Moreover, such managers also tend to use more resources and information when solving a problem and tend to be somewhat more considerate and consultative in their approach to managing their subordinates.<sup>4</sup> In the area of decision-making, fairly consistent findings show that individuals with high cognitive complexity (1) seek out more information for a decision, (2) actually process or use more information, (3) are better able to integrate discrepant information, (4) consider a greater number of possible solutions to the problem, and (5) employ more complex decision strategies than individuals with low cognitive complexity.<sup>5</sup>

## Physical Abilities

The second set of variables relates to someone's physical abilities. Included here are both basic physical abilities (for example, strength) and psychomotor abilities (such as manual dexterity, eye-hand coordination, and manipulation skills). These factors are summarized in **Table 14.2**.<sup>6</sup> Considering both mental and physical abilities helps one understand the behavior of people at work and how they can be better managed. The recognition of such abilities—and the recognition that people have *different* abilities—has clear implications for employee recruitment and selection decisions; it brings into focus the importance of matching people to jobs. For example, Florida Power has a 16-hour selection process that involves 12 performance tests. Over the test period of a couple of years, 640 individuals applied for “lineperson” jobs. Of these, 259 were hired. As a consequence of the new performance tests and selection process, turnover went from 43 percent to 4.5 percent, and the program saved net \$1 million.<sup>7</sup> In addition to selection, knowledge of job requirements and individual differences is also useful in evaluating training and development needs. Because human resources are important to management, it is imperative that managers become more familiar with the basic characteristics of their people.

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## Dimensions of Physical Abilities

### Physical Abilities

- *Dynamic strength.* The ability to exert muscular force repeatedly or continuously for a period of time.
- *Trunk strength.* The ability to exert muscular strength using the back and abdominal muscles.
- *Static strength.* The amount of continuous force one is capable of exerting against an external object.
- *Explosive strength.* The amount of force one is capable of exerting in one or a series of explosive acts.
- *Extent flexibility.* The ability to move the trunk and back muscles as far as possible.
- *Dynamic flexibility.* The ability to make rapid and repeated flexing movements.
- *Gross body coordination.* The ability to coordinate the simultaneous actions of different parts of the body.
- *Equilibrium.* The ability to maintain balance and equilibrium in spite of disruptive external forces.
- *Stamina.* The ability to continue maximum effort requiring prolonged effort over time; the degree of cardiovascular conditioning.

### Psychomotor Abilities

- *Control precision.* The ability to make fine, highly controlled muscular movements needed to adjust a control mechanism.
- *Multilimb coordination.* The ability to coordinate the simultaneous movement of hands and feet.
- *Response orientation.* The ability to make an appropriate response to a visual signal indicating a direction.
- *Rate control.* The ability to make continuous anticipatory motor adjustments in speed and direction to follow a continuously moving target.
- *Manual dexterity.* The ability to make skillful and well-directed arm-hand movements in manipulating large objects quickly.
- *Finger dexterity.* The ability to make skillful and controlled manipulations of small objects.
- *Arm-hand steadiness.* The ability to make precise arm-hand movements where steadiness is extremely important, and speed and strength are relatively unimportant.
- *Reaction time.* How quickly a person can respond to a single stimulus with a simple response.
- *Aiming.* The ability to make highly accurate, restricted hand movements requiring precise eye-hand coordination.

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## CONCEPT CHECK

1. Why should abilities and skills be taken into account when selecting employees?
2. Describe the components of mental abilities, cognitive complexity, physical ability, and psychomotor abilities.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 14.3 - Personality: An Introduction

### 3. How do managers and employees deal effectively with individual differences in the workplace?

The second individual difference variable deals with the concept of personality. We often hear people use and misuse the term personality. For example, we hear that someone has a “nice” personality. For our purposes, we will examine the term from a psychological standpoint as it relates to behavior and performance in the workplace. To do this, let us start with a more precise definition of the concept.

### Definition of Personality

Personality can be defined in many ways. Perhaps one of the more useful definitions for purposes of organizational analysis is offered by Salvatore Maddi, who defines *personality* as follows:

“. . . a stable set of characteristics and tendencies that determine those communalities and differences in the psychological behavior (thoughts, feelings, and actions) of people that have continuity in time and that may not be easily understood as the sole result of the social and biological pressures of the moment.”<sup>8</sup>

Several aspects of this definition should be noted. First, personality is best understood as a constellation of interacting characteristics; it is necessary to look at the whole person when attempting to understand the phenomenon and its effects on subsequent behavior. Second, various dimensions of personality are relatively stable across time. Although changes—especially evolutionary ones—can occur, seldom do we see major changes in the personality of a normal individual. And third, the study of personality emphasizes both similarities and differences across people. This is important for managers to recognize as they attempt to formulate actions designed to enhance performance and employee well-being.

### Influences on Personality Development

Early research on personality development focused on the issue of whether heredity or environment determined an individual's personality. Although a few researchers are still concerned with this issue, most contemporary psychologists now feel this debate is fruitless. As noted long ago by Kluckhohn and Murray:

“The two sets of determinants can rarely be completely disentangled once the environment has begun to operate. The pertinent questions are: (1) which of the various genetic potentialities will be actualized as a consequence of a particular series of life-events in a given physical, social, and cultural environment? and (2) what limits to the development of this personality are set by genetic constitution?”<sup>9</sup>

In other words, if the individual is viewed from the whole-person perspective, the search for the determinants of personal traits focuses on both heredity and environment as well as the interaction between the two over time. In this regard, five major categories of determinants of personal traits may be identified: physiological, cultural, family and social group, role, and situational determinants.

**Physiological Determinants.** Physiological determinants include factors such as stature, health, and sex that often act as constraints on personal growth and development. For instance, tall people often tend to become more domineering and self-confident than shorter people. Traditional sex-role stereotyping has served to channel males and females into different developmental patterns. For example, males have been trained to be more assertive and females more passive.

**Cultural Determinants.** Because of the central role of culture in the survival of a society, there is great emphasis on instilling cultural norms and values in children growing up. For instance, in capitalist societies, where individual

responsibility is highly prized, emphasis is placed on developing achievement-oriented, independent, self-reliant people, whereas in socialistic societies, emphasis is placed on developing cooperative, group-oriented individuals who place the welfare of the whole society ahead of individual needs. Cultural determinants affect personal traits. As Mussen notes, “The child’s cultural group defines the range of experiments and situations he is likely to encounter and the values and personality characteristics that will be reinforced and hence learned.”<sup>10</sup> Consider, for example, how Japanese society develops its world-renowned work ethic.

**Family and Social Group Determinants.** Perhaps the most important influences on personal development are family and social group determinants. For instance, it has been found that children who grow up in democratic homes tend to be more stable, less argumentative, more socially successful, and more sensitive to praise or blame than those who grow up in authoritarian homes.<sup>11</sup> One’s immediate family and peers contribute significantly to the socialization process, influencing how individuals think and behave through an intricate system of rewards and penalties.

**Role Determinants.** People are assigned various roles very early in life because of factors such as sex, socioeconomic background, and race. As one grows older, other factors, such as age and occupation, influence the roles we are expected to play. Such role determinants often limit our personal growth and development as individuals and significantly control acceptable behavior patterns.

**Situational Determinants.** Finally, personal development can be influenced by situational determinants. These are factors that are often unpredictable, such as a divorce or death in the family. For instance, James Abegglen studied 20 successful male executives who had risen from lower-class childhoods and discovered that in three-fourths of the cases these executives had experienced some form of severe separation trauma from their fathers. Their fathers (and role models) had either died, been seriously ill, or had serious financial setbacks. Abegglen hypothesized that the sons’ negative identification with their fathers’ plights represented a major motivational force for achievement and success.<sup>12</sup>

## CONCEPT CHECK

1. What is the role of personality and personality development in the workplace?

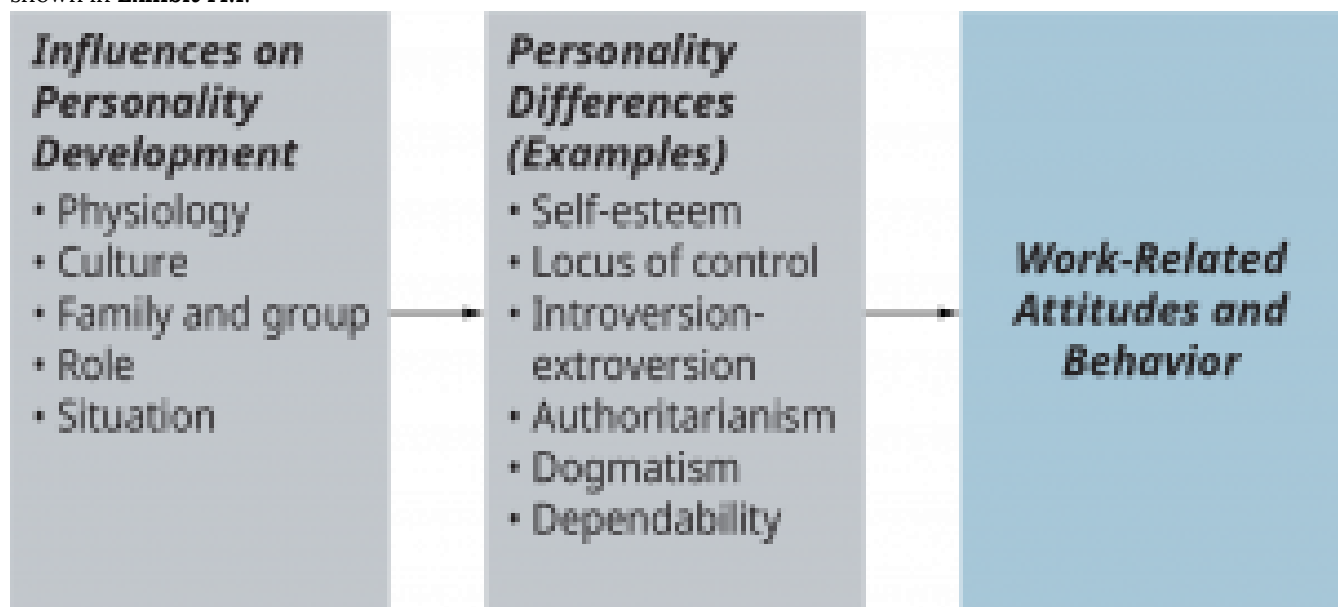
Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 14.4 - Personality and Work Behavior

### 4. How can organizations foster a work environment that allows employees an opportunity to develop and grow?

Personality theories that utilize the trait approach have proven popular among investigators of employee behavior in organizations. There are several reasons for this. To begin with, trait theories focus largely on the normal, healthy adult, in contrast to psychoanalytic and other personality theories that focus largely on abnormal behavior. Trait theories identify several characteristics that describe people. Allport insisted that our understanding of individual behavior could progress only by breaking behavior patterns down into a series of elements (traits).<sup>13</sup> “The only thing you can do about a total personality is to send flowers to it,” he once said. Hence, in the study of people at work, we may discuss an employee’s dependability, emotional stability, or cognitive complexity. These traits, when taken together, form a large mosaic that provides insight into individuals. A third reason for the popularity of trait theories in the study of organizational behavior is that the traits that are identified are measurable and tend to remain relatively stable over time. It is much easier to make comparisons among employees using these tangible qualities rather than the somewhat mystical psychoanalytic theories or the highly abstract and volatile self theories.

The number of traits people are believed to exhibit varies according to which theory we employ. In an exhaustive search, over 17,000 can be identified. Obviously, this number is so large as to make any reasonable analysis of the effects of personality in the workplace impossible. In order for us to make any sense out of this, it is necessary for us to concentrate on a small number of personality variables that have a direct impact on work behavior. If we do this, we can identify six traits that seem to be relatively important for our purposes here. It will be noted that some of these traits (for example, self-esteem or locus of control) have to do with how we see ourselves, whereas other traits (for example, introversion-extroversion or dependability) have to do with how we interact with others. Moreover, these traits are largely influenced by one’s personality development and, in turn, influence actual attitudes and behaviors at work, as shown in **Exhibit 14.1**.



**Exhibit 14.1** Relation of Personality to Attitudes and Behavior (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## Self-Esteem

One trait that has emerged recently as a key variable in determining work behavior and effectiveness is an employee's self-esteem. Self-esteem can be defined as one's opinion or belief about one's self and self-worth. It is how we see ourselves as individuals. Do we have confidence in ourselves? Do we think we are successful? Attractive? Worthy of others' respect or friendship?

Research has shown that high self-esteem in school-age children enhances assertiveness, independence, and creativity. People with high self-esteem often find it easier to give and receive affection, set higher goals for personal achievement, and exert energy to try to attain goals set for them. Moreover, individuals with high self-esteem will be more likely to seek higher-status occupations and will take more risks in the job search. For example, one study found that students possessing higher self-esteem were more highly rated by college recruiters, received more job offers, and were more satisfied with their job search than students with low self-esteem.<sup>14</sup> Hence, personality traits such as this one can affect your job and career even before you begin work!

## Locus of Control

Locus of control refers to the tendency among individuals to attribute the events affecting their lives either to their own actions or to external forces; it is a measure of how much you think you control your own destiny. Two types of individual are identified. People with an *internal* locus of control tend to attribute their successes—and failures—to their own abilities and efforts. Hence, a student would give herself credit for passing an examination; likewise, she would accept blame for failing.

In contrast, people with an *external* locus of control tend to attribute things that happen to them as being caused by someone or something else. They give themselves neither credit nor blame. Hence, passing an exam may be dismissed by saying it was “too easy,” whereas failing may be excused by convincing one's self that the exam was “unfair.”

If you want to determine your own locus of control, fill out the self-assessment in the end-of-chapter assignments. This is an abbreviated and adapted version of the scale originally developed by Rotter. When you have finished, refer to that reference for scoring procedures.

Recent research on locus of control suggests that people with an internal locus of control (1) exhibit greater work motivation, (2) have stronger expectations that effort will lead to actual high job performance, (3) perform better on tasks requiring learning or problem-solving, (4) typically receive higher salaries and salary increases, and (5) exhibit less job-related anxiety than externals.<sup>15</sup> Locus of control has numerous implications for management. For example, consider what would happen if you placed an “internal” under tight supervision or an “external” under loose supervision. The results probably would not be very positive. Or what would happen if you placed both internals and externals on a merit-based compensation plan? Who would likely perform better? Who might perform better under a piece-rate system?

## Introversiion-Extroversion

The third personality dimension we should consider focuses on the extent to which people tend to be shy and retiring or socially gregarious. *Introverts* (introversiion) tend to focus their energies inwardly and have a greater sensitivity to abstract feelings, whereas *extroverts* (extroversion) direct more of their attention to other people, objects, and events. Research evidence suggests that both types of people have a role to play in organizations.<sup>16</sup> Extroverts more often succeed in first-line management roles, where only superficial “people skills” are required; they also do better in field assignments—for example, as sales representatives. Introverts, on the other hand, tend to succeed in positions requiring

more reflection, analysis, and sensitivity to people's inner feelings and qualities. Such positions are included in a variety of departments within organizations, such as accounting, personnel, and computer operations. In view of the complex nature of modern organizations, both types of individual are clearly needed.

## Authoritarianism and Dogmatism

Authoritarianism refers to an individual's orientation toward authority. More specifically, an authoritarian orientation is generally characterized by an overriding conviction that it is right and proper for there to be clear status and power differences among people.<sup>17</sup> According to T. W. Adorno, a high authoritarian is typically (1) demanding, directive, and controlling of her subordinates; (2) submissive and deferential toward superiors; (3) intellectually rigid; (4) fearful of social change; (5) highly judgmental and categorical in reactions to others; (6) distrustful; and (7) hostile in response to restraint. Nonauthoritarians, on the other hand, generally believe that power and status differences should be minimized, that social change can be constructive, and that people should be more accepting and less judgmental of others.

In the workplace, the consequences of these differences can be tremendous. Research has shown, for example, that employees who are high in authoritarianism often perform better under rigid supervisory control, whereas those rated lower on this characteristic perform better under more participative supervision.<sup>18</sup> Can you think of other consequences that might result from these differences?

Related to this authoritarianism is the trait of dogmatism. Dogmatism refers to a particular cognitive style that is characterized by closed-mindedness and inflexibility.<sup>19</sup> This dimension has particularly profound implications for managerial decision-making; it is found that dogmatic managers tend to make decisions quickly, based on only limited information and with a high degree of confidence in the correctness of their decisions.<sup>20</sup> Do you know managers (or professors) who tend to be dogmatic? How does this behavior affect those around them?

## Dependability

Finally, people can be differentiated with respect to their behavioral consistency, or dependability. Individuals who are seen as self-reliant, responsible, consistent, and dependable are typically considered to be desirable colleagues or group members who will cooperate and work steadfastly toward group goals.<sup>21</sup> Personnel managers often seek a wide array of information concerning dependability before hiring job applicants. Even so, contemporary managers often complain that many of today's workers simply lack the feeling of personal responsibility necessary for efficient operations. Whether this is a result of the personal failings of the individuals or a lack of proper motivation by superiors remains to be determined.

Obviously, personality factors such as those discussed here can play a major role in determining work behavior both on the shop floor and in the executive suite. A good example of this can be seen in the events leading up to the demise of one of America's largest and oldest architectural firms. Observe the role of personality in the events that follow.

## MANAGING CHANGE

### *Personality Clash: Design vs. Default*

Philip Johnson, at age 86, was considered the dean of American architecture and was known for such landmarks as the AT&T building in New York and the Pennzoil Center in Houston, but he was also forced out of the firm that he built, only to watch it fall into default and bankruptcy.

In 1969, Johnson invited John Burgee, who was just 35, to become his sole partner to handle the management side of the business and thereby allow him to focus on the creative side. “I picked John Burgee as my righthand man. Every design architect needs a Burgee. The more leadership he took, the happier I was,” Johnson said. Burgee’s personality was perfectly suited to the nuts-and-bolts tasks of managing the firm and overseeing the projects through construction.

For all his management effort, Burgee felt that only Johnson’s name ever appeared in the press. “It was always difficult for me, being a younger man and less flamboyant,” commented Burgee. Eventually, Burgee was able to get Johnson to change the name of the firm, first to Philip Johnson & John Burgee Architects, then to Johnson/Burgree Architects, and finally to John Burgee Architects, with Philip Johnson. Although Burgee wanted to be involved in all aspects of the business, Johnson was unwilling to relinquish control over design to Burgee.

In 1988, Burgee sent a four-page memo to Johnson in which he listed each of the firm’s 24 projects and outlined the ones for which Johnson could initiate designs, initiate contact with clients, or work on independently at home. Burgee also instructed Johnson not to involve himself with the younger architects or advise them on their drawings.

The clash of the creative personality of Johnson and the controlling personality of Burgee came to a climax when Burgee asked Johnson to leave the firm. Unfortunately, Burgee underestimated the reaction of clients and lost many key contracts. Eventually, Burgee had to file for bankruptcy, and Johnson continued working on his own, including a project for Estée Lauder.

Source: Michelle Pacelle, “Design Flaw.” *Wall Street Journal*, September 2, 1992, p. A1, A5.

## CONCEPT CHECK

1. What are the things that managers can do to foster an environment where employees can gain



personal development and grow?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 14.5 - Personality and Organization: A Basic Conflict?

### 5. How do managers know how to get the best from each employee?

Most theories of personality stress that an individual's personality becomes complete only when the individual interacts with other people; growth and development do not occur in a vacuum. Human personalities are the individual expressions of our culture, and our culture and social order are the group expressions of individual personalities. This being the case, it is important to understand how work organizations influence the growth and development of the adult employee.

A model of person-organization relationships has been proposed by Chris Argyris.<sup>22</sup> This model, called the basic incongruity thesis, consists of three parts: what individuals want from organizations, what organizations want from individuals, and how these two potentially conflicting sets of desires are harmonized.

Argyris begins by examining how healthy individuals change as they mature. On the basis of previous work, Argyris suggests that as people grow to maturity, seven basic changes in needs and interests occur:

1. People develop from a state of passivity as infants to a state of increasing activity as adults.
2. People develop from a state of dependence upon others to a state of relative independence.
3. People develop from having only a few ways of behaving to having many diverse ways of behaving.
4. People develop from having shallow, casual, and erratic interests to having fewer, but deeper, interests.
5. People develop from having a short time perspective (i.e., behavior is determined by present events) to having a longer time perspective (behavior is determined by a combination of past, present, and future events).
6. People develop from subordinate to superordinate positions (from child to parent or from trainee to manager).
7. People develop from a low understanding or awareness of themselves to a greater understanding of and control over themselves as adults.

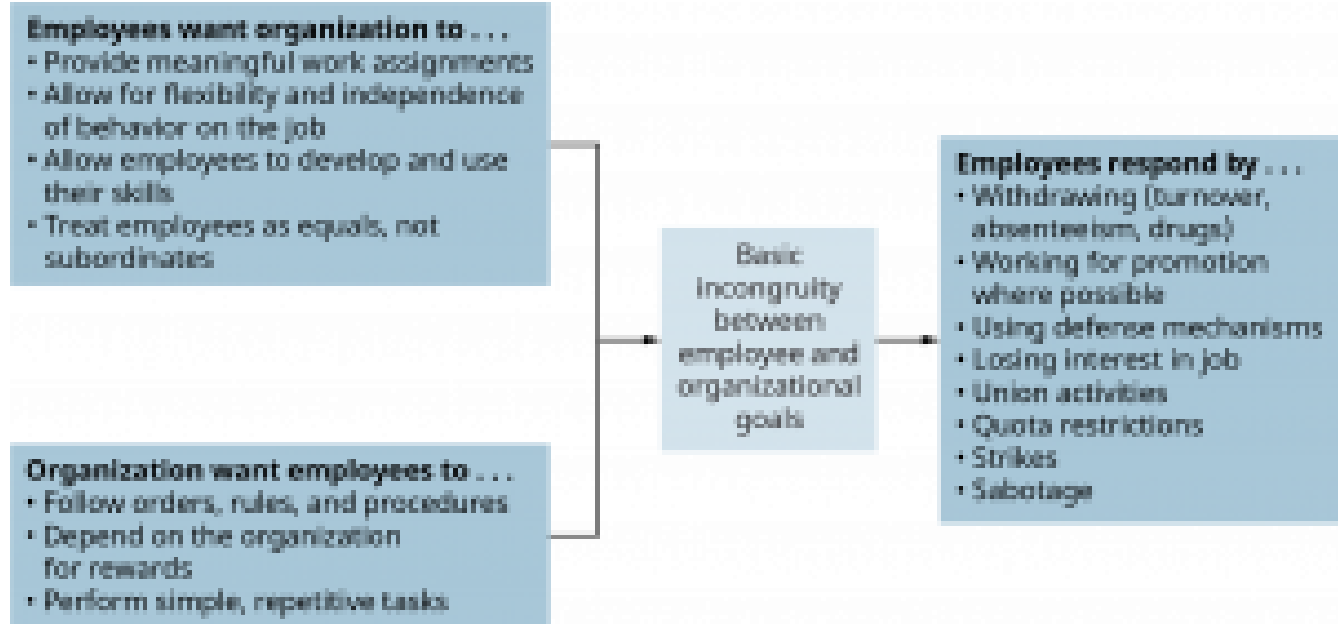
Although Argyris acknowledges that these developments may differ among individuals, the general tendencies from childhood to adulthood are believed to be fairly common.

Next, Argyris turns his attention to the defining characteristics of traditional work organizations. In particular, he argues that in the pursuit of efficiency and effectiveness, organizations create work situations aimed more at getting the job done than at satisfying employees' personal goals. Examples include increased task specialization, unity of command, a rules orientation, and other things aimed at turning out a standardized product with standardized people. In the pursuit of this standardization, Argyris argues, organizations often create work situations with the following characteristics:

1. Employees are allowed minimal control over their work; control is often shifted to machines.
2. They are expected to be passive, dependent, and subordinate.
3. They are allowed only a short-term horizon in their work.
4. They are placed on repetitive jobs that require only minimal skills and abilities.
5. On the basis of the first four items, people are expected to produce under conditions leading to psychological failure.

Hence, Argyris argues persuasively that many jobs in our technological society are structured in such a way that they conflict with the basic growth needs of a healthy personality. This conflict is represented in **Exhibit 14.2**. The magnitude of this conflict between personality and organization is a function of several factors. The strongest conflict can be expected under conditions where employees are very mature, organization are highly structured and rules and

procedures are formalized, and jobs are fragmented and mechanized. Hence, we would expect the strongest conflict to be at the lower levels of the organization, among blue-collar and clerical workers. Managers tend to have jobs that are less mechanized and tend to be less subject to formalized rules and procedures.



**Exhibit 14.2** Basic Conflict Between Employees and Organizations (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

Where strong conflicts between personalities and organizations exist, or, more precisely, where strong conflicts exist between what employees and organizations want from each other, employees are faced with difficult choices. They may choose to leave the organization or to work hard to climb the ladder into the upper echelons of management. They may defend their self-concepts and adapt through the use of defense mechanisms. Disassociating themselves psychologically from the organization (e.g., losing interest in their work, lowering their work standards, etc.) and concentrating instead on the material rewards available from the organization is another possible response. Or they may find allies in their fellow workers and, in concert, may further adapt *as a group* by such activities as quota restrictions, unionizing efforts, strikes, and sabotage.

Unfortunately, although such activities may help employees feel that they are getting back at the organization, they do not alleviate the basic situation that is causing the problem. To do this, one has to examine the nature of the job and the work climate. Personality represents a powerful force in the determination of work behavior and must be recognized before meaningful change can be implemented by managers to improve the effectiveness of their organizations.

## MANAGING CHANGE

### *Integrating Employee and Organizational Goals at Kayak*

In many ways the above scenario paints a bleak portrait of the relationship of many workers to their employers. However, it should be noted that many companies are trying to change this relationship and create a partnership between employees and company in which the goals of both are realized. In doing so, however, these companies are careful to select and hire only those employees who have the potential to fit in with the company's unique culture. A case in point is Kayak, an Internet-based travel company in Stamford, Connecticut. The company strives to create customer

satisfaction, starting with their own culture and employees within the walls of their building. Cofounder and former CTO Paul English's goal was to bring a constant stream of “new-new ideas” and surround himself with “childlike creative people” to liven up the space and be able to promote inspiration.

Kayak doesn't hire based on technical skills; their philosophy is to hire an employee on the basis of being the smartest person that somebody knows. Employees are constantly pushed to put their ideas to the test, and the company emphasizes a work-life balance that puts their employees first, which in turn makes for a productive work environment.

Kayak's ability to make fast-paced decisions comes from the empowerment of their employees to try out their ideas. Current CTO Giorgos Zacharia takes pride in the way they are able to keep order and drive deadlines. “Anyone on any team can come up with the idea, prototype it, and then we see what the user thinks about it. If it works, great! But there's no grand design; it's very organic and we see that as a strength,” says Zacharia.

By encouraging and rewarding risk-taking, Kayak is able to make fast decisions, fail fast, and then turn around and come up with something more innovative that will be better than the last idea. Overall, the company hopes to offer its employees a work environment that allows for considerable personal growth and need-satisfaction. In short, the company aims to reduce the possibility of a basic incongruity developing between employee and organizational goals.

Sources: Hawkes, Jocelyn, “KAYAK on Creating a Culture of Innovation,” *Fast Company*, April 4, 2012. (<https://www.fastcompany.com/1827003/kayak-creating-culture-innovation>); Hickey, Matt, “How KAYAK Converts Employee Well-Being Into Customer satisfaction,” *Forbes*, October 4, 2015. <https://www.forbes.com/sites/matthickey/2015/10/07/how-kayak-converts-employee-well-being-into-customer-satisfaction/#6c97f519b7a4>.

## Personality and Employee Selection

Recent years have seen an increased interest in the use of preemployment screening tests. Several key assumptions underlie the use of personality tests as one method of selecting potential employees: (1) individuals have different personalities and traits, (2) these differences affect their behavior and performance, and (3) different jobs have different requirements. Consequently, tests can be used to select individuals who match the overall company as well as match particular types of people to specific jobs. However, managers must be careful in their use of these selection instruments. Legally all selection tests must meet the guidelines for nondiscrimination set forth in the Equal Employment Opportunity Commission's Uniform Guidelines on Employee Selection Procedures. Specifically, in 1971 the Supreme Court ruled (*Griggs v. Duke Power Company*) that “good intent or the absence of discriminatory intent does not redeem . . . testing mechanisms that operate as built-in ‘head-winds’ for minority groups and are unrelated to measuring job capability.” This ruling led to two important cases in which discrimination might apply to selection practices. First, “disparate treatment” involves the intentional discrimination against an individual based on race, color, gender, religion, or national origin. Second, “disparate impact” involves the adverse effect of selection practices (as well as other practices) on minorities regardless of whether these practices were intended to have an adverse impact or not. Consequently, although personality tests can be an important means of selecting potential employees as well as matching them to appropriate jobs, care must be taken to demonstrate that the characteristics measured actually predict job performance.

## CONCEPT CHECK

1. What are some things that managers can do to foster organizational harmony where they get the best results from all employees?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 14.6 - Personal Values and Ethics

### 6. What is the role of ethical behavior in managerial actions?

A factor that has surprised many business leaders is the alarming rise in accusations of unethical or disreputable behavior in today's companies. We hear with increasing regularity of stock market manipulations, disregard of environmental hazards, bribes, and kickbacks. To understand these behaviors, we must examine the role of values and personal ethics in the workplace. We begin with the concept of values.

A *value* may be defined as “an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence.”<sup>23</sup> In other words, a value represents a judgment by an individual that certain things are “good” or “bad,” “important” or “unimportant,” and so forth. As such, values serve a useful function in providing guidelines or standards for choosing one's own behavior and for evaluating the behavior of others.

### Characteristics of Values

The values people have tend to be relatively stable over time. The reason for this lies in the manner in which values are acquired in the first place. That is, when we first learn a value (usually at a young age), we are taught that such-and-such behavior is *always* good or *always* bad. For instance, we may be taught that lying or stealing is always unacceptable. Few people are taught that such behavior is acceptable in some circumstances but not in others. Hence, this definitive quality of learned values tends to secure them firmly in our belief systems. This is not to say that values do not change over time. As we grow, we are increasingly confronted with new and often conflicting situations. Often, it is necessary for us to weigh the relative merits of each and choose a course of action. Consider, for example, the worker who has a strong belief in hard work but who is pressured by her colleagues not to outperform the group. What would you do in this situation?

Rokeach has identified two fundamental types of values: instrumental and terminal.<sup>24</sup> Instrumental values represent those values concerning the way we approach end-states. That is, do we believe in ambition, cleanliness, honesty, or obedience? What factors guide your everyday behavior? Terminal values, on the other hand, are those end-state goals that we prize. Included here are such things as a comfortable life, a sense of accomplishment, equality among all people, and so forth. Both sets of values have significant influence on everyday behavior at work.

You can assess your own instrumental and terminal values by completing the self-assessment in the end-of-chapter assignments. Simply rank-order the two lists of values, and then refer to the reference for scoring procedures.

### Role of Values and Ethics in Organizations

Personal values represent an important force in organizational behavior for several reasons. In fact, at least three purposes are served by the existence of personal values in organizations: (1) values serve as standards of behavior for determining a correct course of action; (2) values serve as guidelines for decision-making and conflict resolution; and (3) values serve as an influence on employee motivation. Let us consider each of these functions.

**Standards of Behavior.** First, values help us determine appropriate standards of behavior. They place limits on our behavior both inside and outside the organization. In such situations, we are referring to what is called *ethical behavior*, or ethics. Employees at all levels of the organization have to make decisions concerning what to them is right or wrong, proper or improper. For example, would you conceal information about a hazardous product made by your

company, or would you feel obliged to tell someone? How would you respond to petty theft on the part of a supervisor or coworker in the office? To some extent, ethical behavior is influenced by societal values. Societal norms tell us it is wrong to engage in certain behaviors. In addition, however, individuals must often determine for themselves what is proper and what is not. This is particularly true when people find themselves in “gray zones”—situations where ethical standards are ambiguous or unclear. In many situations, a particular act may not be illegal. Moreover, one’s colleagues and friends may disagree about what is proper. In such circumstances, people have to determine their own standards of behavior.

## EXPANDING AROUND THE GLOBE

### *Two Cultures’ Perspectives of Straight Talk*

Yukiko Tanabe, a foreign exchange student from Tokyo, Japan, was both eager and anxious about making new friends during her one-year study abroad in the United States. After a month-long intensive course in English over the summer, she began her studies at the University of California. Yukiko was in the same psychology class as Jane McWilliams. Despite Yukiko’s somewhat shy personality, it did not take long before she and Jane were talking before and after class and studying together.

Part of the way through the term, the professor asked for volunteers to be part of an experiment on personalities and problem-solving. The professor also offered extra credit for participation in the experiment and asked interested students to stay after class to discuss the project in more detail.

When class was over, Jane asked Yukiko if she wanted to stay after and learn more about the project and the extra credit. Yukiko hesitated and then said that she was not sure. Jane replied that it would only take a few minutes to listen to the explanation, and so the two young women went up to the front of the class, along with about 20 other students, to hear the details.

The project would simply involve completing a personality questionnaire and then attempting to solve three short case problems. In total, it would take about one hour of time and would be worth 5 percent extra credit. Jane thought it was a great idea and asked Yukiko if she wanted to participate. Yukiko replied that she was not sure. Jane responded that they could go together, that it would be fun, and that 5 percent extra credit was a nice bonus. To this Yukiko made no reply, so Jane signed both of them up for the project and suggested that they meet at the quad about 10 minutes before the scheduled beginning of the experiment.

On the day of the experiment, however, Yukiko did not show up. Jane found out later from Yukiko that she did not want to participate in the experiment. “Then why didn’t you just say so?” asked Jane. “Because I did not want to embarrass you in front of all your other friends by saying no,” explained Yukiko.

Source: Personal communication by the author. Names have been disguised.

**Guidelines for Decision-Making and Conflict Resolution.** In addition, values serve as guidelines for making decisions and for attempting to resolve conflicts. Managers who value personal integrity are less likely to make decisions they know to be injurious to someone else. Relatedly, values can influence how someone approaches a conflict. For example, if your boss asks your opinion about a report she wrote that you don’t like, do you express your opinion candidly or be polite and flatter her?

An interesting development in the area of values and decision-making involves integrity or honesty tests. These tests are designed to measure an individual’s level of integrity or honesty based on the notion that honest or dishonest behavior and decisions flow from a person’s underlying values. Today over 5,000 firms use these tests, some of which use direct questions and some of which use camouflaged questions. Although the reliability of the most common tests seem good, their validity (i.e., the extent to which they can accurately predict dishonest behavior) is more open to

question.<sup>25</sup> Nevertheless, because they do not cost much and are less intrusive than drug or polygraph testing, integrity tests are increasingly used to screen potential employees.

**Influence on Motivation.** Values affect employee motivation by determining what rewards or outcomes are sought. Employees are often offered overtime work and the opportunity to make more money at the expense of free time and time with their families. Which would you choose? Would you work harder to get a promotion to a perhaps more stressful job or “lay back” and accept a slower and possibly less rewarding career path? Value questions such as these confront employees and managers every day.

Prominent among work-related values is the concept of the work ethic. Simply put, the work ethic refers to the strength of one’s commitment and dedication to hard work, both as an end in itself and as a means to future rewards. Much has been written lately concerning the relative state of the work ethic in North America. It has been repeatedly pointed out that one reason for our trouble in international competition lies in our rather mediocre work ethic. This is not to say that many Americans do not work hard; rather, it is to say that others (most notably those in East Asia) simply work harder.

There are many ways to assess these differences, but perhaps the simplest way is to look at actual hours worked on average in different countries both in Asia and Western Europe. Looking at **Table 14.3**, you may be surprised to discover that although the average American works 1,789 hours (and takes an average of 19.5 vacation days) per year, the average South Korean works 2,070 hours per year (and takes only 4.5 days of vacation)!<sup>26</sup> The typical Japanese worker works 1,742 hours per year and takes 9.6 days of vacation. Meanwhile, Western Europeans work fewer hours and take more vacation days. Thus, although Americans may work longer hours than many Europeans, they fall far behind many in East Asia.

Average Hours Worked and Vacation Taken per Worker		
Country	Average Hours Worked per Year	Vacation Days Actually Taken
South Korea	2,070	4.5
United States	1,789	19.5
Japan	1,742	9.6
United Kingdom	1,676	22.5
Germany	1,288	30.2
France	1,472	25.0

Source: Adapted from OECD.Stat, “Average annual hours actually worked per worker,” accessed July 20, 2018, <https://stats.oecd.org/Index.aspx?DataSetCode=ANHRS>; and Richard M. Steers, Yoo Keun Shin, and Gerardo R. Ungson, *The Chaebol: Korea’s New Industrial Might* (Philadelphia: Ballinger, 1989).

Table 14.3 (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

### Example: A Country Tries to Reduce Its Workweek

What does a country do when its people are overmotivated? Consider the case of Japan. On the basis of Japan’s newfound affluence and success in the international marketplace, many companies—and the government—are beginning to be concerned that perhaps Japanese employees work too hard and should slow down. They may be too motivated for their own good. As a result, the Japanese Department of Labor has initiated a drive to shorten the workweek and encourage more Japanese employees to take longer holidays. The effort is focusing on middle-aged and older employees, because their physical stamina may be less than that of their more junior colleagues. Many companies are following this lead and are beginning to reduce the workweek. This is no easy task in a land where such behavior may be seen by employees as showing disloyalty toward the company. It requires a fundamental change in employee attitudes.

At the same time, among younger employees, cracks are beginning to appear in the fabled Japanese work ethic.



Younger workers are beginning to express increased frustration with dull jobs and routine assignments, and job satisfaction appears to be at an all-time low. Young Japanese are beginning to take longer lunch periods and look forward to Friday and the coming weekend. Whether this is attributable to increasing affluence in a changing society or simply the emergence of a new generation, things are changing—however slowly—in the East.<sup>27</sup>

## CONCEPT CHECK

1. What role do managers undertake to ensure an environment where ethics and values are followed?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 14.7 - Cultural Differences

### 7. How do you manage and do business with people from different cultures?

The final topic we will discuss in this chapter is the role of culture and cultural diversity in organizational behavior. Cultural diversity can be analyzed in many ways. For instance, we can compare cultural diversity *within* one country or company, or we can compare cultures *across* units. That is, we can look inside a particular North American firm and see employees who are Asian, Black, Latino, Native American, White, and so forth. Clearly, these individuals have different cultural backgrounds, frames of reference, traditions, and so forth. Or we can look more globally and compare a typical American firm with a typical Mexican, Italian, or Chinese firm and again see significant differences in culture.

We can also analyze cultural diversity by looking at different patterns of behavior. For instance, Americans often wonder why Japanese or Korean businesspeople always bow when they meet; this seems strange to some. Likewise, many Asian people wonder why Americans always shake hands, a similarly strange behavior. Americans often complain that Japanese executives say “yes” when they actually mean something else, while Japanese executives claim many Americans promise things they know they cannot deliver. Many of these differences result from a lack of understanding concerning the various cultures and how they affect behavior both inside and outside the workplace. As the marketplace and economies of the world merge ever closer, it is increasingly important that we come to understand more about cultural variations as they affect our world.

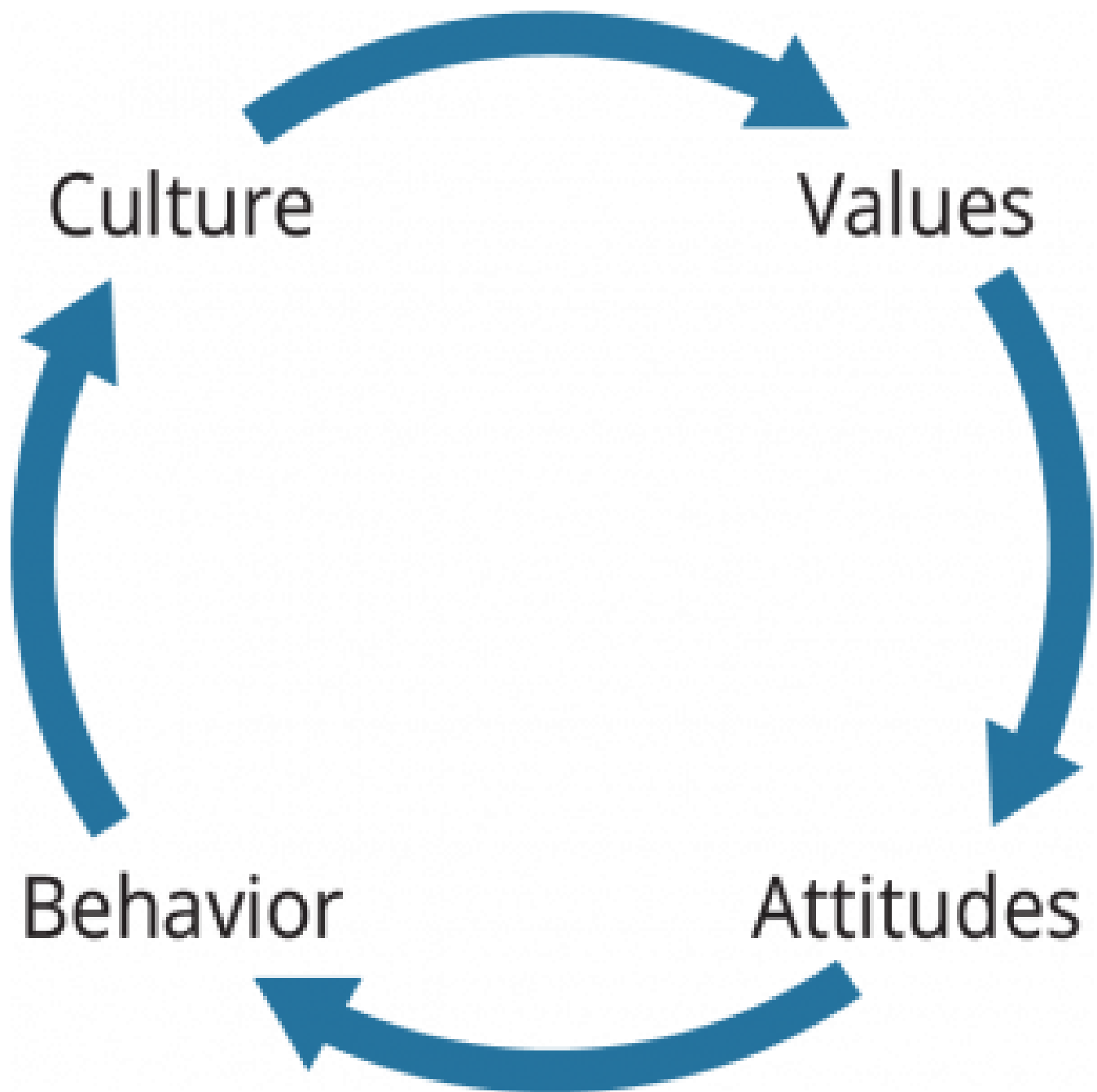
### What Is Culture?

Simply put, culture may be defined as “the collective programming of the mind which distinguishes the members of one human group from another; the interactive aggregate of common characteristics that influences a human group’s response to its environment.”<sup>28</sup> More to the point, culture is the “collective mental programming of a people.”<sup>29</sup> It is the unique characteristics of a people. As such, culture is:

- Something that is shared by all or most of the members of a society
- Something that older members of a society attempt to pass along to younger members
- Something that shapes our view of the world

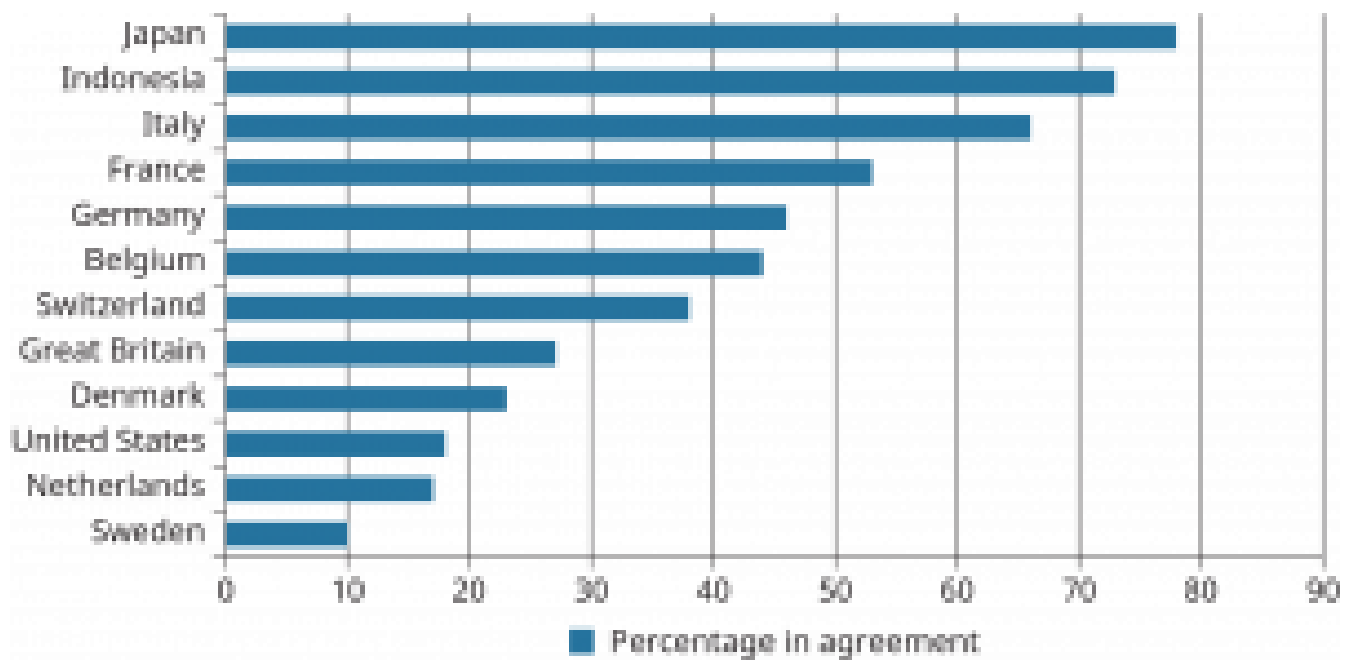
The concept of culture represents an easy way to understand a people, albeit on a superficial level. Thus, for example, we refer to the Chinese culture or the American culture. This is not to say that every member within a culture behaves in exactly the same way. On the contrary, every culture has diversity, but members of a certain culture tend to exhibit similar behavioral patterns that reflect where and how they grew up. A knowledge of a culture’s patterns should help us deal with its members.

Culture affects the workplace because it affects what we do and how we behave. As shown in **Exhibit 14.3**, cultural variations influence our values, which in turn affect attitudes and, ultimately, behaviors. For instance, a culture that is characterized by hard work (e.g., the Korean culture discussed above) would exhibit a value or ethic of hard work. This work ethic would be reflected in positive attitudes toward work and the workplace; people would feel that hard work is satisfying and beneficial—they might feel committed to their employer and they might feel shame if they do not work long hours. This, in turn, would lead to actual high levels of work. This behavior, then, would serve to reinforce the culture and its value, and so on.



**Exhibit 14.3** Relationship of Culture to Values, Attitudes, and Behavior (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

To see how this works, consider the results of a survey of managerial behavior by French researcher Andre Laurent.<sup>30</sup> He asked managers how important it was for managers to have precise answers when asked a question by subordinates. The results, shown in **Exhibit 14.4** clearly show how culture can influence very specific managerial behavior. In some countries, it is imperative for the manager to “know” the answer (even when she really doesn’t), whereas in other countries it made little difference. Thus, if we want to understand why someone does something in the workplace, at least part of the behavior may be influenced by her cultural background.



**Exhibit 14.4** Appropriate Managerial Behavior in Different Countries (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## Dimensions of Culture

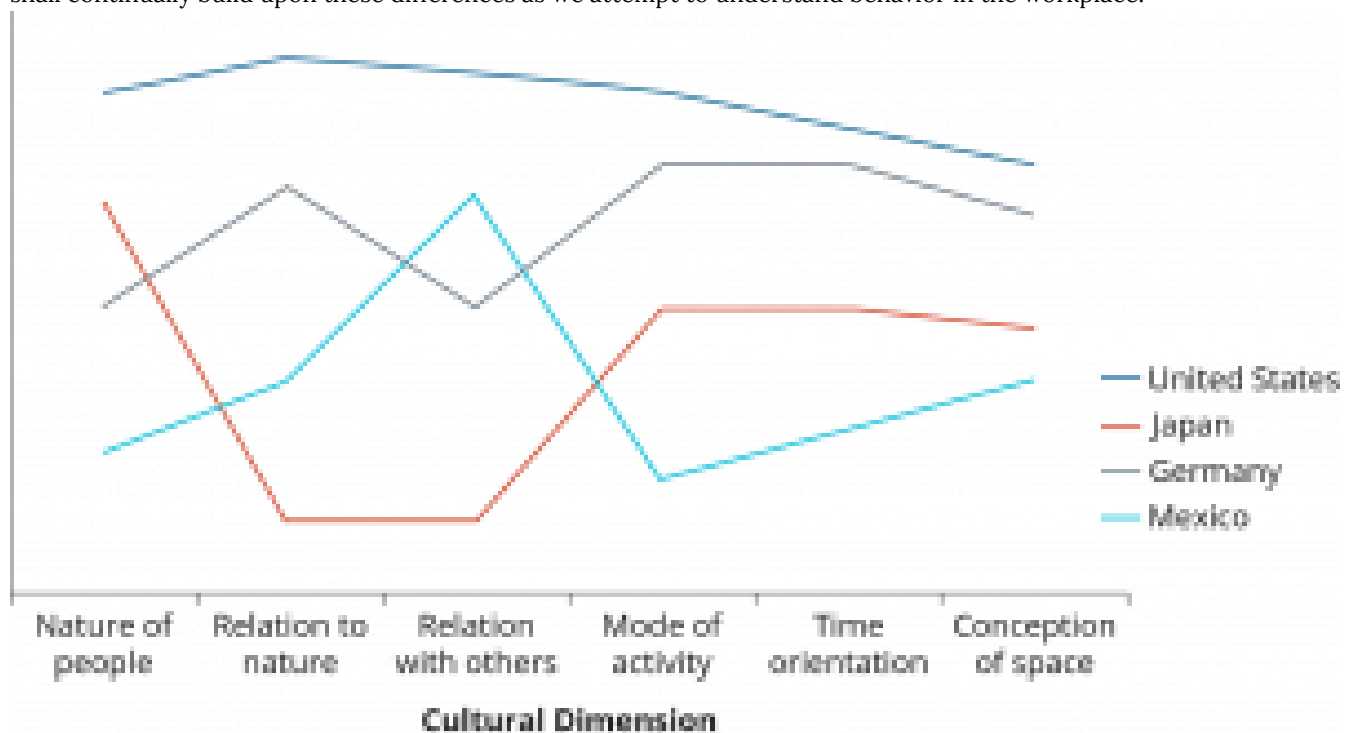
There are several ways to distinguish different cultures from one another. Kluckhohn and Strodtbeck have identified six dimensions that are helpful in understanding such differences.<sup>31</sup> These are as follows:

1. *How people view humanity.* Are people basically good, or are they evil? Can most people be trusted or not? Are most people honest? What is the true nature of humankind?
2. *How people see nature.* What is the proper relationship between people and the environment? Should people be in harmony with nature, or should they attempt to control or harness nature?
3. *How people approach interpersonal relationships.* Should one stress individualism or membership in a group? Is the person more or less important than the group? What is the “pecking order” in a society? Is it based on seniority or on wealth and power?
4. *How people view activity and achievement.* Which is a more worthy goal: activity (getting somewhere) or simply being (staying where one is)?
5. *How people view time.* Should one focus on the past, the present, or the future? Some cultures are said to be living in the past, whereas others are looking to the future.
6. *How people view space.* How should physical space be used in our lives? Should we live communally or separately? Should important people be physically separated from others? Should important meetings be held privately or in public?

To see how this works, examine **Exhibit 14.5**, which differentiates four countries (Mexico, Germany, Japan, and the United States) along these six dimensions. Although the actual place of each country on these scales may be argued, the exhibit does serve to highlight several trends that managers should be aware of as they approach their work. For example, although managers in all four countries may share similar views on the nature of people (good versus bad), significant differences are noted on such dimensions as people’s relation to nature and interpersonal relations. This, in

turn, can affect how managers in these countries approach contract negotiations, the acquisition of new technologies, and the management of employees.

Dimensions such as these help us frame any discussion about how people differ. We can say, for example, that most Americans are individualistic, activity-oriented, and present/future-oriented. We can further say that they value privacy and want to control their environment. In another culture, perhaps the mode is past-oriented, reflective, group-oriented, and unconcerned with achievement. In Japan we hear that “the nail that sticks out gets hammered down”—a comment reflecting a belief in homogeneity within the culture and the importance of the group. In the United States, by contrast, we hear “Look out for Number One” and “A man’s home is his castle”—comments reflecting a belief in the supremacy of the individual over the group. Neither culture is “right” or “better.” Instead, each culture must be recognized as a force within individuals that motivates their behaviors within the workplace. However, even within the U.S. workforce, we must keep in mind that there are subcultures that can influence behavior. For example, recent work has shown that the Hispanic culture within the United States places a high value on groups compared to individuals and as a consequence takes a more collective approach to decision-making.<sup>32</sup> As we progress through this discussion, we shall continually build upon these differences as we attempt to understand behavior in the workplace.



**Exhibit 14.5** Cultural Differences among Managers in Four Countries (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## CONCEPT CHECK

1. What role do managers play to ensure that the culture of individuals are valued and appreciated and contribute to a successful work environment?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>

# Key Terms

## **Authoritarianism**

Refers to an individual's orientation toward authority.

## **Basic incongruity thesis**

Consists of three parts: what individuals want from organizations, what organizations want from individuals, and how these two potentially conflicting sets of desires are harmonized.

## **Cognitive complexity**

Represents a person's capacity to acquire and sort through various pieces of information from the environment and organize them in such a way that they make sense.

## **Culture**

The collective programming of the mind that distinguishes the members of one human group from another; the interactive aggregate of common characteristics that influences a human group's response to its environment.

## **Dependability**

Individuals who are seen as self-reliant, responsible, and consistent, are viewed as dependable.

## **Dogmatism**

Refers to a particular cognitive style that is characterized by closed-mindedness and inflexibility.

## **Ethics**

Values that help us determine appropriate standards of behavior and place limits on our behavior both inside and outside the organization.

## **Extroversion**

Refers to people who direct more of their attention to other people, objects, and events.

## **Instrumental values**

Represent those values concerning the way we approach end-states and whether individuals believe in ambition, cleanliness, honesty, or obedience.

## **Introversion**

Refers to people who focus their energies inwardly and have a greater sensitivity to abstract feelings.

## **Locus of control**

Refers to the tendency among individuals to attribute the events affecting their lives either to their own actions or to external forces; it is a measure of how much you think you control your own destiny.

## **Mental abilities**

An individual's intellectual capabilities and are closely linked to how a person makes decisions and processes information. Included here are such factors as verbal comprehension, inductive reasoning, and memory.

## **Personal values**

Represent an important force in organizational behavior for several reasons.

## **Personality**

A stable set of characteristics and tendencies that determine those communalities and differences in the psychological behavior (thoughts, feelings, and actions) of people that have continuity in time and that may not be easily understood as the sole result of the social and biological pressures of the moment.

## **Physical abilities**

Basic functional abilities such as strength, and psychomotor abilities such as manual dexterity, eye-hand coordination, and manipulation skills.

## **Psychomotor abilities**

Examples are manual dexterity, eye-hand coordination, and manipulation skills.

## **Self-esteem**

One's opinion or belief about one's self and self-worth.

**Terminal values**

End-state goals that we prize.

**Work ethic**

Refers to the strength of one's commitment and dedication to hard work, both as an end in itself and as a means to future rewards.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



# Summary of Learning Outcomes

## 14.1 Individual and Cultural Factors in Employee Performance

1. How do managers and organizations appropriately select individuals for particular jobs?

Because people enter organizations with preset dispositions, it is important to be able to analyze important individual characteristics, effectively select individuals, and appropriately match them to their jobs. However, this must be done carefully in light of both ethical and legal issues that face managers today.

## 14.2 Employee Abilities and Skills

2. How do people with different abilities, skills, and personalities build effective work teams?

Ability refers to one's capacity to respond, whereas motivation refers to one's desire to respond. Abilities can be divided into mental abilities and physical abilities. Personality represents a stable set of characteristics and tendencies that determines the psychological behavior of people.

Personality development is influenced by several factors, including physiological, cultural, family and group, role, and situational determinants.

## 14.3 Personality: An Introduction

3. How do managers and employees deal effectively with individual differences in the workplace?

Self-esteem represents opinions and beliefs concerning one's self and one's self-worth.

Locus of control is a tendency for people to attribute the events affecting their lives either to their own actions (referred to as internal locus of control) or to external forces (referred to as external locus of control).

## 14.4 Personality and Work Behavior

4. How can organizations foster a work environment that allows employees an opportunity to develop and grow?

Authoritarianism represents an individual's orientation toward authority and is characterized by an overriding conviction that it is appropriate for there to be clear status and power differences between people.

## 14.5 Personality and Organization: A Basic Conflict?

5. How do managers know how to get the best from each employee?

Dogmatism refers to a cognitive style characterized by closed-mindedness and inflexibility.

The basic incongruity thesis asserts that individuals and organizations exist in a constant state of conflict because each has different goals and expectations from the other. Employees want organizations to provide more autonomy and meaningful work, while organizations want employees to be more predictable, stable, and dependable.

## 14.6 Personal Values and Ethics

### 6. What is the role of ethical behavior in managerial actions?

A value is an enduring belief that one specific mode of conduct or end-state is preferable to others. Instrumental values are beliefs concerning the most appropriate ways to pursue end-states, whereas terminal values are beliefs concerning the most desirable end-states themselves.

Ethics are important to individuals because they serve as (1) standards of behavior for determining a correct course of action, (2) guidelines for decision-making and conflict resolution, and (3) influences on employee motivation. The work ethic refers to someone's belief that hard work and commitment to a task are both ends in themselves and means to future rewards.

## 14.7 Cultural Differences

### 7. How do you manage and do business with people from different cultures?

Culture refers to the collective mental programming of a group or people that distinguishes them from others. Culture (1) is shared by the members of the group, (2) is passed on from older members to younger members, and (3) shapes our view of the world. Six dimensions of culture can be identified: (1) how people see themselves, (2) how people see nature, (3) how people approach interpersonal relationships, (4) how people view activity and achievement, (5) how people view time, and (6) how people view space.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Chapter Review Questions

1. Why is it important for managers to understand individual differences at work?
2. Which employee abilities seem to be most important in determining job performance? Explain.
3. Define *personality*. Which personality traits are most relevant to understanding organizational behavior? Why?
4. Explain how the concept of *locus of control* works. Provide an example.
5. Describe the basic incongruity thesis. Do you agree with this thesis? Under what circumstances might the thesis be most likely to be true? Least likely to be true? Explain.
6. Why is it important for managers to understand ethical standards in the workplace? How do ethics affect our behavior at work?
7. How should managers handle the “gray zones” that are common to ethical dilemmas in organizations? Explain.
8. Define *culture*. How do culture and cultural variations affect work behavior and job performance? Provide examples to show why a knowledge of such differences is important for managers.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Management Skills Application Exercises

## 1. What Is Your Locus of Control?

*Instructions:* This instrument lists several pairs of statements concerning the possible causes of behavior. For each pair, select the letter (A or B) that better describes your own beliefs. Remember: there are no right or wrong answers. To view the scoring key, go to **Appendix B**.

1.     A. In the long run, the bad things that happen to us are balanced by the good ones.  
       B. Most misfortunes are the result of lack of ability, ignorance, laziness, or all three.
2.     A. I have often found that what is going to happen will happen.  
       B. Trusting to fate has never turned out as well for me as making a decision to take a definite course of action.
3.     A. Many of the unhappy things in people's lives are partly due to bad luck.  
       B. People's misfortunes result from the mistakes they make.
4.     A. Without the right breaks, one cannot be an effective leader.  
       B. Capable people who fail to become leaders have not taken advantage of their opportunities.
5.     A. Many times, I feel I have little influence over the things that happen to me.  
       B. It is impossible for me to believe that chance or luck plays an important role in my life.
6.     A. Most people don't realize the extent to which their lives are controlled by accidental happenings.  
       B. There really is no such thing as "luck."
7.     A. Unfortunately, an individual's worth often passes unrecognized no matter how hard they try.  
       B. In the long run, people get the respect they deserve.

*Source:* Adapted from Julian B. Rotter, "Generalized Expectancies for Internal Versus External Control of Reinforcement." *Psychological Monographs*, 80 (Whole No. 609, 1966), pp. 11–12.

## 2. Which Values Are Most Important to You?

*Instructions:* People are influenced by a wide variety of personal values. In fact, it has been argued that values represent a major influence on how we process information, how we feel about issues, and how we behave. In this exercise, you are given an opportunity to consider your own personal values. Below are listed two sets of statements. The first list presents several instrumental values, while the second list presents several terminal values. For each list you are asked to rank the statements according to how important each is to you personally. In the list of instrumental values, place a "1" next to the value that is most important to you, a "2" next to the second most important, and so forth. Clearly, you will have to make some difficult decisions concerning your priorities. When you have completed the list for instrumental values, follow the same procedure for the terminal values. Please remember that this is not a test—there are no right or wrong answers—so be completely honest with yourself. To view the scoring key, go to **Appendix B**.

### Instrumental Values

- \_\_\_\_\_ Assertiveness; standing up for yourself
- \_\_\_\_\_ Being helpful or caring toward others
- \_\_\_\_\_ Dependability; being counted upon by others
- \_\_\_\_\_ Education and intellectual pursuits
- \_\_\_\_\_ Hard work and achievement
- \_\_\_\_\_ Obedience; following the wishes of others

- \_\_\_\_\_ Open-mindedness; receptivity to new ideas
- \_\_\_\_\_ Self-sufficiency; independence
- \_\_\_\_\_ Truthfulness; honesty
- \_\_\_\_\_ Being well-mannered and courteous toward others

#### Terminal Values

- \_\_\_\_\_ Happiness; satisfaction in life
- \_\_\_\_\_ Knowledge and wisdom
- \_\_\_\_\_ Peace and harmony in the world
- \_\_\_\_\_ Pride in accomplishment
- \_\_\_\_\_ Prosperity; wealth
- \_\_\_\_\_ Lasting friendships
- \_\_\_\_\_ Recognition from peers
- \_\_\_\_\_ Salvation; finding eternal life
- \_\_\_\_\_ Security; freedom from threat
- \_\_\_\_\_ Self-esteem; self-respect

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>

# Managerial Decision Exercises

1. You work for a large multinational corporation with offices around the globe. One of your colleagues has been offered an assignment overseas to either the Japanese, South Korean, or German offices for a long-term assignment (three to seven years). She has asked your advice on the opportunity because she is concerned about the failure some others have encountered. Often, they want to return home before their assignment is complete, or they decide to quit. She is also concerned about building relationships as a manager with the local employees. Your friend is very skilled technically and you know that she could be successful in the positions being offered. You wonder whether her apprehension has to do with her personality, and whether that might have an impact on her success for this role.
  - a. Identify the personality traits you think might be relevant to being successful in a global assignment in either Japan, South Korea, or Germany.
  - b. Develop a personality test aimed at measuring these dimensions.
  - c. Do you think that your friend will fill out this questionnaire honestly? If not, how would you ensure that the results you get would be honest and truly reflect her personality?
  - d. How would you validate such a test? Describe the steps you would take.
2. It's your final semester in college and you're going through several interviews with recruiters on campus. Among the opportunities that you are interviewing for is an entry-level position as a data analyst with a large accounting firm. You have been told during the initial interview that the firm uses a personality assessment as part of their selection process. You feel that this job requires someone who is very high in introversion since it involves a lot of individual work involving analysis of data on the one hand, but that in potential future roles on an audit team, one would need a high level of extroversion dealing with colleagues on the team and with clients. You have a high level of technical ability and can concentrate on tasks for long periods and also feel that you are sociable, but perhaps not as much as some other students in other disciplines. The opportunity is terrific, it is a great stepping-stone to career advancement, and your faculty adviser is very supportive. Refer to the personality test in the Managerial Skills Application Exercises question 2 as an example of the personality test that will be given. How are you going to respond when completing the personality test? Are you going to answer the questions truthfully?
  - a. What are the advantages and disadvantages of completing the questions honestly?
  - b. What are the advantages and disadvantages of completing the questions in a way you think the company is looking for?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Critical Thinking Case

1. You work for a large multinational corporation with offices around the globe. One of your colleagues has been offered an assignment overseas to either the Japanese, South Korean, or German offices for a long-term assignment (three to seven years). She has asked your advice on the opportunity because she is concerned about the failure some others have encountered. Often, they want to return home before their assignment is complete, or they decide to quit. She is also concerned about building relationships as a manager with the local employees. Your friend is very skilled technically and you know that she could be successful in the positions being offered. You wonder whether her apprehension has to do with her personality, and whether that might have an impact on her success for this role.
  - a. Identify the personality traits you think might be relevant to being successful in a global assignment in either Japan, South Korea, or Germany.
  - b. Develop a personality test aimed at measuring these dimensions.
  - c. Do you think that your friend will fill out this questionnaire honestly? If not, how would you ensure that the results you get would be honest and truly reflect her personality?
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2. It's your final semester in college and you're going through several interviews with recruiters on campus. Among the opportunities that you are interviewing for is an entry-level position as a data analyst with a large accounting firm. You have been told during the initial interview that the firm uses a personality assessment as part of their selection process. You feel that this job requires someone who is very high in introversion since it involves a lot of individual work involving analysis of data on the one hand, but that in potential future roles on an audit team, one would need a high level of extroversion dealing with colleagues on the team and with clients. You have a high level of technical ability and can concentrate on tasks for long periods and also feel that you are sociable, but perhaps not as much as some other students in other disciplines. The opportunity is terrific, it is a great stepping-stone to career advancement, and your faculty adviser is very supportive. Refer to the personality test in the Managerial Skills Application Exercises question 2 as an example of the personality test that will be given. How are you going to respond when completing the personality test? Are you going to answer the questions truthfully?
  - a. What are the advantages and disadvantages of completing the questions honestly?
  - b. What are the advantages and disadvantages of completing the questions in a way you think the company is looking for?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# 15 - ATTITUDES, EMOTIONS AND ETHICS

## Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. How do differences in perception affect employee behavior and performance?
2. How can managers and organizations minimize the negative impact of stereotypes and other barriers to accurate social perception in interpersonal relations?
3. How do people attribute credit and blame for organizational events?
4. How can a work environment characterized by positive work attitudes be created and maintained?
5. How can managers and organizations develop a committed workforce?

## EXPLORING MANAGERIAL CAREERS

### *Personal Perceptions Affect Workplace Harmony*

Conflict was a feeling that James and Chaz were familiar with in their workplace. It was just a matter of time before their differences bubbled up to form a real hardship on themselves as well as their management teams.

Chaz is anxious to get ahead, really focused on how fast he can accelerate his career. In order to showcase his tenacity, he stays extra hours and often takes on extra assignments from upper management and doesn't seem to mind. James, on the other hand, is content in his position and believes that if he does his regular job, he will be seen as a stable part of the team and will be rewarded for his everyday efforts. James views Chaz's behavior as "kissing up" and resents Chaz for his extra efforts because it may make his own work look bad. James doesn't give a thought to the personal reasons why Chaz may be acting that way, and instead ends up treating Chaz poorly, with a short temper every time they have to work together.

Chaz talks to his manager, Jerry, about the way that he is being treated by James. He explains that he has been having some personal troubles at home, his wife is expecting, and they are trying to save for the new addition to their family. Chaz is feeling pressure to work hard and showcase his talents in order to get a raise. He also expresses his feelings against James, mainly that he shouldn't be scrutinized for going above and beyond when his colleagues may just decide to do the minimum requirements. Jerry understands, and he appreciates Chaz coming to him with his concerns. They talk about ways to measure Chaz's extra efforts and plan a conversation during their annual review period to discuss his raise again. Jerry also suggests that Chaz talk with James to alleviate some of the negative behavior he is experiencing. He feels that if James understood the reasons behind Chaz's actions, he may be less jealous and feel less threatened by him.

Questions:

1. How can an individual's perceptions be a challenge in the workplace?
2. What can James do in the future to address Chaz in a different manner and better understand his actions?
3. What do you think Jerry could have done differently to help his employees overcome their differences and work more efficiently together?





## 15.1 - The Perceptual Process

### 1. How do differences in perception affect employee behavior and performance?

By perception, we mean the process by which one screens, selects, organizes, and interprets stimuli to give them meaning.<sup>1</sup> It is a process of making sense out of the environment in order to make an appropriate behavioral response. Perception does not necessarily lead to an accurate portrait of the environment, but rather to a unique portrait, influenced by the needs, desires, values, and disposition of the perceiver. As described by Kretch and associates,<sup>2</sup> an individual's perception of a given situation is not a photographic representation of the physical world; it is a partial, personal construction in which certain objects, selected by the individual for a major role, are perceived in an individual manner. Every perceiver is, as it were, to some degree a nonrepresentational artist, painting a picture of the world that expresses an individual view of reality.

The multitude of objects that vie for attention are first selected or screened by individuals. This process is called **perceptual selectivity**. Certain of these objects catch our attention, while others do not. Once individuals notice a particular object, they then attempt to make sense out of it by organizing or categorizing it according to their unique frame of reference and their needs. This second process is termed perceptual organization. When meaning has been attached to an object, individuals are in a position to determine an appropriate response or reaction to it. Hence, if we clearly recognize and understand we are in danger from a falling rock or a car, we can quickly move out of the way.

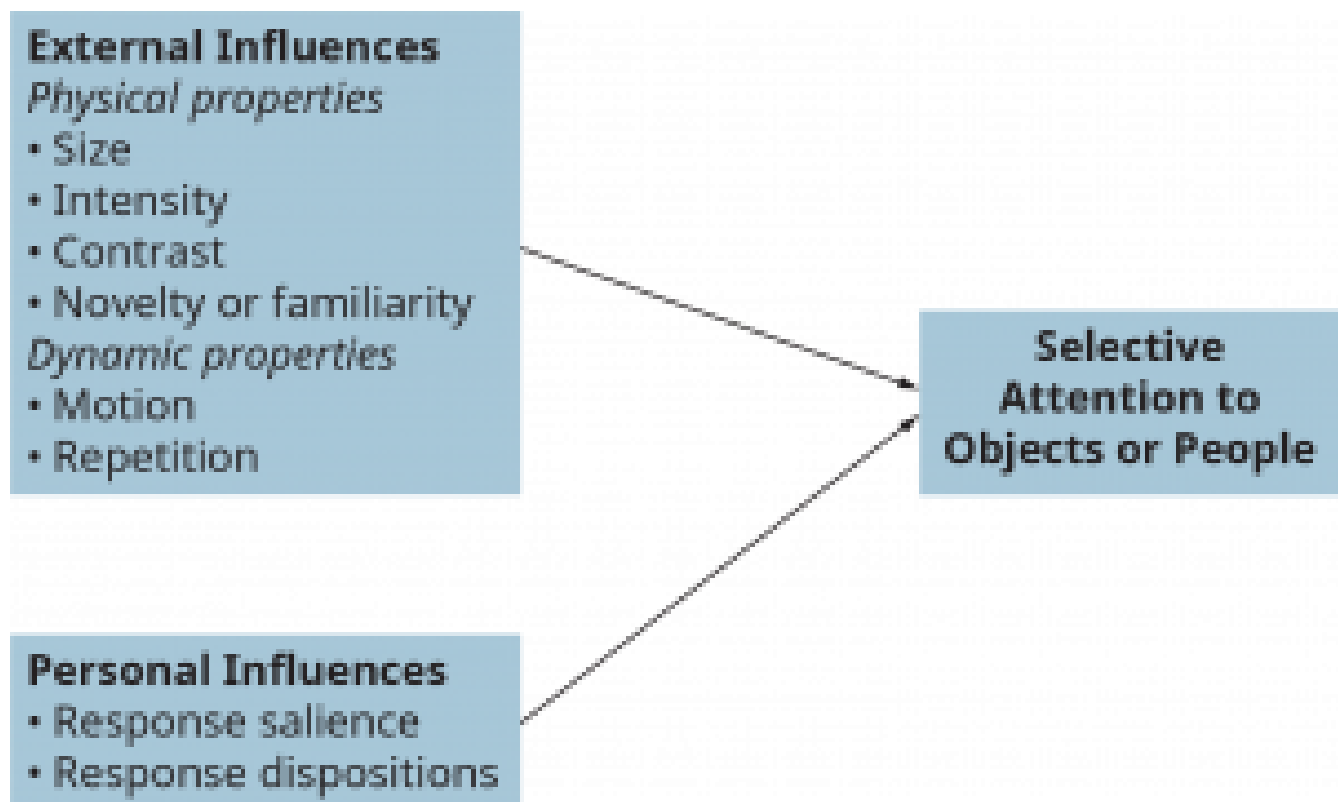
Because of the importance of perceptual selectivity for understanding the perception of work situations, we will examine this concept in some detail before considering the topic of social perception.

### Perceptual Selectivity: Seeing What We See

As noted above, perceptual selectivity refers to the process by which individuals select objects in the environment for attention. Without this ability to focus on one or a few stimuli instead of the hundreds constantly surrounding us, we would be unable to process all the information necessary to initiate behavior. In essence, perceptual selectivity works as follows (see **Exhibit 15.1**). The individual is first exposed to an object or stimulus—a loud noise, a new car, a tall building, another person, and so on. Next, the individual focuses attention on this one object or stimulus, as opposed to others, and concentrates his efforts on understanding or comprehending the stimulus. For example, while conducting a factory tour, two managers came across a piece of machinery. One manager's attention focused on the stopped machine; the other manager focused on the worker who was trying to fix it. Both managers simultaneously asked the worker a question. The first manager asked why the machine was stopped, and the second manager asked if the employee thought that he could fix it. Both managers were presented with the same situation, but they noticed different aspects. This example illustrates that once attention has been directed, individuals are more likely to retain an image of the object or stimulus in their memory and to select an appropriate response to the stimulus. These various influences on selective attention can be divided into external influences and internal (personal) influences (see **Exhibit 15.2**).



**Exhibit 15.1** The Process of Perceptual Selectivity (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)



**Exhibit 15.2** Major Influences on Selective Attention (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## External Influences on Selective Attention

External influences consist of the characteristics of the observed object or person that activate the senses. Most external influences affect selective attention because of either their physical properties or their dynamic properties.

**Physical Properties.** The physical properties of the objects themselves often affect which objects receive attention by the perceiver. Emphasis here is on the unique, different, and out of the ordinary. A particularly important physical property is size. Generally, larger objects receive more attention than smaller ones. Advertising companies use the largest signs and billboards allowed to capture the perceiver's attention. However, when most of the surrounding objects are large, a small object against a field of large objects may receive more attention. In either case, size represents an important variable in perception. Moreover, brighter, louder, and more colorful objects tend to attract more attention than objects of less *intensity*. For example, when a factory foreman yells an order at his subordinates, it will probably receive more notice (although it may not receive the desired response) from workers. It must be remembered here, however, that intensity heightens attention only when compared to other comparable stimuli. If the foreman always yells, employees may stop paying much attention to the yelling. Objects that *contrast* strongly with the background against which they are observed tend to receive more attention than less-contrasting objects. An example of the contrast principle can be seen in the use of plant and highway safety signs. A terse message such as "Danger" is lettered in black against a yellow or orange background. A final physical characteristic that can heighten perceptual awareness is the *novelty* or *unfamiliarity* of the object. Specifically, the unique or unexpected seen in a familiar setting (an executive of a conservative company who comes to work in Bermuda shorts) or the familiar seen in an incongruous setting (someone in church holding a can of beer) will receive attention.

**Dynamic Properties.** The second set of external influences on selective attention are those that either change over

time or derive their uniqueness from the order in which they are presented. The most obvious dynamic property is *motion*. We tend to pay attention to objects that move against a relatively static background. This principle has long been recognized by advertisers, who often use signs with moving lights or moving objects to attract attention. In an organizational setting, a clear example is a rate-buster, who shows up his colleagues by working substantially faster, attracting more attention.

Another principle basic to advertising is *repetition* of a message or image. Work instructions that are repeated tend to be received better, particularly when they concern a dull or boring task on which it is difficult to concentrate. This process is particularly effective in the area of plant safety. Most industrial accidents occur because of careless mistakes during monotonous activities. Repeating safety rules and procedures can often help keep workers alert to the possibilities of accidents.

## Personal Influences on Selective Attention

In addition to a variety of external factors, several important personal factors are also capable of influencing the extent to which an individual pays attention to a particular stimulus or object in the environment. The two most important personal influences on perceptual readiness are response salience and response disposition.

**Response Salience.** This is a tendency to focus on objects that relate to our *immediate* needs or wants. Response salience in the work environment is easily identified. A worker who is tired from many hours of work may be acutely sensitive to the number of hours or minutes until quitting time. Employees negotiating a new contract may know to the penny the hourly wage of workers doing similar jobs across town. Managers with a high need to achieve may be sensitive to opportunities for work achievement, success, and promotion. Finally, female managers may be more sensitive than many male managers to condescending male attitudes toward women. Response salience, in turn, can distort our view of our surroundings. For example, as Ruch notes:

“Time spent on monotonous work is usually overestimated. Time spent in interesting work is usually underestimated. . . . Judgment of time is related to feelings of success or failure. Subjects who are experiencing failure judge a given interval as longer than do subjects who are experiencing success. A given interval of time is also estimated as longer by subjects trying to get through a task in order to reach a desired goal than by subjects working without such motivation.”<sup>3</sup>

**Response Disposition.** Whereas response salience deals with immediate needs and concerns, **response disposition** is the tendency to recognize familiar objects more quickly than unfamiliar ones. The notion of response disposition carries with it a clear recognition of the importance of past learning on what we perceive in the present. For instance, in one study, a group of individuals was presented with a set of playing cards with the colors and symbols reversed—that is, hearts and diamonds were printed in black, and spades and clubs in red. Surprisingly, when subjects were presented with these cards for brief time periods, individuals consistently described the cards as they expected them to be (red hearts and diamonds, black spades and clubs) instead of as they really were. They were predisposed to see things as they always had been in the past.<sup>4</sup>

Thus, the basic perceptual process is in reality a fairly complicated one. Several factors, including our own personal makeup and the environment, influence how we interpret and respond to the events we focus on. Although the process itself may seem somewhat complicated, it in fact represents a shorthand to guide us in our everyday behavior. That is, without perceptual selectivity we would be immobilized by the millions of stimuli competing for our attention and action. The perceptual process allows us to focus our attention on the more salient events or objects and, in addition, allows us to categorize such events or objects so that they fit into our own conceptual map of the environment.

## EXPANDING AROUND THE GLOBE

### *Which Car Would You Buy?*

When General Motors teamed up with Toyota to form California-based New United Motor Manufacturing Inc. (NUMMI), they had a great idea. NUMMI would manufacture not only the popular Toyota Corolla but would also make a GM car called the Geo Prizm. Both cars would be essentially identical except for minor styling differences. Economies of scale and high quality would benefit the sales of both cars. Unfortunately, General Motors forgot one thing. The North American consumer holds a higher opinion of Japanese-built cars than American-made ones. As a result, from the start of the joint venture, Corollas have sold rapidly, while sales of Geo Prizms have languished.

With hindsight, it is easy to explain what happened in terms of perceptual differences. That is, the typical consumer simply perceived the Corolla to be of higher quality (and perhaps higher status) and bought accordingly. Not only was the Prizm seen more skeptically by consumers, but General Motors' insistence on a whole new name for the product left many buyers unfamiliar with just what they were buying. Perception was that main reason for lagging sales; however, the paint job on the Prizm was viewed as being among the worst ever. As a result, General Motors lost \$80 million on the Prizm in its first year of sales. Meanwhile, demand for the Corolla exceeded supply.

The final irony here is that no two cars could be any more alike than the Prizm and the Corolla. They are built on the same assembly line by the same workers to the same design specifications. They are, in fact, the same car. The only difference is in how the consumers perceive the two cars—and these perceptions obviously are radically different.

Over time, however, perceptions did change. While there was nothing unique about the Prizm, the vehicle managed to sell pretty well for the automaker and carried on well into the 2000s. The Prizm was also the base for the Pontiac Vibe, which was based on the Corolla platform as well, and this is one of the few collaborations that worked really well.

Sources: C. Eitrem, "10 Odd Automotive Brand Collaborations (And 15 That Worked)," *Car Culture*, January 19, 2019; R. Hof, "This Team-Up Has It All—Except Sales," *Business Week*, August 14, 1989, p. 35; C. Eitrem, "15 GM Cars With The Worst Factory Paint Jobs (And 5 That'll Last Forever)," *Motor Hub*, November 8, 2018.

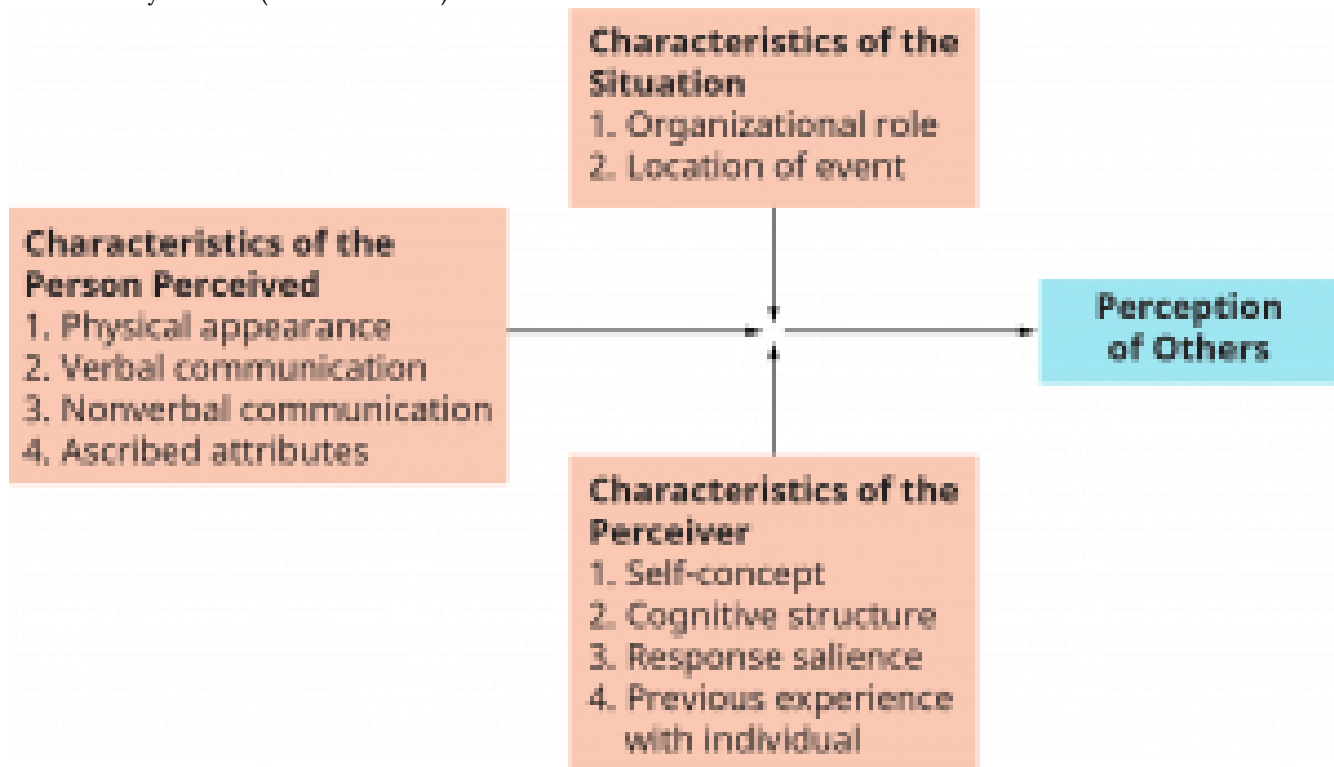
## Social Perception in Organizations

Up to this point, we have focused on an examination of basic perceptual processes—how we see objects or attend to stimuli. Based on this discussion, we are now ready to examine a special case of the perceptual process—social perception as it relates to the workplace. Social perception consists of those processes by which we perceive other people.<sup>5</sup> Particular emphasis in the study of social perception is placed on how we interpret other people, how we categorize them, and how we form impressions of them.

Clearly, social perception is far more complex than the perception of inanimate objects such as tables, chairs, signs, and buildings. This is true for at least two reasons. First, people are obviously far more complex and dynamic than tables and chairs. More-careful attention must be paid in perceiving them so as not to miss important details. Second, an accurate perception of others is usually far more important to us personally than are our perceptions of inanimate objects. The consequences of misperceiving people are great. Failure to accurately perceive the location of a desk in a large room may mean we bump into it by mistake. Failure to perceive accurately the hierarchical status of someone and how the person cares about this status difference might lead you to inappropriately address the person by their first name or use slang in their presence and thereby significantly hurt your chances for promotion if that person is involved in such decisions. Consequently, social perception in the work situation deserves special attention.

We will concentrate now on the three major influences on social perception: the characteristics of (1) the person being perceived, (2) the particular situation, and (3) the perceiver. When taken together, these influences are the dimensions

of the environment in which we view other people. It is important for students of management to understand the way in which they interact (see **Exhibit 15.3**).



**Exhibit 15.3** Major Influences on Social Perception in Organizations (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

The way in which we are evaluated in social situations is greatly influenced by our own unique sets of personal characteristics. That is, our dress, talk, and gestures determine the kind of impressions people form of us. In particular, four categories of personal characteristics can be identified: (1) physical appearance, (2) verbal communication, (3) nonverbal communication, and (4) ascribed attributes.

**Physical Appearance.** A variety of physical attributes influence our overall image. These include many of the obvious demographic characteristics such as age, sex, race, height, and weight. A study by Mason found that most people agree on the physical attributes of a leader (i.e., what leaders *should* look like), even though these attributes were not found to be consistently held by actual leaders. However, when we see a person who appears to be assertive, goal-oriented, confident, and articulate, we infer that this person is a natural leader.<sup>6</sup> Another example of the powerful influence of physical appearance on perception is clothing. People dressed in business suits are generally thought to be professionals, whereas people dressed in work clothes are assumed to be lower-level employees.

**Verbal and Nonverbal Communication.** What we say to others—as well as how we say it—can influence the impressions others form of us. Several aspects of verbal communication can be noted. First, the *precision* with which one uses language can influence impressions about cultural sophistication or education. An *accent* provides clues about a person's geographic and social background. The *tone of voice* used provides clues about a speaker's state of mind. Finally, the *topics* people choose to converse about provide clues about them.

Impressions are also influenced by nonverbal communication—how people behave. For instance, facial expressions often serve as clues in forming impressions of others. People who consistently smile are often thought to have positive attitudes.<sup>7</sup> A whole field of study that has recently emerged is body language, the way in which people express their inner feelings subconsciously through physical actions: sitting up straight versus being relaxed, looking people straight in the eye versus looking away from people. These forms of expressive behavior provide information to the perceiver concerning how approachable others are, how self-confident they are, or how sociable they are.

**Ascribed Attributes.** Finally, we often ascribe certain attributes to a person before or at the beginning of an

encounter; these attributes can influence how we perceive that person. Three ascribed attributes are status, occupation, and personal characteristics. We ascribe *status* to someone when we are told that the person is an executive, holds the greatest sales record, or has in some way achieved unusual fame or wealth. Research has consistently shown that people attribute different motives to people they believe to be high or low in status, even when these people behave in an identical fashion.<sup>8</sup> For instance, high-status people are seen as having greater control over their behavior and as being more self-confident and competent; they are given greater influence in group decisions than low-status people. Moreover, high-status people are generally better liked than low-status people. *Occupations* also play an important part in how we perceive people. Describing people as salespersons, accountants, teamsters, or research scientists conjures up distinct pictures of these various people before any firsthand encounters. In fact, these pictures may even determine whether there can be an encounter.

## Characteristics of the Situation

The second major influence on how we perceive others is the situation in which the perceptual process occurs. Two situational influences can be identified: (1) the organization and the employee's place in it, and (2) the location of the event.

**Organizational Role.** An employee's place in the organizational hierarchy can also influence his perceptions. A classic study of managers by Dearborn and Simon emphasizes this point. In this study, executives from various departments (accounting, sales, production) were asked to read a detailed and factual case about a steel company.<sup>9</sup> Next, each executive was asked to identify the major problem a new president of the company should address. The findings showed clearly that the executives' perceptions of the most important problems in the company were influenced by the departments in which they worked. Sales executives saw sales as the biggest problem, whereas production executives cited production issues. Industrial relations and public relations executives identified human relations as the primary problem in need of attention.

In addition to perceptual differences emerging horizontally across departments, such differences can also be found when we move vertically up or down the hierarchy. The most obvious difference here is seen between managers and unions, where the former see profits, production, and sales as vital areas of concern for the company whereas the latter place much greater emphasis on wages, working conditions, and job security. Indeed, our views of managers and workers are clearly influenced by the group to which we belong. The positions we occupy in organizations can easily color how we view our work world and those in it. Consider the results of a classic study of perceptual differences between superiors and subordinates.<sup>10</sup> Both groups were asked how often the supervisor gave various forms of feedback to the employees. The results, shown in **Table 15.1**, demonstrate striking differences based on one's location in the organizational hierarchy.

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### Differences in Perception between Supervisors and Subordinates

Types of Recognition	Frequency with Which Supervisors Give Various Types of Recognition for Good Performance	
	As Seen by Supervisors	As Seen by Subordinates
Gives privileges	52%	14%
Gives more responsibility	48	10
Gives a pat on the back	82	13
Gives sincere and thorough praise	80	14
Trains for better jobs	64	9
Gives more interesting work	51	5

Source: Adapted from R. Likert, *New Patterns in Management* (New York: McGraw Hill, 1961), p. 91.

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Table 15.1 (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

**Location of Event.** Finally, how we interpret events is also influenced by where the event occurs. Behaviors that may be appropriate at home, such as taking off one's shoes, may be inappropriate in the office. Acceptable customs vary from country to country. For instance, assertiveness may be a desirable trait for a sales representative in the United States, but it may be seen as being brash or coarse in Japan or China. Hence, the context in which the perceptual activity takes place is important.

## Characteristics of the Perceiver

The third major influence on social perception is the personality and viewpoint of the perceiver. Several characteristics unique to our personalities can affect how we see others. These include (1) self-concept, (2) cognitive structure, (3) response salience, and (4) previous experience with the individual.<sup>11</sup>

**Self-Concept.** Our self-concept represents a major influence on how we perceive others. This influence is manifested in several ways. First, when we understand ourselves (i.e., can accurately describe our own personal characteristics), we are better able to perceive others accurately. Second, when we accept ourselves (i.e., have a positive self-image), we are more likely to see favorable characteristics in others. Studies have shown that if we accept ourselves as we are, we broaden our view of others and are more likely to view people uncritically. Conversely, less secure people often find faults in others. Third, our own personal characteristics influence the characteristics we notice in others. For instance, people with authoritarian tendencies tend to view others in terms of power, whereas secure people tend to see others as warm rather than cold.<sup>12</sup> From a management standpoint, these findings emphasize how important it is for administrators to understand themselves; they also provide justification for the human relations training programs that are popular in many organizations today.

**Cognitive Structure.** Our cognitive structures also influence how we view people. People describe each other differently. Some use physical characteristics such as tall or short, whereas others use central descriptions such as deceitful, forceful, or meek. Still others have more complex cognitive structures and use multiple traits in their descriptions of others; hence, a person may be described as being aggressive, honest, friendly, *and* hardworking. (See the discussion in Individual and Cultural Differences on cognitive complexity.) Ostensibly, the greater our cognitive complexity—our ability to differentiate between people using multiple criteria—the more accurate our perception of others. People who tend to make more complex assessments of others also tend to be more positive in their appraisals.<sup>13</sup> Research in this area highlights the importance of selecting managers who exhibit high degrees of cognitive complexity. These individuals should form more accurate perceptions of the strengths and weaknesses of their



subordinates and should be able to capitalize on their strengths while ignoring or working to overcome their weaknesses.

**Response Saliency.** This refers to our sensitivity to objects in the environment as influenced by our particular needs or desires. Response saliency can play an important role in social perception because we tend to see what we *want* to see. A company personnel manager who has a bias against women, minorities, or handicapped persons would tend to be adversely sensitive to them during an employment interview. This focus may cause the manager to look for other potentially negative traits in the candidate to confirm his biases. The influence of positive arbitrary biases is called the halo effect, whereas the influence of negative biases is often called the *horn effect*. Another personnel manager without these biases would be much less inclined to be influenced by these characteristics when viewing prospective job candidates.

**Previous Experience with the Individual.** Our previous experiences with others often will influence the way in which we view their current behavior. When an employee has consistently received poor performance evaluations, a marked improvement in performance may go unnoticed because the supervisor continues to think of the individual as a poor performer. Similarly, employees who begin their careers with several successes develop a reputation as fast-track individuals and may continue to rise in the organization long after their performance has leveled off or even declined. The impact of previous experience on present perceptions should be respected and studied by students of management. For instance, when a previously poor performer earnestly tries to perform better, it is important for this improvement to be recognized early and properly rewarded. Otherwise, employees may give up, feeling that nothing they do will make any difference.

Together, these factors determine the impressions we form of others (see **Exhibit 3.4**). With these impressions, we make conscious and unconscious decisions about how we intend to behave toward people. Our behavior toward others, in turn, influences the way they regard us. Consequently, the importance of understanding the perceptual process, as well as factors that contribute to it, is apparent for managers. A better understanding of ourselves and careful attention to others leads to more accurate perceptions and more appropriate actions.

## CONCEPT CHECK

1. How can you understand what makes up an individual's personality?
2. How does the content of the situation affect the perception of the perceiver?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# 15.2 - Barriers to Accurate Social Perception

2. How can managers and organizations minimize the negative impact of stereotypes and other barriers to accurate social perception in interpersonal relations?

In the perceptual process, several barriers can be identified that inhibit the accuracy of our perception. These barriers are (1) stereotyping, (2) selective perception, and (3) perceptual defense. Each of these will be briefly considered as it relates to social perception in work situations (see **Table 15.2**).

Barriers to Accurate Perception of Others	
Barrier	Definition
Stereotyping	A tendency to assign attributes to people solely on the basis of their class or category
Selective perception	A process by which we systematically screen out or discredit information we don't wish to hear and focus instead on more salient information
Perceptual defense	A tendency to distort or ignore information that is either personally threatening or culturally unacceptable

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## Stereotyping

One of the most common barriers in perceiving others at work is stereotyping. A stereotype is a widely held generalization about a group of people. Stereotyping is a process in which attributes are assigned to people solely on the basis of their class or category. It is particularly likely to occur when one meets new people, since very little is known about them at that time. On the basis of a few prominent characteristics such as sex, race, or age, we tend to place people into a few general categories. We ascribe a series of traits to them based upon the attributes of the category in which we have put them. We assume that older people are old-fashioned, conservative, obstinate, and perhaps senile. We view professors as absentminded, impractical, idealistic, or eccentric.

One explanation for the existence of stereotypes has been suggested by Jain, Triandis, and Weick.<sup>14</sup> They argue that stereotypes may be to some extent based upon fact. People tend to compare other groups with their own group, accentuating minor differences between groups to form a stereotype. For example, older people as a group may indeed be more conservative or more old-fashioned. These traits then become emphasized and attributed to particular older individuals.

At least three types of stereotype can be found in organizations: those dealing with age, race, and gender. Age stereotypes can be found throughout organizations. A recent study by von Hippel et al.<sup>15</sup> found that there are still clear stereotypes of older employees. They are thought to be (1) more resistant to organizational change, (2) less creative, (3) less likely to take calculated risks, (4) lower in physical capacity, (5) less interested in learning new techniques, and (6) less capable of learning new techniques. When asked to make personnel decisions concerning older people, the business students generally followed several trends. First, they gave older people lower consideration in promotion decisions. Older people also received less attention and fewer resources for training and development. Finally, older people tended to be transferred to other departments instead of confronted by their superiors when a problem with their performance emerged.

Similar problems arise for people from different racial or cultural backgrounds and for gender. A particular problem in many companies today is that of attitudes toward women as managers or executives. Although succeeding in a

managerial position is always difficult, the job is all the harder if your coworkers, superiors, or subordinates are not supportive.

## EXPANDING AROUND THE GLOBE

### *To See Ourselves as Others See Us*

In considering stereotyping in organizations, it may be interesting to examine how people in different countries and cultures see others around the world. Specifically, we should note that “foreigners” often hold certain stereotypes of what a “typical” American looks and acts like. Look, for example, at **Table 15.3**. This table shows how people in seven countries around the globe view the typical American. Note the sizable differences in perceptions.

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<b>Foreign Observations of Americans</b>
The following are quotations from foreign visitors to the United States:
<b>India:</b> “Americans seem to be in a perpetual hurry. Just watch the way they walk down the street. They never allow themselves the leisure to enjoy life; there are too many things to do.”
<b>Kenya:</b> “Americans appear to us rather distant. They are not really as close to other people—even fellow Americans—as Americans overseas tend to portray. It’s almost as if an American says, ‘I won’t let you get too close to me.’ It’s like building a wall.”
<b>Turkey:</b> “Once we were out in a rural area in the middle of nowhere and saw an American come to a stop sign. Though he could see in both directions for miles and no traffic was coming, he still stopped!”
<b>Colombia:</b> “The tendency in the United States to think that life is only work hits you in the face. Work seems to be the one type of motivation.”
<b>Indonesia:</b> “In the United States everything has to be talked about and analyzed. Even the littlest thing has to be ‘Why, Why, Why?’ I get a headache from such persistent questions.”
<b>Ethiopia:</b> “The American is very explicit; he wants a ‘yes’ or ‘no.’ If someone tries to speak figuratively, the American is confused.”
<b>Iran:</b> “The first time . . . my [American] professor told me, ‘I don’t know the answer, I will have to look it up,’ I was shocked. I asked myself, ‘Why is he teaching me?’ In my country a professor would give the wrong answer rather than admit ignorance.”
Source: J. Feig and G. Blair, <i>There Is a Difference</i> , 2nd ed. (Washington: Meridian House International). Meridian House International is an organization that conducts intercultural training for visitors to the United States and for Americans going abroad.

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Table 15.3 (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

When examining these comments, consider the extent to which you think these perceptions and stereotypes are accurate or inaccurate. Why do people in different countries form such divergent opinions of our country? How do their perceptions color the behavior and effectiveness of American managers working abroad? On the basis of this assessment, you might want to reassess your own stereotypes of people in different countries. How accurate do you think your own stereotypes have been?

## Selective Perception

Selective perception is the process by which we systematically screen out information we don’t wish to hear, focusing instead on more salient information. Saliency here is obviously a function of our own experiences, needs, and orientations. The example of the Dearborn and Simon<sup>16</sup> study of managers described earlier provides an excellent glimpse of selective perception. Production managers focused on production problems to the exclusion of other

problems. Accountants, personnel specialists, and sales managers were similarly exclusive. Everyone saw his own specialty as more important in the company than other specialties.

Another example of selective perception in groups and organizations is provided by Miner.<sup>17</sup> Miner summarizes a series of experiments dealing with groups competing on problem-solving exercises. Consistently, the groups tended to evaluate their own solutions as better than the solutions proposed by others. Such findings resemble a syndrome found in many research organizations. There is a frequent tendency for scientists to view ideas or products originating outside their organization or department as inferior and to judge other researchers as less competent and creative than themselves. This is often referred to as the “Not-Invented-Here” syndrome. Similar patterns of behavior can be found among managers, service workers, and secretaries.

## Perceptual Defense

A final barrier to social perception is perceptual defense.<sup>18</sup> Perceptual defense is founded on three related principles:

1. Emotionally disturbing or threatening stimuli have a higher recognition threshold than neutral stimuli.
2. Such stimuli are likely to elicit substitute perceptions that are radically altered so as to prevent recognition of the presented stimuli.
3. These critical stimuli arouse emotional reactions even though the stimuli are not recognized.

In other words, through perceptual defense we tend to distort or ignore information that is either personally threatening or culturally unacceptable. Because emotionally disturbing stimuli have a higher recognition threshold, people are less likely to fully confront or acknowledge the threat. Instead, they may see entirely different or even erroneous stimuli that are safer. Even so, the presence of the critical stimulus often leads to heightened emotions despite the lack of recognition. For instance, suppose that during a contract negotiation for an assembly plant, word leaked out that because of declining profits, the plant might have to close down permanently. Anxious workers might ignore this message and instead choose to believe the company management is only starting false rumors to increase their leverage during wage negotiations. Even if the leverage claim is accepted by the workers as truth, strong emotional reactions against the company can be expected.

One effect of perceptual defense is to save us from squarely facing events that we either do not wish to handle or may be incapable of handling. We dissipate our emotions by directing our attention to other (substitute) objects and hope the original event that distressed us will eventually disappear.

Perceptual defense is especially pronounced when people are presented with a situation that contradicts their long-held beliefs and attitudes. In a classic study of perceptual defense among college students, Haire and Grunes presented the students with descriptions of factory workers. Included in these descriptions was the word *intelligent*. Because the word was contrary to the students' beliefs concerning factory workers, they chose to reject the description by using perceptual defenses.<sup>19</sup> Four such defense mechanisms can be identified:<sup>20</sup>

1. *Denial*. A few of the subjects denied the existence of intelligence in factory workers.
2. *Modification and distortion*. This was one of the most frequent forms of defense. The pattern was to explain away the perceptual conflict by joining intelligence with some other characteristics—for instance, “He is intelligent but doesn't possess initiative to rise above his group.”
3. *Change in perception*. Many students changed their perception of the worker because of the intelligence characteristic. Most of the change, however, was very subtle—for example, “cracks jokes” became “witty.”
4. *Recognition, but refusal to change*. A very few students explicitly recognized the conflict between their perception of the worker and the characteristic that was confronting them. For example, one subject stated, “The trait seems to be conflicting . . . most factory workers I have heard about aren't too intelligent.”

Perceptual defense makes any situation in which conflict is likely to be present more difficult. It creates blind causes us to fail to hear and see events as they really are. The challenge for managers is to reduce or minimize the perception of threat in a situation so these defenses are not immediately called into play. This can be accomplished by reassuring people that things that are important to them will not be tampered with, or by accentuating the positive.

## CONCEPT CHECK

1. What are the barriers that can inhibit the accuracy of our perception?
2. What are the cultural factors that can influence perception?
3. What is perceptual defense, and what are examples of the mechanisms that can be identified?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 15.3 - Attributions: Interpreting the Causes of Behavior

### 3. How do people attribute credit and blame for organizational events?

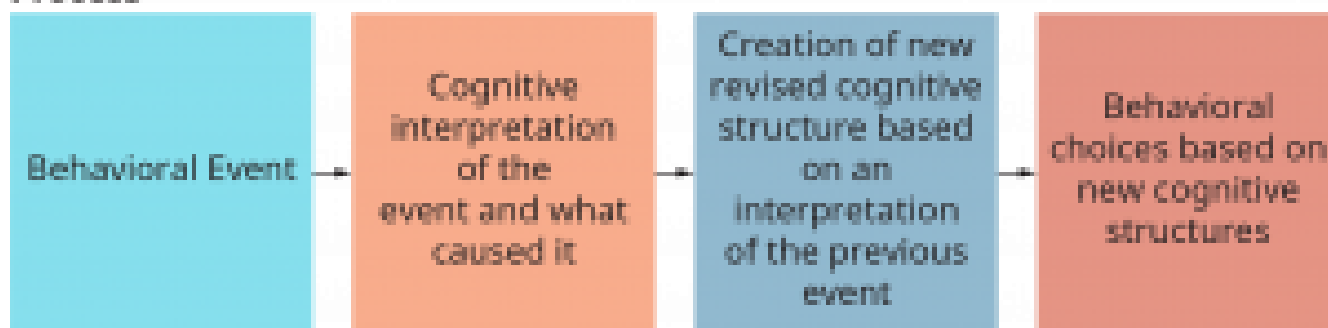
A major influence on how people behave is the way they interpret the events around them. People who feel they have control over what happens to them are more likely to accept responsibility for their actions than those who feel control of events is out of their hands. The cognitive process by which people interpret the reasons or causes for their behavior is described by attribution theory.<sup>21</sup> Specifically, “attribution theory concerns the process by which an individual interprets events as being caused by a particular part of a relatively stable environment.”<sup>22</sup>

Attribution theory is based largely on the work of Fritz Heider. Heider argues that behavior is determined by a combination of internal forces (e.g., abilities or effort) and external forces (e.g., task difficulty or luck). Following the cognitive approach of Lewin and Tolman, he emphasizes that it is *perceived* determinants, rather than actual ones, that influence behavior. Hence, if employees perceive that their success is a function of their own abilities and efforts, they can be expected to behave differently than they would if they believed job success was due to chance.

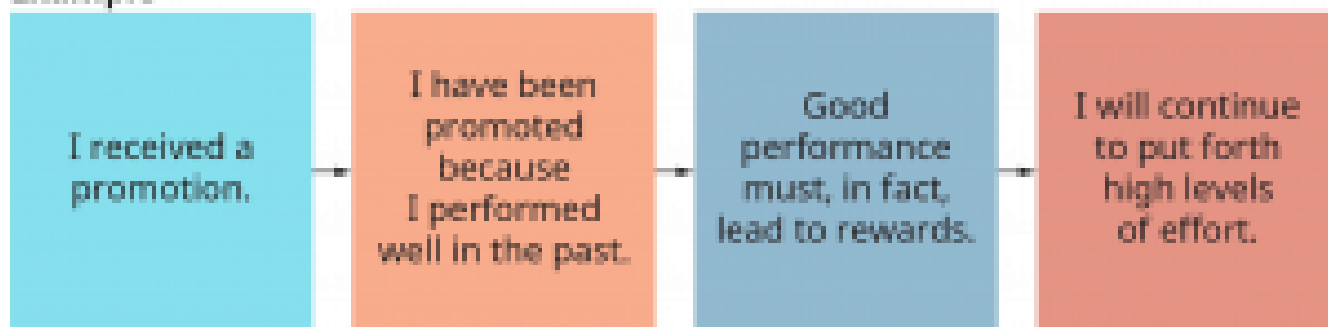
### The Attribution Process

The underlying assumption of attribution theory is that people are motivated to understand their environment and the causes of particular events. If individuals can understand these causes, they will then be in a better position to influence or control the sequence of future events. This process is diagrammed in **Exhibit 15.4**. Specifically, attribution theory suggests that particular behavioral events (e.g., the receipt of a promotion) are analyzed by individuals to determine their causes. This process may lead to the conclusion that the promotion resulted from the individual's own effort or, alternatively, from some other cause, such as luck. Based on such cognitive interpretations of events, individuals revise their cognitive structures and rethink their assumptions about causal relationships. For instance, an individual may infer that performance does indeed lead to promotion. Based on this new structure, the individual makes choices about future behavior. In some cases, the individual may decide to continue exerting high levels of effort in the hope that it will lead to further promotions. On the other hand, if an individual concludes that the promotion resulted primarily from chance and was largely unrelated to performance, a different cognitive structure might be created, and there might be little reason to continue exerting high levels of effort. In other words, the way in which we perceive and interpret events around us significantly affects our future behaviors.

## Process



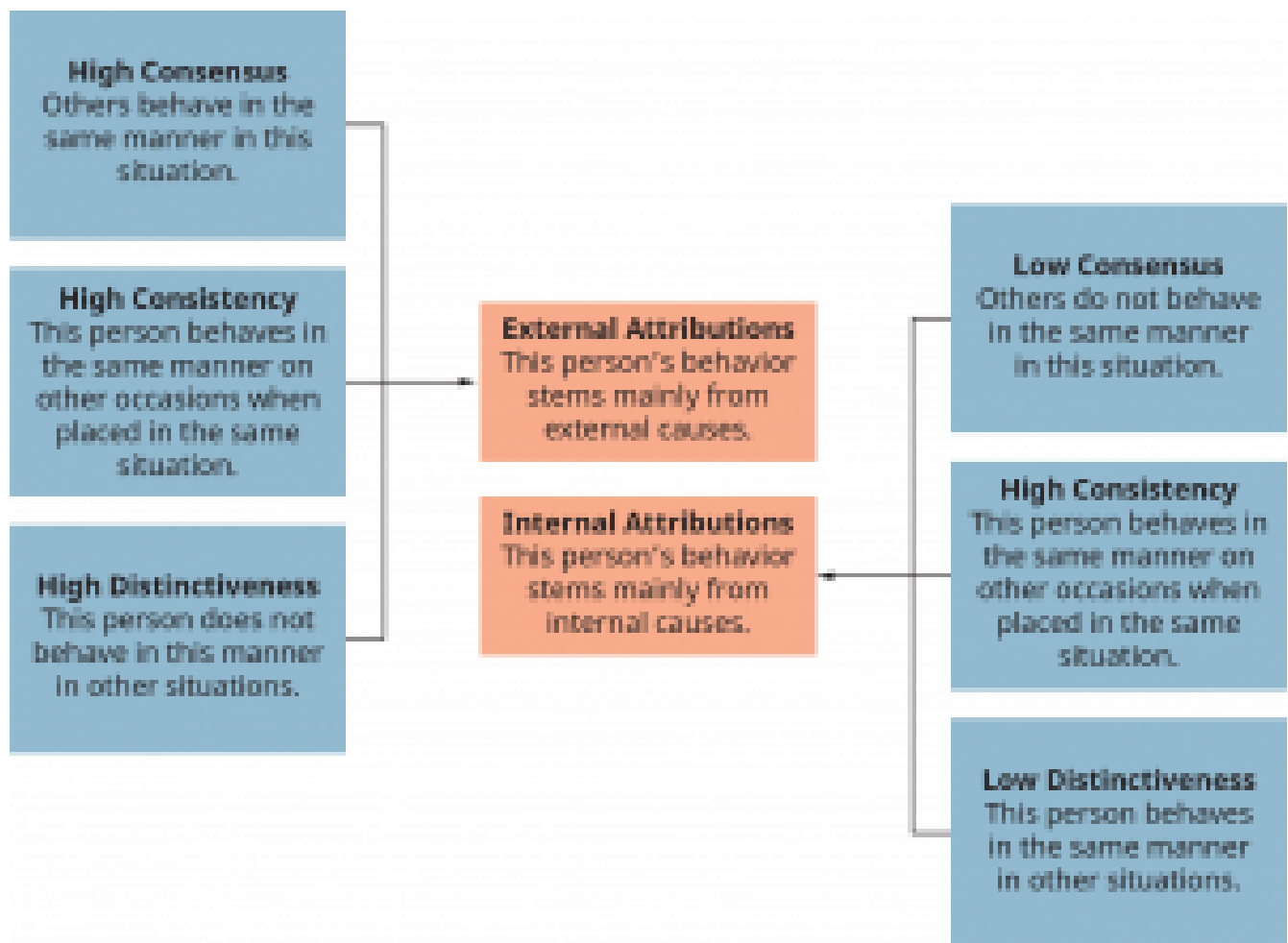
## Example



**Exhibit 15.4** The General Attribution Process (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## Internal and External Causes of Behavior

Building upon the work of Heider, Harold Kelley attempted to identify the major antecedents of internal and external attributions.<sup>23</sup> He examined how people determine—or, rather, how they actually perceive—whether the behavior of another person results from internal or external causes. Internal causes include ability and effort, whereas external causes include luck and task ease or difficulty.<sup>24</sup> Kelley's conclusion, illustrated in **Exhibit 15.5**, is that people actually focus on three factors when making causal attributions:



**Exhibit 15.5** Causes of Internal and External Attributions Adapted from Nyla Branscombe and Robert A. Baron. *Social Psychology*. Fourteenth Edition, 2016, Pearson. (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

1. **Consensus.** The extent to which you believe that the person being observed is behaving in a manner that is consistent with the behavior of his or her peers. High consensus exists when the person's actions reflect or are similar to the actions of the group; low consensus exists when the person's actions do not.
2. **Consistency.** The extent to which you believe that the person being observed behaves consistently—in a similar fashion—when confronted on other occasions with the same or similar situations. High consistency exists when the person repeatedly acts in the same way when faced with similar stimuli.
3. **Distinctiveness.** The extent to which you believe that the person being observed would behave consistently when faced with different situations. Low distinctiveness exists when the person acts in a similar manner in response to different stimuli; high distinctiveness exists when the person varies his or her response to different situations.

How do these three factors interact to influence whether one's attributions are internal or external? According to the exhibit, under conditions of high consensus, high consistency, and high distinctiveness, we would expect the observer to make external attributions about the causes of behavior. That is, the person would attribute the behavior of the observed (say, winning a golf tournament) to good fortune or some other external event. On the other hand, when consensus is low, consistency is high, and distinctiveness is low, we would expect the observer to attribute the observed behavior (winning the golf tournament) to internal causes (the winner's skill).

In other words, we tend to attribute the reasons behind the success or failure of others to either internal or external causes according to how we interpret the underlying forces associated with the others' behavior. Consider the example



of the first female sales manager in a firm to be promoted to an executive rank. How do you explain her promotion—luck and connections or ability and performance? To find out, follow the model. If she, as a sales representative, had sold more than her (male) counterparts (low consensus in behavior), consistently sold the primary product line in different sales territories (high consistency), and was also able to sell different product lines (low distinctiveness), we would more than likely attribute her promotion to her own abilities. On the other hand, if her male counterparts were also good sales representatives (high consensus) and her sales record on secondary products was inconsistent (high distinctiveness), people would probably attribute her promotion to luck or connections, regardless of her sales performance on the primary product line (high consistency).

## Attributional Bias

One final point should be made with respect to the attributional process. In making attributions concerning the causes of behavior, people tend to make certain errors of interpretation. Two such errors, or attribution biases, should be noted here. The first is called the fundamental attribution error. This error is a tendency to *underestimate* the effects of external or situational causes of behavior and to *overestimate* the effects of internal or personal causes. Hence, when a major problem occurs within a certain department, we tend to blame people rather than events or situations.

The second error in attribution processes is generally called the self-serving bias. There is a tendency, not surprisingly, for individuals to attribute success on an event or project to their own actions while attributing failure to others. Hence, we often hear sales representatives saying, “I made the sale,” but “They stole the sale from me” rather than “I lost it.” These two biases in interpreting how we see the events around us help us understand why employees looking at the same event often see substantially different things.

### CONCEPT CHECK

1. What is attribution theory? Describe the attribution process.
2. What are the internal and external causes of attribution?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 15.4 - Attitudes and Behavior

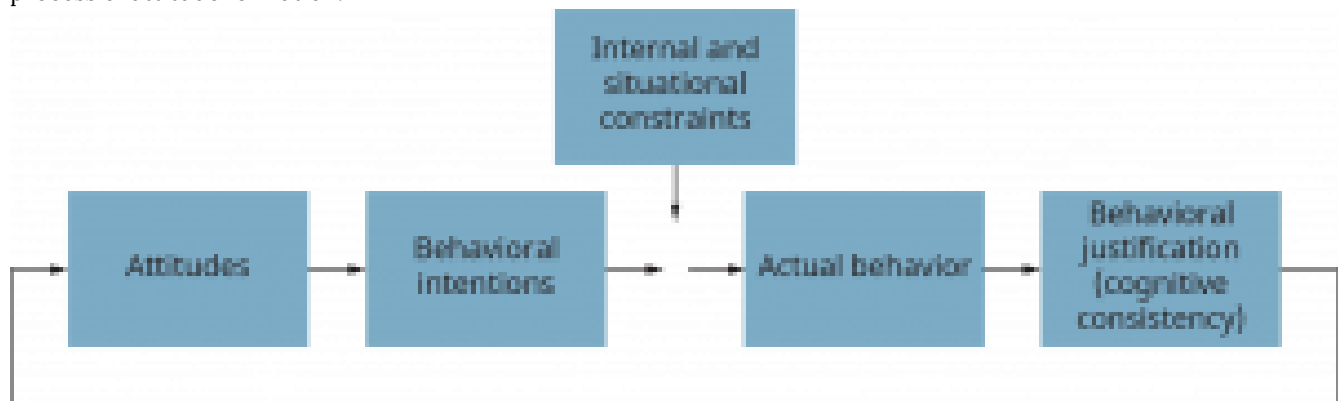
### 4. How can a work environment characterized by positive work attitudes be created and maintained?

Closely related to the topic of perception and attribution—indeed, largely influenced by it—is the issue of attitudes. An attitude can be defined as a predisposition to respond in a favorable or unfavorable way to objects or persons in one's environment.<sup>25</sup> When we like or dislike something, we are, in effect, expressing our attitude toward the person or object.

Three important aspects of this definition should be noted. First, an attitude is a hypothetical construct; that is, although its consequences can be observed, the attitude itself cannot. Second, an attitude is a unidimensional concept: An attitude toward a particular person or object ranges on a continuum from very favorable to very unfavorable. We like something or we dislike something (or we are neutral). Something is pleasurable or unpleasurable. In all cases, the attitude can be evaluated along a single evaluative continuum. And third, attitudes are believed to be related to subsequent behavior. We will return to this point later in the discussion.

An attitude can be thought of as composed of three highly interrelated components: (1) a *cognitive* component, dealing with the beliefs and ideas a person has about a person or object; (2) an *affective* component (affect), dealing with a person's feelings toward the person or object; and (3) an *intentional* component, dealing with the behavioral intentions a person has with respect to the person or object.<sup>26</sup>

Now that we know what an attitude is, let us consider how attitudes are formed and how they influence behavior. A general model of the relationship between attitudes and behavior is shown in **Exhibit 15.6**. As can be seen, attitudes lead to behavioral intentions, which, in turn, lead to actual behavior. Following behavior, we can often identify efforts by the individual to justify his behavior. Let us examine each of these components of the model separately, beginning with the process of attitude formation.



**Exhibit 15.6** Relationship between Attitudes and Behavior (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

### How Are Attitudes Formed?

There is considerable disagreement about this question. One view offered by psychologist Barry Staw and others is the dispositional approach,<sup>27</sup> which argues that attitudes represent relatively stable predispositions to respond to people or situations around them. That is, attitudes are viewed almost as personality traits. Thus, some people would have a tendency—a predisposition—to be happy on the job, almost regardless of the nature of the work itself. Others may have an internal tendency to be unhappy, again almost regardless of the actual nature of the work. Evidence in support of this approach can be found in a series of studies that found that attitudes change very little among people before

and after they make a job change. To the extent that these findings are correct, managers may have little influence over improving job attitudes short of trying to select and hire only those with appropriate dispositions.

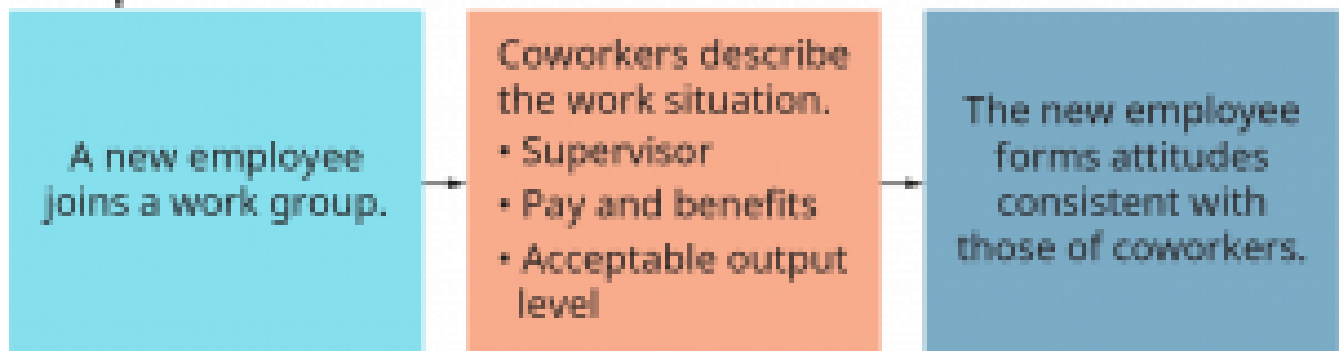
A second approach to attitude formation is called the situational approach. This approach argues that attitudes emerge as a result of the uniqueness of a given situation. They are situationally determined and can vary in response to changing work conditions. Thus, as a result of experiences at work (a boring or unrewarding job, a bad supervisor, etc.), people react by developing appropriate attitudes. Several variations on this approach can be identified. Some researchers suggest that attitudes result largely from the nature of the job experience itself. That is, an employee might reason: “I don’t get along well with my supervisor; therefore, I become dissatisfied with my job.” To the extent that this accurately describes how attitudes are formed, it also implies that attitudes can be changed relatively easily. For example, if employees are dissatisfied with their job because of conflicts with supervisors, either changing supervisors or changing the supervisors’ behavior may be viable means of improving employee job attitudes. In other words, if attitudes are largely a function of the situation, then attitudes can be changed by altering the situation.

Other advocates of the situational approach suggest a somewhat more complicated process of attitude formation—namely, the social-information-processing approach. This view, developed by Pfeffer and Salancik, asserts that attitudes result from “socially constructed realities” as perceived by the individual (see **Exhibit 15.7**).<sup>28</sup> That is, the social context in which the individual is placed shapes his perceptions of the situation and hence his attitudes.

### Process



### Example



**Exhibit 15.7** A Social-Information-Processing View of Attitudes (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

Here is how it works. Suppose a new employee joins a work group consisting of people who have worked together for some time. The existing group already has opinions and feelings about the fairness of the supervisor, the quality of the workplace, the adequacy of the compensation, and so forth. Upon arriving, the new worker is fed socially acceptable cues from co-workers about acceptable attitudes toward various aspects of the work and company. Thus, due in part to social forces, the new employee begins to form attitudes based on externally provided bits of information from the group instead of objective attributes of the workplace. If the social-information-processing perspective is correct, changing the attitudes of one person will be difficult unless the individual is moved to a different group of coworkers or unless the attitudes of the current coworkers are changed.

Which approach is correct? In point of fact, research indicates that both the dispositional and the social-information-processing views have merit, and it is probably wise to recognize that socially constructed realities and dispositions interact to form the basis for an individual's attitudes at work. The implication of this combined perspective for changing attitudes is that efforts should not assume that minor alterations in the situation will have significant impacts on individual attitudes, but that systematic efforts focusing on groups and interconnected social systems are likely required for successful changes in attitudes.

## Behavioral Intentions and Actual Behavior

Regardless of how the attitudes are formed (either through the dispositional or social-information-processing approach), the next problem we face is understanding how resulting behavioral intentions guide actual behavior (return to **Exhibit 15.6**). Clearly, this relationship is not a perfect one. Despite one's intentions, various internal and external constraints often serve to modify an intended course of action. Hence, even though you decide to join the union, you may be prevented from doing so for a variety of reasons. Similarly, a person may have every intention of coming to work but may get the flu. Regardless of intent, other factors that also determine actual behavior often enter the picture.

## Behavioral Justification

Finally, people often feel a need for behavioral justification to ensure that their behaviors are consistent with their attitudes toward the event (see **Exhibit 15.6**). This tendency is called cognitive consistency.<sup>29</sup> When people find themselves acting in a fashion that is inconsistent with their attitudes—when they experience cognitive dissonance—they experience tension and attempt to reduce this tension and return to a state of cognitive consistency.

For example, a manager may hate his job but be required to work long hours. Hence, he is faced with a clear discrepancy between an attitude (dislike of the job) and a behavior (working long hours) and will probably experience cognitive dissonance. In order to become cognitively consistent, he can do one of two things. First, he can change his behavior and work fewer hours. However, this may not be feasible. Alternatively, he can change his attitude toward the job to a more positive one. He may, for example, convince himself that the job is really not that bad and that working long hours may lead to rapid promotion. In doing so, he achieves a state of cognitive consistency. Failure to do so will more than likely lead to increased stress and withdrawal from the job situation.

### CONCEPT CHECK

1. What is attitude, and how does it impact the work environment?
2. What is behavioral justification?

## 15.5 - Work-Related Attitudes

### 5. How can managers and organizations develop a committed workforce?

When we apply the concept of attitudes to work settings, we have to specify which attitude we are concerned with. Although a variety of work-related attitudes can be identified, the one receiving the most attention is job satisfaction. As this is one of the most widely studied concepts in organizational behavior, we will examine it here in some detail.

### Job Involvement and Organizational Commitment

First, however, we should introduce two job attitudes that should also be recognized: job involvement and organizational commitment. Job involvement refers to the extent to which a person is interested in and committed to assigned tasks. This is not to say that the person is “happy” (or satisfied) with the job, only that they feel a certain responsibility toward ensuring that the job itself is done correctly and with a high standard of competence. Here the focus of the attitude is the job itself.<sup>30</sup>

Organizational commitment, on the other hand, represents the relative strength of an individual's identification with and involvement in an organization.<sup>31</sup> Commitment can be characterized by three factors: (1) a strong belief in and acceptance of the organization's goals and values, (2) a willingness to exert considerable effort on behalf of the organization, and (3) a strong desire to maintain membership in the organization. When viewed this way, commitment represents something beyond mere passive loyalty to the company. Instead, it involves an active relationship with the organization in which individuals are willing to give something of themselves in order to help the company succeed and prosper. A careful reading of the research on keys to the success of many Japanese firms will highlight the importance played by a committed work force. Now we turn to the third work attitude of job satisfaction.

### Job Satisfaction

Job satisfaction may be defined as “a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience.”<sup>32</sup> It results from the perception that an employee's job actually provides what they value in the work situation.

Several characteristics of the concept of job satisfaction follow from this definition. First, satisfaction is an emotional response to a job situation. It can be fully understood only by introspection. As with any attitude, we cannot observe satisfaction; we must infer its existence and quality either from an employee's behavior or verbal statements.

Second, job satisfaction is perhaps best understood in terms of discrepancy. Several writers have pointed to the concept of job satisfaction as being a result of how much a person wants or expects from the job compared to how much they actually receive.<sup>33</sup> People come to work with varying levels of job expectations. These expectations may vary not only in quality (different people may value different things in a job), but also in intensity. On the basis of work experiences, people receive outcomes (rewards) from the job. These include not only extrinsic rewards, such as pay and promotion, but also a variety of intrinsic rewards, such as satisfying coworker relations and meaningful work. To the extent that the outcomes received by an employee meet or exceed expectations, we would expect the employee to be satisfied with the job and wish to remain. On those occasions when outcomes actually surpass expectations, we would expect employees to reevaluate their expectations and probably raise them to meet available outcomes. However, when outcomes do not meet expectations, employees are dissatisfied and may prefer to seek alternative sources of satisfaction, either by changing jobs or by placing greater value on other life activities, such as outside recreation.

**Dimensions of Job Satisfaction.** It has been argued that job satisfaction actually represents several related attitudes. So, when we speak of satisfaction, we must specify “satisfaction with what?” Research has suggested that five job dimensions represent the most salient characteristics of a job about which people have affective responses. These five are:

1. *Work itself.* The extent to which tasks performed by employees are interesting and provide opportunities for learning and for accepting responsibility.
2. *Pay.* The amount of pay received, the perceived equity of the pay, and the method of payment.
3. *Promotional opportunities.* The availability of realistic opportunities for advancement.
4. *Supervision.* The technical and managerial abilities of supervisors; the extent to which supervisors demonstrate consideration for and interest in employees.
5. *Coworkers.* The extent to which coworkers are friendly, technically competent, and supportive.

Although other dimensions of job satisfaction have been identified, these five dimensions are used most often when assessing various aspects of job attitudes in organizations.

**Measurement of Job Satisfaction.** Probably the most common attitude surveys in organizations today focus on job satisfaction. Satisfaction is considered by many managers to be an important indicator of organizational effectiveness, and therefore it is regularly monitored to assess employee feelings toward the organization. By far the most common means of assessing satisfaction is the rating scale. Rating scales represent direct verbal self-reports concerning employee feelings; they have been widely used in companies since the 1930s. Several job satisfaction scales exist. One of the most popular is the Minnesota Satisfaction Questionnaire (MSQ). This instrument uses a Likert-response format to generate satisfaction scores on 26 scales, including satisfaction with compensation, promotion opportunities, coworkers, recognition, and so forth. You can assess your scoring on a short version of this instrument in the assessment section of this chapter.

The MSQ and similar rating scales have several advantages for evaluating levels of job satisfaction. First, they are relatively short and simple and can be completed by large numbers of employees quickly. Second, because of the generalized wording of the various terms, the instruments can be administered to a wide range of employees in various jobs. It is not necessary to alter the questionnaire for each job classification. Finally, extensive normative data (or norms) are available. These norms include summaries of the scores of thousands of people who have completed the instruments. Hence, it is possible for employers in other organizations to determine relative standings.

However, although rating scales have many virtues compared to other techniques, at least two drawbacks must be recognized. First, as with any self-report inventory, it is assumed that respondents are both willing and able to describe their feelings accurately. As noted by several researchers,<sup>34</sup> people often consciously or unconsciously distort information that they feel is damaging and enhance information that they feel is beneficial. For example, it is possible that employees who think their supervisors may see the results of their questionnaire may report overly favorable job attitudes.

A second problem with rating scales is the underlying assumption that questionnaire items mean the same thing to all people. There may, in fact, not be a common interpretation across individuals. Even so, rating scales have proved to be helpful in assessing satisfaction in various aspects of the job situation. Managers can use the results to identify potential problem areas and to generate discussions and action plans of how to correct aspects of jobs or the organization that are causing unacceptable levels of dissatisfaction.

# CUSTOMER SATISFACTION AND QUALITY

## *How Satisfied Are Employees?*

If you've ever flown on Southwest Airlines, you can tell something is different just from the first interaction with their employees. From the flight attendants, to the pilot's announcements, and even to their customer service representatives, they have a cheerful disposition, and contrary to popular belief, this isn't an act.

In 2017, Southwest Airlines announced that it would be sharing their \$586 million in profits with its 54,000 employees, given them a bonus of approximately 13.2 percent on average. This doesn't account for the extra \$351 million that they contributed to the employee's 401(k) plans either. This is just one of the many ways that Southwest has given back to their employees in a day and age when minimum wage for even qualified candidates seems like a fight.

Southwest CEO Gary Kelly reflects that "Our people-first approach, which has guided our company since it was founded, means our company does well, our people do really, really well. Our people work incredibly hard and deserve to share in Southwest's success." With this attitude, it is no wonder the employees on and off your flight are showing their satisfaction in their everyday attitudes. The year 2017 was the 43rd year that Southwest shared its profits with their people. While compensation ranks among one of the most attributed traits of a company to help with employee satisfaction, it goes much deeper than that to keep motivation high.

At Southwest, they rank employees first and customers second. They create a culture of fun and inclusive core values that help to give their employees a sense of community and belonging. When their employees are motivated and take pride in what they do, they are able to give their best to their customers every day, which accounts for their highly ranked customer satisfaction results on surveys each year.

Sources: Dahl, Darren, "Why do Southwest Employees Always Seem so Happy," *Forbes*, July, 28, 2017, <https://www.forbes.com/sites/darrendahl/2017/07/28/why-do-southwest-airlines-employees-always-seem-so-happy/#3cba8dbc59b0>; Martin, Emmie, "A major airline says there's something it values more than its customers, and there's a good reason why," *Business Insider*, July 29, 2015, <https://www.businessinsider.com/southwest-airlines-puts-employees-first-2015-7>; Ramdas, Shreesha, "The Southwest Way to Employee Satisfaction: Flying High Like the High Flier," *Customer Think*, May 12, 2018, (<http://customerthink.com/the-southwest-way-to-employee-satisfaction-flying-high-like-the-high-flier/>).

Questions:

1. Oftentimes it is hard to stay at the top. What considerations should Southwest take to maintain their employee satisfaction and keep improving?
2. Not all companies can share profits. What would you suggest to a new company that is just starting off to help gain high employee satisfaction?

## CONCEPT CHECK

1. How can organizations foster positive job involvement and instill positive attitudes in their employees?
2. What are the dimensions of job satisfaction?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>



# Key Terms

**Affect**

Dealing with a person's feelings toward the person or object.

**Attitude**

A predisposition to respond in a favorable or unfavorable way to objects or persons in one's environment.

**Attribution biases**

Covers both the fundamental attribution error and the self-serving bias.

**Attribution theory**

Concerns the process by which an individual interprets events as being caused by a particular part of a relatively stable environment.

**Behavioral justification**

The need to ensure that one's behaviors are consistent with their attitudes toward the event.

**Body language**

The manner in which people express their inner feelings subconsciously through physical actions such as sitting up straight versus being relaxed or looking people straight in the eye versus looking away from people.

**Cognitive consistency**

The need for behavioral justification to ensure that a person's behaviors are consistent with their attitudes toward an event.

**Cognitive dissonance**

Finding one's self acting in a fashion that is inconsistent with their attitudes and experiencing tension and attempting to reduce this tension and return to a state of cognitive consistency.

**Dispositional approach**

Argues that attitudes represent relatively stable predispositions to respond to people or situations around them.

**Fundamental attribution error**

The tendency to *underestimate* the effects of external or situational causes of behavior and to *overestimate* the effects of internal or personal causes.

**Halo effect**

The influence of positive arbitrary biases.

**Job involvement**

Refers to the extent to which a person is interested in and committed to assigned tasks.

**Job satisfaction**

A pleasurable or positive emotional state resulting from the appraisal of one's job or job experience.

**Organizational commitment**

Represents the relative strength of an individual's identification with and involvement in an organization.

**Perception**

The process by which one screens, selects, organizes, and interprets stimuli to give them meaning.

**Perceptual defense**

A defense that perceives emotionally disturbing or threatening stimuli as having a higher recognition threshold than neutral stimuli. Such stimuli are likely to elicit substitute perceptions that are radically altered so as to prevent recognition of the presented stimuli that arouse emotional reactions even though the stimuli are not recognized.

**Perceptual organization**

When meaning has been attached to an object, individuals are in a position to determine an appropriate response or reaction to it.

**Perceptual selectivity**

Refers to the process by which individuals select objects in the environment for attention.

**Response disposition**

The tendency to recognize familiar objects more quickly than unfamiliar ones.

**Response salience**

The tendency to focus on objects that relate to our *immediate* needs or wants.

**Selective perception**

The process by which we systematically screen out information we don't wish to hear, focusing instead on more salient information.

**Self-serving bias**

The tendency for individuals to attribute success on an event or project to their own actions while attributing failure to others.

**Situational approach**

This approach argues that attitudes emerge as a result of the uniqueness of a given situation.

**Social perception**

Consists of those processes by which we perceive other people.

**Social-information-processing approach**

Asserts that attitudes result from “socially constructed realities” as perceived by the individual.

**Stereotyping**

A tendency to assign attributes to people solely on the basis of their class or category.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Summary of Learning Outcomes

## 15.1 The Perceptual Process

1. How do differences in perception affect employee behavior and performance?

One of the key determinants of people's behavior in organizations is how they see and interpret situations and people around them. It is vital for anyone (manager or subordinate) who desires to be more effective to understand the critical aspects of context, object, and perceiver that influence perceptions and interpretations and the relationship between these and subsequent attitudes, intentions, and behaviors. This understanding will not only facilitate the ability to correctly understand and anticipate behaviors, but it will also enhance the ability to change or influence that behavior. Perception is the process by which individuals screen, select, organize, and interpret stimuli in order to give them meaning. Perceptual selectivity is the process by which individuals select certain stimuli for attention instead of others. Selective attention is influenced by both external factors (e.g., physical or dynamic properties of the object) and personal factors (e.g., response salience). Social perception is the process by which we perceive other people. It is influenced by the characteristics of the person perceived, the perceiver, and the situation.

## 15.2 Barriers to Accurate Social Perception

2. How can managers and organizations minimize the negative impact of stereotypes and other barriers to accurate social perception in interpersonal relations?

Stereotyping is a tendency to assign attributes to people solely on the basis of their class or category. Selective perception is a process by which we systematically screen or discredit information we don't wish to hear and instead focus on more salient information. Perceptual defense is a tendency to distort or ignore information that is either personally threatening or culturally unacceptable.

## 15.3 Attributions: Interpreting the Causes of Behavior

3. How do people attribute credit and blame for organizational events?

Attribution theory concerns the process by which individuals attempt to make sense of the cause-effect relationships in their life space. Events are seen as being either internally caused (that is, by the individual) or externally caused (that is, by other factors in the environment). In making causal attributions, people tend to focus on three factors: consensus, consistency, and distinctiveness. The fundamental attribution error is a tendency to underestimate the effects of external or situational causes of behavior and overestimate the effects of personal causes.

The self-serving bias is a tendency for people to attribute success on a project to themselves while attributing failure to others.

## 15.4 Attitudes and Behavior

### 4. How can a work environment characterized by positive work attitudes be created and maintained?

An attitude can be defined as a predisposition to respond in a favorable or unfavorable way to objects or persons in one's environment. There are two theories concerning the manner in which attitudes are formed. The first, called the dispositional approach, asserts that attitudes are fairly stable tendencies to respond to events in certain ways, much like personality traits. Thus, some people may be happy on almost any job regardless of the nature of the job. The second, called the situational approach, asserts that attitudes result largely from the particular situation in which the individual finds himself. Thus, some jobs may lead to more favorable attitudes than others. The social-information-processing approach to attitudes is a situational model that suggests that attitudes are strongly influenced by the opinions and assessments of coworkers. Cognitive consistency is a tendency to think and act in a predictable manner. Cognitive dissonance occurs when our actions and our attitudes are in conflict. This dissonance will motivate us to attempt to return to a state of cognitive consistency, where attitudes and behaviors are congruent.

## 15.5 Work-Related Attitudes

### 5. How can managers and organizations develop a committed workforce?

Job involvement refers to the extent to which an individual is interested in his or her assigned tasks. Organizational commitment refers to the relative strength of an individual's identification with and involvement in a particular organization. Job satisfaction is a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Chapter Review Questions

1. Describe how the basic perceptual process works. Why should managers understand this process?
2. How can variations in social perception affect everyday work behavior? Provide an example to illustrate.
3. What can managers do to reduce the incidences of stereotyping in the workplace?
4. How does the attributional process work? Provide an example to show why this process is so important in understanding organizational behavior.
5. How do attributional biases work? What can managers do to reduce such biases?
6. What are the differences between job involvement, organizational commitment, and job satisfaction? Are all three influenced by the same factors?
7. What are the major reasons for job satisfaction? What are the primary consequences of dissatisfaction? Explain.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Management Skills Application Exercises

1. In order to understand how response salience works, you may want to complete this self-assessment. Read the passage, and rate it on its comprehensibility. Does it make sense to you? Next, look at the appropriate frame of reference given in **Appendix B**. Now read the passage again, and rate it for its comprehensibility. Does it make more sense now that you have a specific frame of reference?

## Can You Understand This Passage?

*Instructions:* The procedure is actually quite simple. First you arrange things into different groups. Of course, one pile may be sufficient depending on how much there is to do. If you have to go somewhere else due to lack of facilities that is the next step, otherwise you are pretty well set. It is important not to overdo things. That is, it is better to do too few things at once than too many. In the short run this may not seem important, but complications can easily arise. A mistake can be expensive as well. At first the whole procedure will seem complicated. Soon, however, it will become just another facet of life. It is difficult to foresee any end to the necessity for this task in the immediate future, but then one never can tell. After the procedure is completed one arranges the materials into different groups again. Then they can be put into their appropriate places. Eventually they will be used once more and the whole cycle will then have to be repeated. However, that is part of life.

---

### Comprehensive Scale

Very incomprehensible

Neutral

Very comprehensive

1

2

3

4

5

Adapted from "Contextual Prerequisites for Understanding: Some Investigations of Comprehension and Recall" by John D. Bransford and Marcia K. Johnson, in *Journal of Verbal Learning and Verbal Behavior*, December 1972, p. 722.

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## 2. How Do You Feel About Women Executives?

*Instructions:* This instrument focuses on your attitudes toward women in executive positions. For each item, circle the number that best represents your feelings concerning women executives in organizations. Be completely honest with yourself in responding. For a scoring key, refer to **Appendix B**.

	Strongly Disagree		Strongly Agree	
1. It is high time we had more women in executive positions.	1	2	3 4	5
2. Women make just as good managers as men.	1	2	3 4	5
3. Women often fail to have the same level of technical competence as men.	1	2	3 4	5
4. Women executives should receive the same respect and trust as their male counterparts.	1	2	3 4	5
5. Men tend to be better suited for managerial positions than women.	1	2	3 4	5
6. Women are too emotional to succeed in top-level management.	1	2	3 4	5
7. Women have a hard time supervising the work of male subordinates.	1	2	3 4	5
8. I would prefer not to work for a female manager.	1	2	3 4	5
9. Success as an executive has nothing to do with one's gender.	1	2	3 4	5
10. Many women executives get to the top either because of affirmative action pressure or connections.	1	2	3 4	5

3. Examples of the MSQ for two scales (compensation and recognition) can be seen in this self-assessment. If you wish to complete this sample questionnaire, simply refer to a (paid or unpaid) job that you have had and answer the questionnaire. To score the instrument, refer to **Appendix B**.

### **Are You Satisfied with Your Job?**

*Instructions:* Answer each of the ten questions by circling the numbers that best describe how satisfied or dissatisfied you are with the particular item. Then sum your results for questions 1–5 and 6–10 separately.

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Adapted from David J. Weiss, Rene V. Dawis, George W. England, and Lloyd H. Lofquist, *Manual for the Minnesota Satisfaction Questionnaire* (Minneapolis: Industrial Relations Center, University of Minnesota).

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Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Managerial Decision Exercises

1. You remember from your Organizational Behavior class that several assessments to increase one's self-awareness, like the Minnesota Multiphasic Personality Inventory that you read about in this chapter and is profiled in the Managerial Skill Application Exercises of this chapter, were very beneficial for you as an understanding of your emotional intelligence, values, cognitive style, and ability to cope with change. You have been assigned to a team that will interview both internal and external candidates for a new sales manager position for the California region, which is a position at the same level organizationally as your present position. During the initial orientation meeting, one of the team members—the manager of a distribution center for the organization—says, “I like to use the results of the Myers-Briggs Types Indicator assessment to screen applicants for this position, and since sales managers should be extroverts and should possess sensing, thinking, and judging skills, we should only consider ESTJ types.” Your boss, the national sales manager, asks you to write a report on whether the selection process should only consider ESTJ types and to provide it to the team for discussion. Write a report and share it for discussion with a team of students in this class who will assume the role of the hiring interview team.
2. Recall a meeting that you recently had, such as a team presentation of a case analysis. What were your impressions of what happened in the planning of the presentation and how things like the assignment of roles and timetables for subsequent meetings and deliverables unfolded. What were the behaviors of the others at the meeting, and why do you think they acted as they did? Finally, how do you think that others perceived your behavior at the meeting? After you have recorded these recollections, meet with another attendee of that meeting. Ask them these questions, and record what they say happened at that meeting and what they thought of the behavior of the participants, including you. Let them know that this is for your class and you want them to be as honest as possible. As they are answering, record their recollections and do not interrupt or offer possible corrections. Finally, compare your recollections and notes with those of the interviewee and use the knowledge from this chapter to assess the differences and similarities in perception and attribution.
3. As a way to measure job satisfaction, ask someone at a local business the following questions:
  - a. What is your job title, and what do you do in your own words? How do these match up to tasks, duties, and responsibilities in your job description?
  - b. Are you satisfied with the work that you do?
  - c. How satisfied are you with the training and supervision that you receive?
  - d. How satisfied are you with the people that you work with?
  - e. Are you happy with your salary?
  - f. Are you happy with the benefits that are offered as part of the job?
  - g. Do you see any possibilities for advancement in the organization?
  - h. What are your general feelings about your employer?
  - i. Do you have any additional comments regarding how you feel about your job?

Write an assessment of this individual's job satisfaction and what a supervisor and organization could do to improve the lever of job satisfaction for their employees.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



# Critical Thinking Case

## *Stereotypes at Pitney Bowes*

Many times, we think of stereotypes or discrimination only being an issue when it comes to things like gender, race, or religion. However, at Pitney Bowes Inc., the toughest stereotype to overcome is age.

Brigitte Van Den Houte starts her day in the normal way; however, she has taken a keen focus on persuading employees in their 20s that they have a future at Pitney Bowes.

For almost 100 years, Pitney Bowes, founded in 1920, has been all about commerce. But as the world turned to technology, the definition of what that meant for the traditional postage-meter equipment company had to change as well.

One of the biggest challenges of this ever-changing technological world is how the generations of employees can step aside from their stereotypes and understand one another to better work effectively.

At Pitney Bowes, their proactive approach puts younger colleagues with older colleagues in a mentoring situation. This is not the typical older mentor to younger mentor setup, however. Every few months, Houte arranges for the younger employees to spend the day with a seasoned executive with the plan of sharing experiences and ideas and offering advice. Houte states, “the old way of working no longer works,” and she’s right.

With over one-third of the workforce aging to 50 or older and millennials (young people aged 22–37) being the largest workforce group, it is imperative to put stereotypes aside and learn to work together. One big mistake for a manager would be to focus on the age difference rather than on what skills each person individually can bring to the table.

Stereotypes such as “older individuals don’t know about technology” or “millennials are constantly job hopping and feel entitled” are put aside at Pitney Bowes in order to get the job done. With a more proactive approach, the range of variables within each generation can be utilized in the most effective way possible for an organization.

Sources: Hymowitz, Carol, “The Tricky Task of Managing the New, Multigenerational Workplace,” *The Wall Street Journal*, August 12, 2018, <https://www.wsj.com/articles/the-tricky-task-of-managing-the-new-multigenerational-workplace-1534126021?mod=searchresults&page=1&pos=9>; Ault, Nicole, “Don’t Trust Anyone Over 21,” *The Wall Street Journal*, August 22, 2018, <https://www.wsj.com/articles/dont-trust-anyone-over-21-1534977740?mod=searchresults&page=1&pos=1>.

Questions:

1. What are other ways that a company can utilize a multigenerational team to their advantage?
2. What challenges does a multigenerational team pose for management?
3. What should the company and management team consider when attracting new employees of all generations?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# 16 - STRESS AND WELL BEING AT WORK

## Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. How do you recognize the symptoms of stress in yourself and in others?
2. What are the underlying causes of stress in a particular situation?
3. How do managers and organizations minimize the dysfunctional consequences of stressful behavior?
4. What are the remedies for job-related stress, and how can managers motivate employees to participate actively in health promotion efforts for the benefit of all concerned?

## EXPLORING MANAGERIAL CAREERS

### *Workplace Perks: Are They Worth It?*

Often tech companies top the charts as the best places to work, touting fancy benefits and big-time perks. However, recent studies have shown that big tech companies can also be extremely stressful places to work. According to research conducted by PayScale.com, more turnover can be expected at companies like Facebook and Amazon due to employees reporting low levels of job satisfaction and job meaning. Also topping the charts for Amazon are reported levels of stress, higher than the tech average—64 percent compared to 58 percent.

“Amazon will work you to death, either you are gone after two years, or you stay forever because you love working that hard,” stated a former employee of Amazon’s cloud business.

Adding to the workplace environment is the company culture. Long hours, often times on weekends, and the expectation of staying connected to e-mail 24/7 add to the stressful workplace.

“Amazon is a culture of self-driven workaholics,” stated Lydia Leong, research analyst for Gartner covering the company. “There is a culture of frugality, and unlike many recent companies in Silicon Valley, you are not compensated for it with an array of free services.”

These conditions may be considered acceptable by many individuals that choose to continue at Amazon and are motivated by the fast-paced environment, but according to the American Institute of Stress, this can cause health risks. Sixty-two percent of individuals studied routinely found that they end the day with work-related neck pain, 44 percent reported stressed-out eyes, 38 percent complained of hurting hands, and 34 percent reported difficulty in sleeping because they were too stressed out.

Work-related stress is one of the most prominent—and costly—issues of today. The World Health Organization reports that physical and mental stress costs businesses \$300 billion each year, not to mention the tolls on productivity. However we look at it, stress and stress-related problems have a direct impact on the effective management of organizations, and contemporary managers must be willing to commit the necessary energy and resources to minimize the dysfunctional consequences of such problems if they are to achieve an effective level of operations.

Sources: L. Rao, “Amazon: Working There Will Kill You. But You’ll Love It,” *New York Times*, August 17, 2015, <http://fortune.com/2015/08/17/amazon-new-york-times-workers/>; “Tech Industry Salaries,” *Payscale*, accessed January 12, 2019, <https://www.payscale.com/data/tech-industry-salaries>; I. Ivanova, “The Most Stressed-Out Tech Companies,” *CBS News*, July 25, 2017, <https://www.cbsnews.com/news/tech-most-stressful-companies/>; “Workplace

Stress,” *Stress.org*, accessed January 12, 2019, <https://www.stress.org/workplace-stress/>; B. Covert, “Longer Hours, More Stress, No Extra Pay: It’s Not Just Amazon, It’s the Modern Workplace,” *The Motley Fool*, August 26, 2015, <https://www.thenation.com/article/longer-hours-more-stress-no-extra-pay-its-not-just-amazon-its-the-modern-workplace/>.

In this chapter, we will examine several aspects of job-related stress and consider several ways in which corporations can facilitate employee health and well-being. We begin by looking at problems of work adjustment as a general framework for the study of stress.

# 16.1 - Problems of Work Adjustment

## 1. How do you recognize the symptoms of stress in yourself and in others?

Failure to adjust to work represents a major problem in industry today. It has been estimated that between 80 and 90 percent of industrial accidents are caused by personal factors.<sup>1</sup> Turnover, absenteeism, drug abuse, alcoholism, and sabotage remain relatively permanent fixtures of most contemporary work organizations. To the extent that individuals are unable to adjust to work, we would expect them to persist in counterproductive behavior.

W. S. Neff has identified five types of people who have problems adjusting to work. He suggests that each of the five types represents a “clinical picture of different varieties of work psychopathology”:<sup>2</sup>

- *Type I:* People who lack motivation to work. These individuals have a negative conception of the work role and choose to avoid it.
- *Type II:* People whose predominating response to the demand to be productive is fear or anxiety.
- *Type III:* People who are characterized predominantly by open hostility and aggression.
- *Type IV:* People who are characterized by marked dependency. These people often exhibit the characteristic of helplessness. They are constantly seeking advice from others and are unable to initiate any action on their own.
- *Type V:* People who display a marked degree of social naïveté. These individuals lack perception when it comes to the needs and feelings of others and may not realize that their behavior elicits reactions from and has an effect on others. Typically, these individuals are socially inept and unaware of appropriate behavior in ordinary social situations.

Several important points follow from this analysis. First, note that failure to adjust to a normal job or work schedule does not automatically imply that an individual is lazy or stupid. Several deeply ingrained psychological problems keep people from making normal adjustments in many cases. Second, note that only one of the five types (Type I) exhibits a motivational problem. Managers must look beyond motivation for answers to the psychopathology of work. One type (Type V) exhibits a form of personality disorder, or at least social immaturity. But the remaining three types—those exhibiting anxiety, aggression, or dependency—all have problems relating not only to personality, but more importantly, to how the nature of the job affects that personality. In fact, anxiety, aggression, and dependency are major factors inherent in stressful jobs in organizations. Hence, it seems that at least three of the five reasons for failure to adjust to work relate to the extent to which the job is experienced as stressful and causes the individual to want to withdraw.

It has been wisely observed that “if, under stress, a man goes all to pieces, he will probably be told to pull himself together. It would be more effective to help him identify the pieces and to understand why they have come apart.”<sup>3</sup> This is the role of the contemporary manager in dealing with stress. Managers cannot simply ignore the existence of stress on the job. Instead, they have a responsibility to understand stress and its causes.

We will explore the topic of work-related stress in several stages, first examining major organizational and personal influences on stress, then considering several outcomes of stress, and finally exploring methods for coping with stress on the job. Throughout, emphasis will be placed on how stress and its consequences affect people at work and what role managers can play in attempting to minimize the effects of stress on both the individual and the organization. We will make liberal use of practical examples, and, as usual, you will be given an opportunity to evaluate yourself on several aspects of stress and wellness in organizations.

## Work-Related Stress

For our purposes here, stress will be defined as a physical and emotional reaction to potentially threatening aspects

of the environment. This definition points to a poor fit between individuals and their environments. Either excessive demands are being made, or reasonable demands are being made that individuals are ill-equipped to handle. Under stress, individuals are unable to respond to environmental stimuli without undue psychological and/or physiological damage, such as chronic fatigue, tension, or high blood pressure. This damage resulting from experienced stress is usually referred to as strain.

Before we examine the concept of work-related stress in detail, several important points need to be made. First, stress is pervasive in the work environment.<sup>4</sup> Most of us experience stress at some time. For instance, a job may require too much or too little from us. In fact, almost any aspect of the work environment is capable of producing stress. Stress can result from excessive noise, light, or heat; too much or too little responsibility; too much or too little work to accomplish; or too much or too little supervision.

Second, it is important to note that all people do not react in the same way to stressful situations, even in the same occupation. One individual (a high-need achiever) may thrive on a certain amount of job-related tension; this tension may serve to activate the achievement motive. A second individual may respond to this tension by worrying about her inability to cope with the situation. Managers must recognize the central role of individual differences in the determination of experienced stress.

Often the key reason for the different reactions is a function of the different interpretations of a given event that different people make, especially concerning possible or probable consequences associated with the event. For example, the same report is required of student A and student B on the same day. Student A interprets the report in a very stressful way and imagines all the negative consequences of submitting a poor report. Student B interprets the report differently and sees it as an opportunity to demonstrate the things she has learned and imagines the positive consequences of turning in a high-quality report. Although both students face essentially the same event, they interpret and react to it differently.

Third, all stress is not necessarily bad. Although highly stressful situations invariably have dysfunctional consequences, moderate levels of stress often serve useful purposes. A moderate amount of job-related tension not only keeps us alert to environmental stimuli (possible dangers and opportunities), but in addition often provides a useful motivational function. Some experts argue that the best and most satisfying work that employees do is work performed under moderate stress. Some stress may be necessary for psychological growth, creative activities, and the acquisition of new skills. Learning to drive a car or play a piano or run a particular machine typically creates tension that is instrumental in skill development. It is only when the level of stress increases or when stress is prolonged that physical or psychological problems emerge.

## General Adaptation Syndrome

The general physiological response to stressful events is believed to follow a fairly consistent pattern known as the general adaptation syndrome.<sup>5</sup> General adaptation syndrome consists of three stages (see **Exhibit 16.1**). The first stage, *alarm*, occurs at the first sign of stress. Here the body prepares to fight stress by releasing hormones from the endocrine glands. During this initial stage, heartbeat and respiration increase, blood sugar level rises, muscles tense up, pupils dilate, and digestion slows. At this stage the body prepares basically for a “fight or flight” response. That is, the body prepares to either get away from the threat or to combat it. Following this initial shock, the body moves into the second stage, *resistance*. The body attempts to repair any damage and return to a condition of stability and equilibrium. If successful, physical signs of stress will disappear. If the stress continues long enough, however, the body’s capacity for adaptation becomes exhausted. In this third stage, *exhaustion*, defenses wear away, and the individual experiences a variety of stress-related illnesses, including headaches, ulcers, and high blood pressure. This third stage is the most severe and presents the greatest threat both to individuals and to organizations.



**Exhibit 16.1** The General Adaptation Syndrome (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## Types of Stress: Frustration and Anxiety

There are several different ways to categorize stress. However, from a managerial perspective, it is useful to focus on only two forms: frustration and anxiety. Frustration refers to a psychological reaction to an obstruction or impediment to goal-oriented behavior. Frustration occurs when an individual wishes to pursue a certain course of action but is prevented from doing so. This obstruction may be externally or internally caused. Examples of people experiencing obstacles that lead to frustration include a salesperson who continually fails to make a sale, a machine operator who cannot keep pace with the machine, or even a person ordering coffee from a machine that fails to return the correct change. The prevalence of frustration in work organizations should be obvious from this and other examples.

Whereas frustration is a reaction to an obstruction in instrumental activities or behavior, anxiety is a feeling of inability to deal with anticipated harm. Anxiety occurs when people do not have appropriate responses or plans for coping with anticipated problems. It is characterized by a sense of dread, a foreboding, and a persistent apprehension of the future for reasons that are sometimes unknown to the individual.

What causes anxiety in work organizations? Hamner and Organ suggest several factors:

“Differences in power in organizations which leave people with a feeling of vulnerability to administrative decisions adversely affecting them; frequent changes in organizations, which make existing behavior plans obsolete; competition, which creates the inevitability that some persons lose ‘face,’ esteem, and status; and job ambiguity (especially when it is coupled with pressure). To these may be added some related factors, such as lack of job feedback, volatility in the organization’s economic environment, job insecurity, and high visibility of one’s performance (successes as well as failures). Obviously, personal, nonorganizational factors come into play as well, such as physical illness, problems at home, unrealistically high personal goals, and estrangement from one’s colleagues or one’s peer group.”<sup>6</sup>

### CONCEPT CHECK

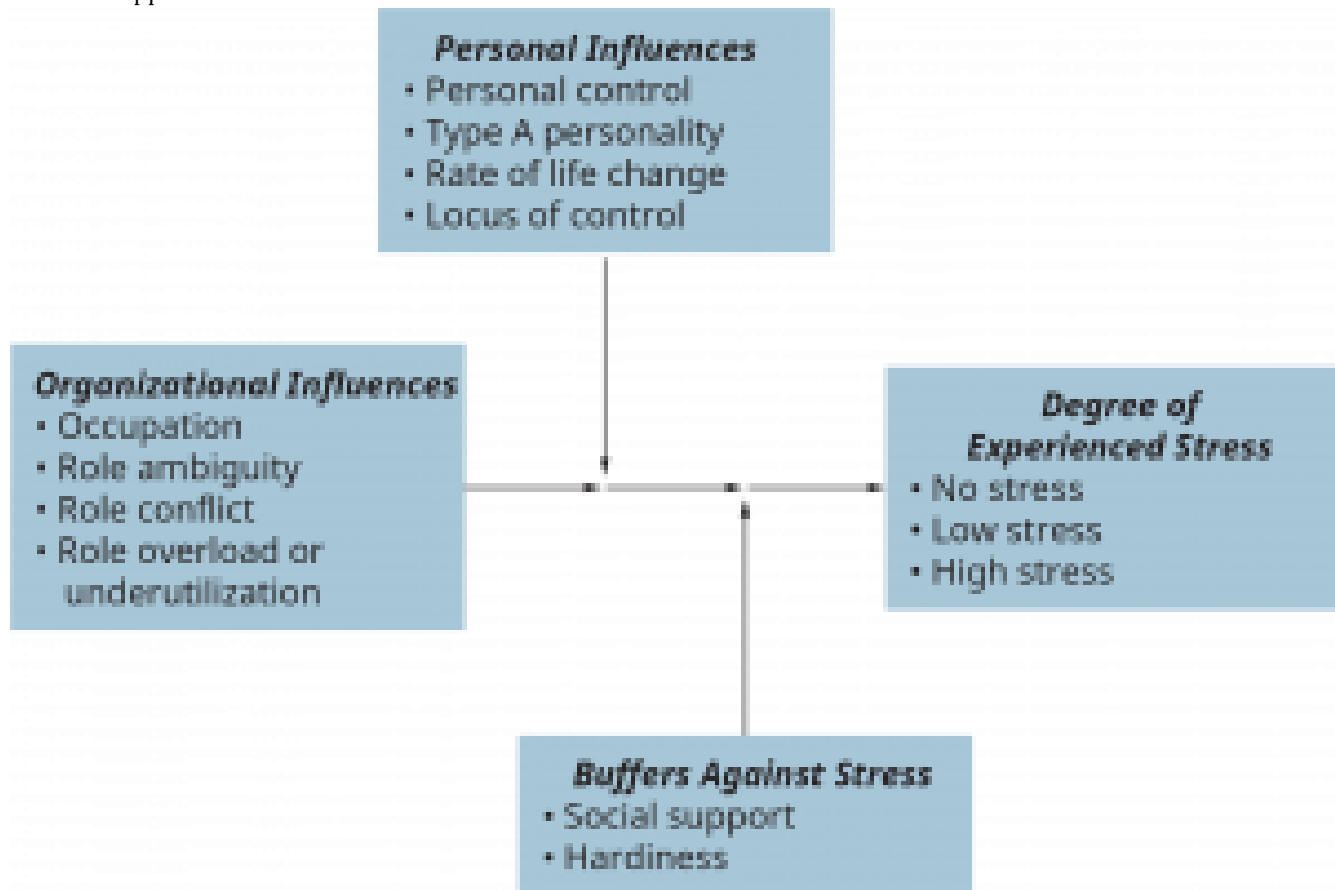
1. What are the 5 types of people identified by W. S. Neff?
2. What is work related stress?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 16.2 - Organizational Influences on Stress

### 2. What are the underlying causes of stress in a particular situation?

We will now consider several factors that have been found to influence both frustration and anxiety; we will present a general model of stress, including its major causes and its outcomes. Following this, we will explore several mechanisms by which employees and their managers cope with or reduce experienced stress in organizations. The model presented here draws heavily on the work of several social psychologists at the Institute for Social Research of the University of Michigan, including John French, Robert Caplan, Robert Kahn, and Daniel Katz. In essence, the proposed model identifies two major sources of stress: organizational sources and individual sources. In addition, the moderating effects of social support and hardiness are considered. These influences are shown in **Exhibit 16.2**.



**Exhibit 16.2** Major Influences on Job-Related Stress (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

We begin with organizational influences on stress. Although many factors in the work environment have been found to influence the extent to which people experience stress on the job, four factors have been shown to be particularly strong. These are (1) occupational differences, (2) role ambiguity, (3) role conflict, and (4) role overload and underutilization. We will consider each of these factors in turn.

## Occupational Differences

Tension and job stress are prevalent in our contemporary society and can be found in a wide variety of jobs. Consider, for example, the following quotes from interviews with working people. The first is from a bus driver:

“You have your tension. Sometimes you come close to having an accident, that upsets you. You just escape maybe by a hair or so. Sometimes maybe you get a disgruntled passenger on there who starts a big argument. Traffic. You have someone who cuts you off or stops in front of the bus. There’s a lot of tension behind that. . . . Most of the time you have to drive for the other drivers, to avoid hitting them. So, you take the tension home with you. Most of the drivers, they’ll suffer from hemorrhoids, kidney trouble, and such as that. I had a case of ulcers behind it.”<sup>7</sup>

Or consider the plight of a bank teller:

“Some days, when you’re aggravated about something, you carry it after you leave the job. Certain people are bad days. (Laughs.) The type of person who will walk in and say, ‘My car’s double-parked outside. Would you hurry up, lady?’ . . . you want to say, ‘Hey, why did you double-park your car? So now you’re going to blame me if you get a ticket, ’cause you were dumb enough to leave it there?’ But you can’t. That’s the one hassle. You can’t say anything back. The customer’s always right.”<sup>8</sup>

Stress is experienced by workers in many jobs: administrative assistants, assembly-line workers, foremen, waitresses, and managers. In fact, it is difficult to find jobs that are without some degree of stress. We seldom talk about jobs without stress; instead, we talk about the degree or magnitude of the stress.

The work roles that people fill have a substantial influence on the degree to which they experience stress.<sup>9</sup> These differences do *not* follow the traditional blue-collar/white-collar dichotomy, however. In general, available evidence suggests that high-stress occupations are those in which incumbents have little control over their jobs, work under relentless time pressures or threatening physical conditions, or have major responsibilities for either human or financial resources.

A recent study attempted to identify those occupations that were most (and least) stressful.<sup>10</sup> The study results are presented in **Table 16.1**. As shown, high-stress occupations (firefighter, race car driver, and astronaut) are typified by the stress-producing characteristics noted above, whereas low-stress occupations (musical instrument repairperson, medical records technician, and librarian) are not. It can therefore be concluded that a major source of general stress emerges from the occupation at which one is working.



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## The Most and Least Stressful Jobs

### High-Stress Jobs

1. Firefighter
2. Race car driver
3. Astronaut
4. Surgeon
5. NFL football player
6. City police officer
7. Osteopath
8. State police officer
9. Air traffic controller
10. Mayor

### Low-Stress Jobs

1. Musical instrument repairperson
2. Industrial machine repairperson
3. Medical records technician
4. Pharmacist
5. Medical assistant
6. Typist/word processor
7. Librarian
8. Janitor
9. Bookkeeper
10. Forklift operator

Source: Adapted from *The Jobs Rated Almanac* by Les Krantz. 1988 Les Krantz.

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Table 16.1 (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

A second survey, by the American Psychological Association, examined the specific causes of stress.<sup>11</sup> The results of the study showed that the most frequently cited reasons for stress among administrative professionals are unspecified job requirements (38 percent), work interfering with personal time (36 percent), job insecurity (33 percent), and lack of participation in decision-making (33 percent).

Finally, a study among managers found that they, too, are subject to considerable stress arising out of the nature of managerial work.<sup>12</sup> The more common work stressors for managers are shown in **Table 16.2**.

---

### Typical Stressors Faced by Managers

Stressor	Example
Role ambiguity	Unclear job duties
Role conflict	Manager is both a boss and a subordinate.
Role overload	Too much work, too little time
Unrealistic expectations	Managers are often asked to do the impossible.
Difficult decisions	Managers have to make decisions that adversely affect subordinates.
Managerial failure	Manager fails to achieve expected results.
Subordinate failure	Subordinates let the boss down.

Source: Adapted from D. Zauderer and J. Fox, "Resiliency in the Face of Stress," *Management Solutions*, November 1987, pp. 32–33.

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Table 16.2 (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

These stressors range from task ambiguity and role conflict to overwork and the possibility of failure. Indeed, responsibility for others may be the greatest stressor of all for managers. Studies in the United States and abroad indicate that managers and supervisors consistently have more ulcers and experience more hypertension than the

people they supervise. Responsibility for people was found to be a greater influence on stress than responsibility for nonpersonal factors such as budgets, projects, equipment, and other property. As noted by French and Caplan:

“If there is any truth to the adage that ‘man’s greatest enemy is himself,’ it can be found in these data—it is the responsibility which organizational members have for other organizational members, rather than the responsibility for impersonal aspects of the organization, which constitutes the more significant organizational stress.”<sup>13</sup>

Thus, a person’s occupation or profession represents a major cause of stress-related problems at work. In addition to occupation, however, and indeed closely related to it, is the problem of one’s role expectations in the organization. Three interrelated role processes will be examined as they relate to experienced stress: role ambiguity, role conflict, and role overload or underutilization.

## Role Ambiguity

The first role process variable to be discussed here is role ambiguity. When individuals have inadequate information concerning their roles, they experience role ambiguity. Uncertainty over job definition takes many forms, including not knowing expectations for performance, not knowing how to meet those expectations, and not knowing the consequences of job behavior. Role ambiguity is particularly strong among managerial jobs, where role definitions and task specification lack clarity (refer to **Table 16.2**). For example, the manager of accounts payable may not be sure of the quantity and quality standards for her department. The uncertainty of the absolute level of these two performance standards or their relative importance to each other makes predicting outcomes such as performance evaluation, salary increases, or promotion opportunities equally difficult. All of this contributes to increased stress for the manager. Role ambiguity can also occur among nonmanagerial employees—for example, those whose supervisors fail to make sufficient time to clarify role expectations, thus leaving them unsure of how best to contribute to departmental and organizational goals.

How prevalent is role ambiguity at work? In two independent surveys of employees, it was found that 35 percent of one sample (a national random sample of male employees) and 60 percent of the other sample (primarily scientists and engineers) reported some form of role ambiguity.<sup>14</sup> Hence, ambiguity of job role is not an isolated event.

Role ambiguity has been found to lead to several negative stress-related outcomes. French and Caplan summarized their study findings as follows:

“In summary, role ambiguity, which appears to be widespread, (1) produces psychological strain and dissatisfaction; (2) leads to underutilization of human resources; and (3) leads to feelings of futility on how to cope with the organizational environment.”<sup>15</sup>

In other words, role ambiguity has far-reaching consequences beyond experienced stress, including employee turnover and absenteeism, poor coordination and utilization of human resources, and increased operating costs because of inefficiency.

It should be noted, however, that not everyone responds in the same way to role ambiguity. Studies have shown that some people have a higher tolerance for ambiguity and are less affected by role ambiguity (in terms of stress, reduced performance, or propensity to leave) than those with a low tolerance for ambiguity.<sup>16</sup> Thus, again we can see the role of individual differences in moderating the effects of environmental stimuli on individual behavior and performance.

## Role Conflict

The second role-related factor in stress is role conflict. This may be defined as the simultaneous occurrence of two (or more) sets of pressures or expectations; compliance with one would make it difficult to comply with the other. In other words, role conflict occurs when an employee is placed in a situation where contradictory demands are placed upon

her. For instance, a factory worker may find himself in a situation where the supervisor is demanding greater output, yet the work group is demanding a restriction of output. Similarly, a secretary who reports to several supervisors may face a conflict over whose work to do first.

One of the best-known studies of role conflict and stress was carried out by Robert Kahn and his colleagues at the University of Michigan. Kahn studied 53 managers and their subordinates (a total of 381 people), examining the nature of each person's role and how it affected subsequent behavior. As a result of the investigation, the following conclusions emerged:

Contradictory role expectations give rise to opposing role pressures (role conflict), which generally have the following effects on the emotional experience of the focal person: intensified internal conflicts, increased tension associated with various aspects of the job, reduced satisfaction with the job and its various components, and decreased confidence in superiors and in the organization as a whole. The strain experienced by those in conflict situations leads to various coping responses, social and psychological withdrawal (reduction in communication and attributed influence) among them.

Finally, the presence of conflict in one's role tends to undermine her reactions with her role senders and to produce weaker bonds of trust, respect, and attraction. It is quite clear that role conflicts are costly for the person in emotional and interpersonal terms. They may be costly to the organization, which depends on effective coordination and collaboration within and among its parts.<sup>17</sup>

Other studies have found similar results concerning the serious side effects of role conflict both for individuals and organizations.<sup>18</sup> It should again be recognized, however, that personality differences may serve to moderate the impact of role conflict on stress. In particular, it has been found that introverts and people who lack flexibility respond more negatively to role conflict than do others.<sup>19</sup> In any event, managers must be aware of the problem of role conflict and look for ways to avert negative consequences. One way this can be accomplished is by ensuring that their subordinates are not placed in contradictory positions within the organization; that is, subordinates should have a clear idea of what the manager's job expectations are and should not be placed in "win-lose" situations.

## Role Overload and Underutilization

Finally, in addition to role ambiguity and conflict, a third aspect of role processes has also been found to represent an important influence on experienced stress—namely, the extent to which employees feel either overloaded or underutilized in their job responsibilities. Role overload is a condition in which individuals feel they are being asked to do more than time or ability permits. Individuals often experience role overload as a conflict between quantity and quality of performance. *Quantitative* overload consists of having more work than can be done in a given time period, such as a clerk expected to process 1,000 applications per day when only 850 are possible. Overload can be visualized as a continuum ranging from too little to do to too much to do. *Qualitative* role overload, on the other hand, consists of being taxed beyond one's skills, abilities, and knowledge. It can be seen as a continuum ranging from too-easy work to too-difficult work. For example, a manager who is expected to increase sales but has little idea of why sales are down or what to do to get sales up can experience qualitative role overload. It is important to note that *either* extreme represents a bad fit between the abilities of the employee and the demands of the work environment. A good fit occurs at that point on both scales of workload where the abilities of the individual are relatively consistent with the demands of the job.

There is evidence that both quantitative and qualitative role overload are prevalent in our society. A review of findings suggests that between 44 and 73 percent of white-collar workers experience a form of role overload.<sup>20</sup> What induces this overload? As a result of a series of studies, French and Caplan concluded that a major factor influencing overload is the high achievement needs of many managers. Need for achievement correlated very highly both with the number of hours worked per week and with a questionnaire measure of role overload.<sup>21</sup> In other words, much role overload is apparently self-induced.

Similarly, the concept of role underutilization should also be acknowledged as a source of experienced stress. Role

underutilization occurs when employees are allowed to use only a few of their skills and abilities, even though they are required to make heavy use of them. The most prevalent characteristic of role underutilization is monotony, where the worker performs the same routine task (or set of tasks) over and over. Other situations that make for underutilization include total dependence on machines for determining work pace and sustained positional or postural constraint. Several studies have found that underutilization often leads to low self-esteem, low life satisfaction, and increased frequency of nervous complaints and symptoms.<sup>22</sup>

Both role overload and role underutilization have been shown to influence psychological and physiological reactions to the job. The inverted U-shaped relationship between the extent of role utilization and stress is shown in **Exhibit 16.4**. As shown, the least stress is experienced at that point where an employee's abilities and skills are in balance with the requirements of the job. This is where performance should be highest. Employees should be highly motivated and should have high energy levels, sharp perception, and calmness. (Recall that many of the current efforts to redesign jobs and improve the quality of work are aimed at minimizing overload or underutilization in the workplace and achieving a more suitable balance between abilities possessed and skills used on the job.) When employees experience underutilization, boredom, decreased motivation, apathy, and absenteeism will be more likely. Role overload can lead to such symptoms as insomnia, irritability, increased errors, and indecisiveness.

Taken together, occupation and role processes represent a sizable influence on whether or not an employee experiences high stress levels. One job where the profession and its required roles almost guarantee significant stress is air traffic control. Consider for a moment whether you would want to have this job.

## EXPANDING AROUND THE GLOBE

### *Are the Japanese Working Themselves to Death?*

*Karoshi* literally means death from overwork, and unofficial estimates are that as many people die each year from *karoshi* as from traffic accidents in Japan—approximately 10,000. In 2016, the legal claims of *karoshi* rose to a record high of 1,456 according to government figures. Additionally, just under 2,000 suicides linked to work-related causes were reported. In October 2017, the latest employee death that shook the media was 31-year-old journalist Miwa Sado, and before that 24-year-old Matsui Takahashi, an employee working at Dentsu advertising agency, leapt from the roof on Christmas Day 2015.

These incidents are just two of many that occur more frequently in Japan due to the culture of overtime and stress within the work environment. Each of these women logged over 100 hours of overtime over the course of one month. Often the causes of death include heart failure, stroke, and suicide due to the stress, lack of sleep, and sleep deprivation that is caused by being overworked. Takahashi posted on Twitter, “It’s 4 a.m. My body’s trembling, I’m going to die. I’m so tired.” Soon after her death, the president of Dentsu resigned from his post.

Many reports suggest that performance reviews are marked negatively for those that don’t work lots of overtime, while others suggest employees must strive to make good impressions on their bosses, and staying late or working extra is perceived as loyalty to their jobs and companies.

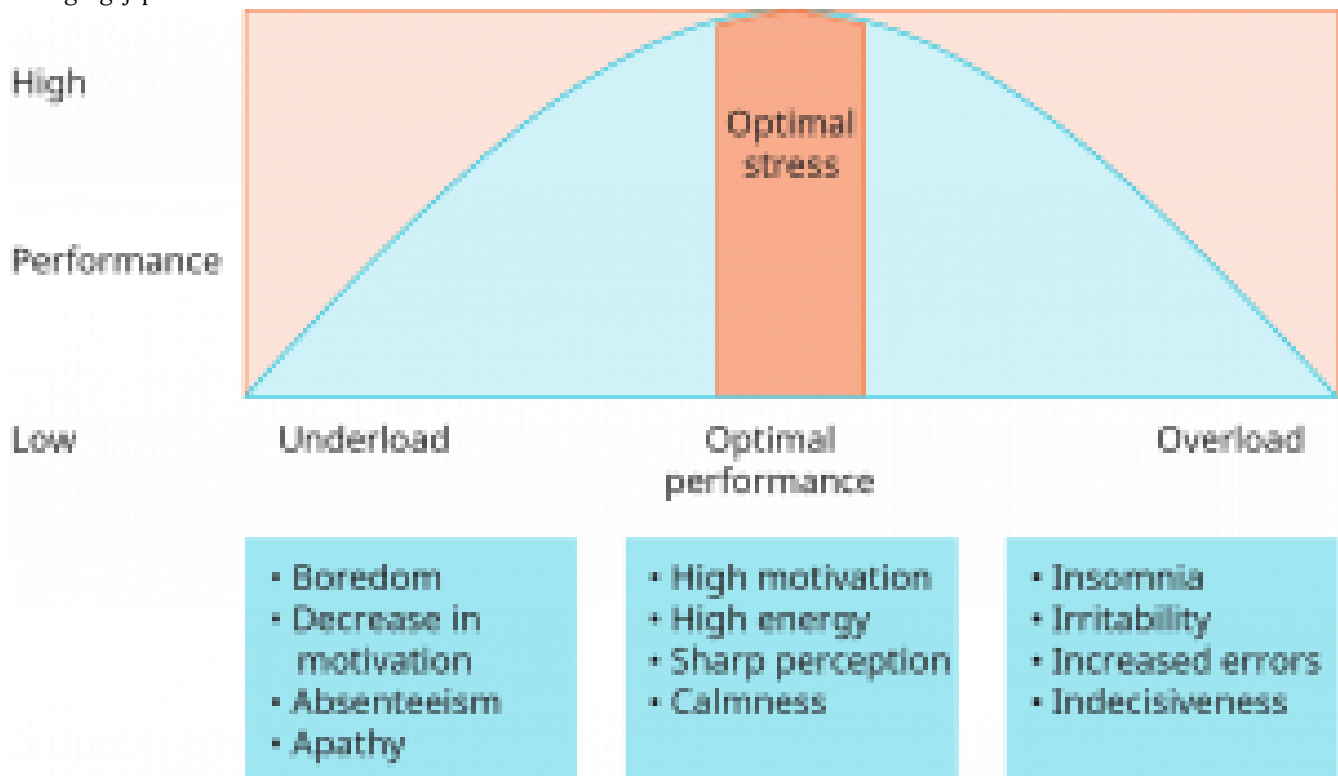
The Japanese government has taken strides since the two incidents to implement policies to help to combat *karoshi* for good. One attempt implemented in 2016 is A Premium Friday plan, where Japanese workers are allowed the chance to leave at 3 p.m. on the last Friday of each month. This has only made some employees busier because some companies have organized their monthly finances to hit sales goals before the end of the month. Little success has been seen from this initiative. One Tokyo-based IT Service company forced employees to wear purple capes on the third Wednesday of the month if they worked late, which was a very bold and visual tactic to showcase the “working late is not cool” vibe. This shaming tactic worked, decreasing the overtime worked by 50 percent. Some companies have implemented individual changes such as breakfast offerings and allowing time off as needed.

Changing the Japanese work culture will take time. Although these small changes have not made a large impact yet, the discussion is widening, and workplaces are becoming more aware of the need for drastic changes in policy to counteract the growing issue of stress in the workplace.

Questions:

1. What measures can a manager take in order to counteract the stress-related issues within the work environment?
2. What considerations should a manager take before implementing changes to a work environment and policies when managing a global team?
3. What environmental and cultural factors can affect an employee's work ethic and their level of stress in their workday?

Sources: C. Weller, "Japan is facing a 'death by overwork' problem — here's what it's all about," *Business Insider*, October 8, 2017, <https://www.businessinsider.com/what-is-karoshi-japanese-word-for-death-by-overwork-2017-10?r=UK&IR=T>; E. Warnock, "Japan by the Numbers: 'Karoshi,'" *Tokyo Review*, October 12, 2017, <http://www.tokyoreview.net/2017/10/japan-numbers-karoshi-overwork/>; (Why Japanese Workers Keep Working Themselves to Death," *CBS News*, October 20, 2017, <https://www.cbsnews.com/news/karoshi-japan-deaths-persist-japanese-overwork/>; D. Demetriou, "Death for Overworking Claims Hit Record High in Japan," *The Telegraph*, April 4, 2016, <https://www.telegraph.co.uk/news/2016/04/04/death-from-overworking-claims-hit-record-high-in-japan/>; D. Hurst, "First step in changing Japan's workaholic culture: less overtime," *NBC News*, January 8, 2018, <https://www.nbcnews.com/news/world/first-step-changing-japan-s-workaholic-culture-less-overtime-n833051>.



**Exhibit 16.3** The Underload-Overload Continuum Source: Adapted from *Organizations: Behavior, Structure, Processes* 14<sup>th</sup> edition by James L. Gibson, John M. Ivancevich, and Robert Konopaske, McGraw Hill, 2013. (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## Personal Influences on Stress

The second major influence on job-related stress can be found in the employees themselves. As such, we will examine three individual-difference factors as they influence stress at work: (1) personal control, (2) Type A personality, and (3) rate of life change.

### Personal Control

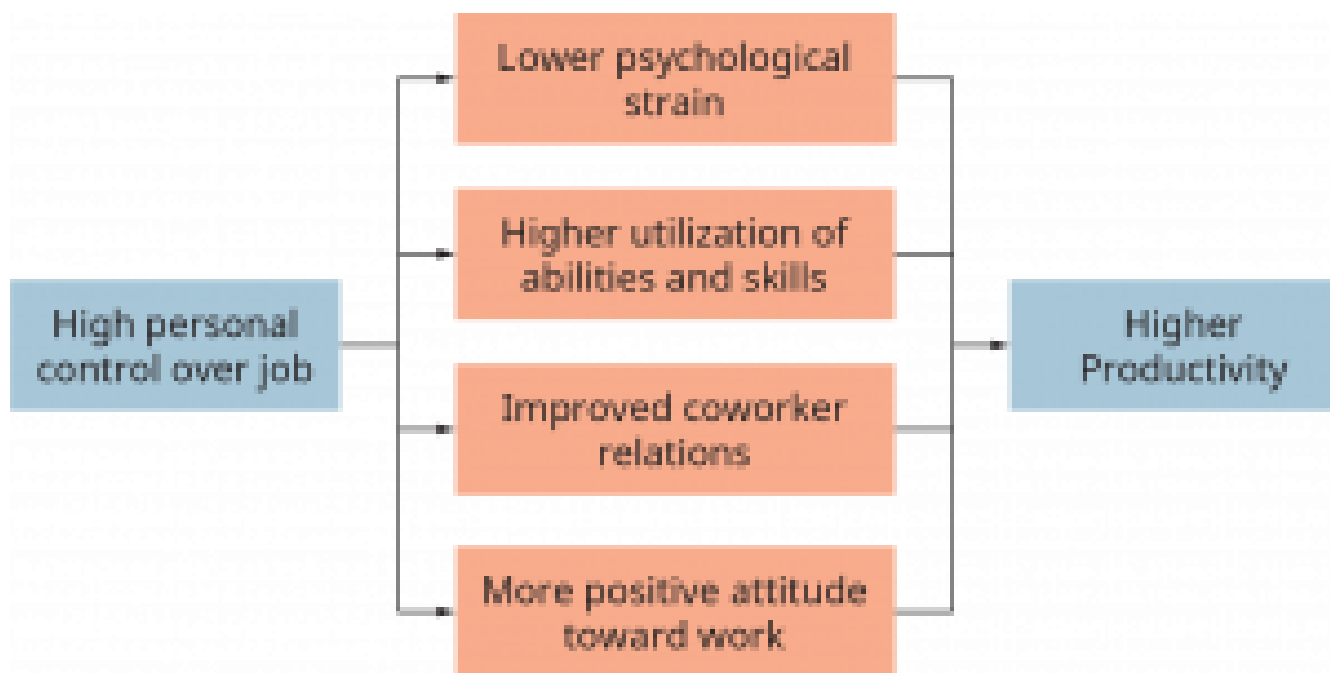
To begin with, we should acknowledge the importance of personal control as a factor in stress. Personal control represents the extent to which an employee actually has control over factors affecting effective job performance. If an employee is assigned a responsibility for something (landing an airplane, completing a report, meeting a deadline) but is not given an adequate opportunity to perform (because of too many planes, insufficient information, insufficient time), the employee loses personal control over the job and can experience increased stress. Personal control seems to work through the process of employee participation. That is, the more employees are allowed to participate in job-related matters, the more control they feel for project completion. On the other hand, if employees' opinions, knowledge, and wishes are excluded from organizational operations, the resulting lack of participation can lead not only to increased stress and strain, but also to reduced productivity.

The importance of employee participation in enhancing personal control and reducing stress is reflected in the French and Caplan study discussed earlier. After a major effort to uncover the antecedents of job-related stress, these investigators concluded:

"Since participation is also significantly correlated with low role ambiguity, good relations with others, and low overload, it is conceivable that its effects are widespread, and that all the relationships between these other stresses and psychological strain can be accounted for in terms of how much the person participates. This, in fact, appears to be the case. When we control or hold constant, through statistical analysis techniques, the amount of participation a person reports, then the correlations between all the above stresses and job satisfaction and job-related threat drop quite noticeably. This suggests that low participation generates these related stresses, and that increasing participation is an efficient way of reducing many other stresses which also lead to psychological strain."<sup>23</sup>

On the bases of this and related studies, we can conclude that increased participation and personal control over one's job is often associated with several positive outcomes, including lower psychological strain, increased skill utilization, improved working relations, and more-positive attitudes. These factors, in turn, contribute toward higher productivity. These results are shown in **Exhibit 16.4**.<sup>24</sup>

Related to the issue of personal control—indeed, moderating its impact—is the concept of locus of control. It will be remembered that some people have an *internal* locus of control, feeling that much of what happens in their life is under their own control. Others have an *external* locus of control, feeling that many of life's events are beyond their control. This concept has implications for how people respond to the amount of personal control in the work environment. That is, internals are more likely to be upset by threats to the personal control of surrounding events than are externals. Recent evidence indicates that internals react to situations over which they have little or no control with aggression—presumably in an attempt to reassert control over ongoing events.<sup>25</sup> On the other hand, externals tend to be more resigned to external control, are much less involved in or upset by a constrained work environment, and do not react as emotionally to organizational stress factors. Hence, locus of control must be recognized as a potential moderator of the effects of personal control as it relates to experienced stress.



**Exhibit 16.4** Consequences of High Personal Control (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## Type A Personality

Research has focused on what is perhaps the single most dangerous personal influence on experienced stress and subsequent physical harm. This characteristic was first introduced by Friedman and Rosenman and is called Type A personality.<sup>26</sup> Type A and Type B personalities are felt to be relatively stable personal characteristics exhibited by individuals. Type A personality is characterized by impatience, restlessness, aggressiveness, competitiveness, polyphasic activities (having many “irons in the fire” at one time), and being under considerable time pressure. Work activities are particularly important to Type A individuals, and they tend to freely invest long hours on the job to meet pressing (and recurring) deadlines. Type B people, on the other hand, experience fewer pressing deadlines or conflicts, are relatively free of any sense of time urgency or hostility, and are generally less competitive on the job. These differences are summarized in **Table 16.3**.

**Profiles of Type A and Type B Personalities**

Type A	Type B
Highly competitive	Lacks intense competitiveness
“Workaholic”	Work only one of many interests
Intense sense of urgency	More deliberate time orientation
Polyphasic behavior	Does one activity at a time
Strong goal-directedness	More moderate goal-directedness

Table 16.3 (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

Type A personality is frequently found in managers. Indeed, one study found that 60 percent of managers were clearly

identified as Type A, whereas only 12 percent were clearly identified as Type B.<sup>27</sup> It has been suggested that Type A personality is most useful in helping someone rise through the ranks of an organization.

The role of Type A personality in producing stress is exemplified by the relationship between this behavior and heart disease. Rosenman and Friedman studied 3,500 men over an 8 1/2-year period and found Type A individuals to be twice as prone to heart disease, five times as prone to a second heart attack, and twice as prone to fatal heart attacks when compared to Type B individuals.<sup>28</sup> Similarly, Jenkins studied over 3,000 men and found that of 133 coronary heart disease sufferers, 94 were clearly identified as Type A in early test scores.<sup>29</sup> The rapid rise of women in managerial positions suggests that they, too, may be subject to this same problem. Hence, Type A behavior very clearly leads to one of the most severe outcomes of experienced stress.

One irony of Type A is that although this behavior is helpful in securing rapid promotion to the top of an organization, it may be detrimental once the individual has arrived. That is, although Type A employees make successful managers (and salespeople), the most successful top executives tend to be Type B. They exhibit patience and a broad concern for the ramifications of decisions. As Dr. Elmer Green, a Menninger Foundation psychologist who works with executives, notes, “This fellow—the driving A—can’t relax enough to do a really first-rate job, at the office or at home. He gets to a level that dogged work can achieve, but not often to the pinnacle of his business or profession, which requires sober, quiet, balanced reasoning.”<sup>30</sup> The key is to know how to shift from Type A behavior to Type B.

How does a manager accomplish this? The obvious answer is to slow down and relax. However, many Type A managers refuse to acknowledge either the problem or the need for change, because they feel it may be viewed as a sign of weakness. In these cases, several small steps can be taken, including scheduling specified times every day to exercise, delegating more significant work to subordinates, and eliminating optional activities from the daily calendar. Some companies have begun experimenting with retreats, where managers are removed from the work environment and engage in group psychotherapy over the problems associated with Type A personality. Initial results from these programs appear promising.<sup>31</sup> Even so, more needs to be done if we are to reduce job-related stress and its serious health implications.

## Rate of Life Change

A third personal influence on experienced stress is the degree to which lives are stable or turbulent. A long-term research project by Holmes and Rahe has attempted to document the extent to which rate of life change generates stress in individuals and leads to the onset of disease or illness.<sup>32</sup> As a result of their research, a variety of life events were identified and assigned points based upon the extent to which each event is related to stress and illness.

The death of a spouse was seen as the most stressful change and was assigned 100 points. Other events were scaled proportionately in terms of their impact on stress and illness. It was found that the higher the point total of recent events, the more likely it is that the individual will become ill. Apparently, the influence of life changes on stress and illness is brought about by the endocrine system. This system provides the energy needed to cope with new or unusual situations. When the rate of change surpasses a given level, the system experiences overload and malfunctions. The result is a lowered defense against viruses and disease.



## CONCEPT CHECK

1. What are the major influences of work related stress?
2. What impact do different occupations have of the stress levels of workers in those jobs?
3. What impact do role ambiguity, job overload or underutilization have on stress levels?
4. What are Type A and Type B personalities and how does stress affect each personality type

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 16.3 - Buffering Effects of Work related Stress

### 3. How do managers and organizations minimize the dysfunctional consequences of stressful behavior?

We have seen in the previous discussion how a variety of organizational and personal factors influence the extent to which individuals experience stress on the job. Although many factors, or stressors, have been identified, their effect on psychological and behavioral outcomes is not always as strong as we might expect. This lack of a direct stressor-outcome relationship suggests the existence of potential moderator variables that buffer the effects of potential stressors on individuals. Recent research has identified two such buffers: the degree of social support the individual receives and the individual's general degree of what is called hardiness. Both are noted in **Exhibit 16.1**.

### Social Support

First, let us consider social support. Social support is simply the extent to which organization members feel their peers can be trusted, are interested in one another's welfare, respect one another, and have a genuine positive regard for one another. When social support is present, individuals feel that they are not alone as they face the more prevalent stressors. The feeling that those around you really care about what happens to you and are willing to help blunts the severity of potential stressors and leads to less-painful side effects. For example, family support can serve as a buffer for executives on assignment in a foreign country and can reduce the stress associated with cross-cultural adjustment.

Much of the more rigorous research on the buffering effects of social support on stress comes from the field of medicine, but it has relevance for organizational behavior. In a series of medical studies, it was consistently found that high peer support reduced negative outcomes of potentially stressful events (surgery, job loss, hospitalization) and increased positive outcomes.<sup>33</sup> These results clearly point to the importance of social support to individual well-being. These results also indicate that managers should be aware of the importance of building cohesive, supportive work groups—particularly among individuals who are most subject to stress.

## MANAGERIAL LEADERSHIP

### *Disconnecting from the “Always On” Work Culture*

It is very rare that you are farther than an arm's length away from your smartphone. You get anxious when there is no Wi-Fi in a hotel room, and if your battery is running low, the stress skyrockets through the roof just imagining what you could miss out on. All of these stresses, combined with an increasing demand for being reachable for your work, can relate to high stress and other negative health effects.

Many workplaces, such as medical professionals, have a high importance to the response rate they employ. Others, such as sales teams, may require certain response times to e-mails, calls, or texts, with explanation of why they were not achieved. According to the recent study by the Academy of Management, “employees tally an average of 8 hours a week answering work-related emails after leaving the office.” This also could include regularly taking work home or working while on scheduled time off and vacation, and all can cause stress and lack of sleep and greatly reduce focus and engagement during office hours.

In the UK, surveys have uncovered the impact of technology, with 72.4 percent of respondents admitting that they were performing work tasks outside of regular work hours (<https://businessadvice.co.uk/hr/employment-law/always->

on-culture-affecting-employees/). Increasing the stress and potential negative affects is when the smartphones are being accessed: mainly before bed and right when they wake up. Feeling groggy in the morning and not getting a good night's sleep could be due to the exposure to cell phones, computers, and TVs during the two hours before bed. Further studies have also shown that the blue light from devices can disrupt circadian rhythms and the internal clock the helps determine when to sleep and when to wake. (<https://www.sciencenewsforstudents.org/article/evening-screen-time-can-sabotage-sleep>)

Other countries outside of the U.S. have changed their ways and implemented policies to counteract the “always on” cultural norm that pervades the modern workplace. As of January 1, 2017, French employees now have a new law with the “right to disconnect.” This law allows employees to walk away from their smartphone technology and does not allow employers to fire individuals that do not respond to work-related inquiries while out of office.

Questions:

1. What are some ways as a new manager that you can help positively impact your new team to counteract the “always on” mentality?
2. What are some negative workplace behaviors that could arise from promoting an “always on” work culture?

Sources: S. Caldwell, “Revealed: How Britain’s always-on culture is really affecting employees,” *Business Advice*, May 15, 2018, <https://businessadvice.co.uk/hr/employment-law/always-on-culture-affecting-employees/>; J. M. O’Connor, “The Always on Smartphone Culture, Turn it Off,” *Forbes*, September 8, 2017, <https://www.forbes.com/sites/forbescoachescouncil/2017/09/08/the-always-on-smartphone-culture-turn-it-down/#236c2e7521c0>; M. Kitchen, “How to Disconnect From ‘Always On’ Work Culture,” *The Wall Street Journal*, October 5, 2018, <https://www.wsj.com/articles/how-to-disconnect-from-always-on-work-culture-1538740171?mod=searchresults&page=1&pos=2>; M. Wall, “Smartphone stress: Are you a victim of ‘always on’ culture?,” *BBC*, August 14, 2014, <https://www.bbc.com/news/business-28686235>.

## Hardiness

The second moderator of stress is hardiness. Hardiness represents a collection of personality characteristics that involve one’s ability to perceptually or behaviorally transform negative stressors into positive challenges. These characteristics include a sense of commitment to the importance of what one is doing, an internal locus of control (as noted above), and a sense of life challenge. In other words, people characterized by hardiness have a clear sense of where they are going and are not easily deterred by hurdles. The pressure of goal frustration does not deter them, because they invest themselves in the situation and push ahead. Simply put, these are people who refuse to give up.<sup>34</sup>

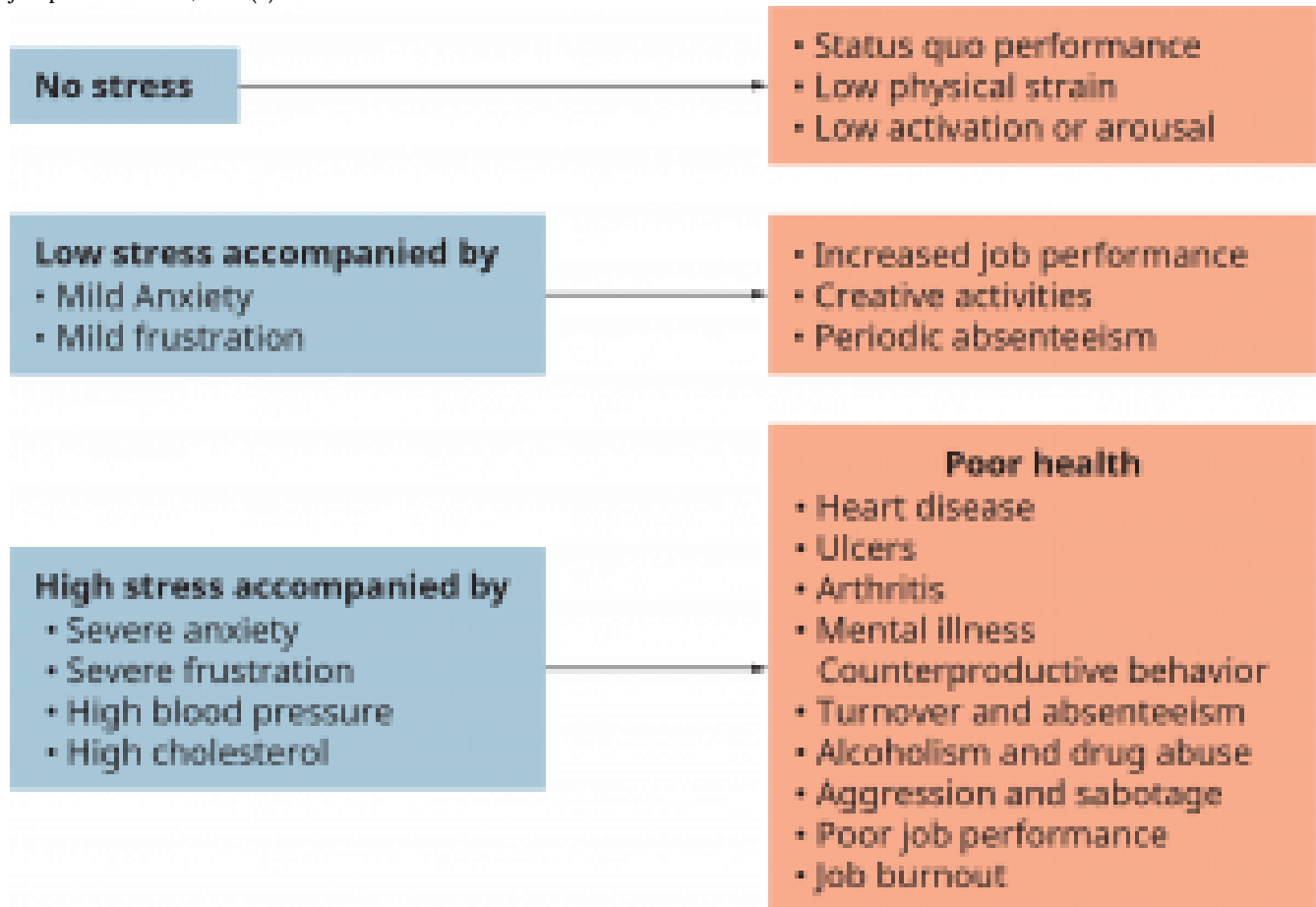
Several studies of hardiness support the importance of this variable as a stress moderator. One study among managers found that those characterized by hardiness were far less susceptible to illness following prolonged stress. And a study among undergraduates found hardiness to be positively related to perceptions that potential stressors were actually challenges to be met. Thus, factors such as individual hardiness and the degree of social support must be considered in any model of the stress process.

## Consequences of Work Related Stress

In exploring major influences on stress, it was pointed out that the intensity with which a person experiences stress is a function of organizational factors and personal factors, moderated by the degree of social support in the work

environment and by hardiness. We come now to an examination of major *consequences* of work-related stress. Here we will attempt to answer the “so what?” question. Why should managers be interested in stress and resulting strain?

As a guide for examining the topic, we recognize three intensity levels of stress—no stress, low stress, and high stress—and will study the outcomes of each level. These outcomes are shown schematically in **Exhibit 16.5**. Four major categories of outcome will be considered: (1) stress and health, (2) stress and counterproductive behavior, (3) stress and job performance, and (4) stress and burnout.



**Exhibit 16.5** Major Consequences of Work-Related Stress (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## Stress and Health

High degrees of stress are typically accompanied by severe anxiety and/or frustration, high blood pressure, and high cholesterol levels. These psychological and physiological changes contribute to the impairment of health in several different ways. Most important, high stress contributes to heart disease.<sup>35</sup> The relationship between high job stress and heart disease is well established. In view of the fact that well over a half-million people die of heart disease every year, the impact of stress is important.<sup>36</sup>

High job stress also contributes to a variety of other ailments, including peptic ulcers, arthritis, and several forms of mental illness. In a study by Cobb and Kasl, for example, it was found that individuals with high educational achievement but low job status exhibited abnormally high levels of anger, irritation, anxiety, tiredness, depression, and low self-esteem.<sup>37</sup> In another study, Slote examined the effects of a plant closing in Detroit on stress and stress outcomes. Although factory closings are fairly common, the effects of these closings on individuals have seldom been examined.

Slote found that the plant closing led to “an alarming rise in anxiety and illness,” with at least half the employees suffering from ulcers, arthritis, serious hypertension, alcoholism, clinical depression, and even hair loss.<sup>38</sup> Clearly, this life change event took its toll on the mental and physical well-being of the workforce.

Finally, in a classic study of mental health of industrial workers, Kornhauser studied a sample of automobile assembly-line workers. Of the employees studied, he found that 40 percent had symptoms of mental health problems. His main findings may be summarized as follows:

- Job satisfaction varied consistently with employee skill levels. Blue-collar workers holding high-level jobs exhibited better mental health than those holding low-level jobs.
- Job dissatisfaction, stress, and absenteeism were all related directly to the characteristics of the job. Dull, repetitious, unchallenging jobs were associated with the poorest mental health.
- Feelings of helplessness, withdrawal, alienation, and pessimism were widespread throughout the plant. As an example, Kornhauser noted that 50 percent of the assembly-line workers felt they had little influence over the future course of their lives; this compares to only 17 percent for nonfactory workers.
- Employees with the lowest mental health also tended to be more passive in their nonwork activities; typically, they did not vote or take part in community activities.<sup>39</sup>

In conclusion, Kornhauser noted:

“Poor mental health occurs whenever conditions of work and life lead to continuing frustration by failing to offer means for perceived progress toward attainment of strongly desired goals which have become indispensable elements of the individual’s self-esteem and dissatisfaction with life, often accompanied by anxieties, social alienation and withdrawal, a narrowing of goals and curtailing of aspirations—in short . . . poor mental health.”<sup>40</sup>

Managers need to be concerned about the problems of physical and mental health because of their severe consequences both for the individual and for the organization. Health is often related to performance, and to the extent that health suffers, so too do a variety of performance-related factors. Given the importance of performance for organizational effectiveness, we will now examine how it is affected by stress.

## Stress and Counterproductive Behavior

It is useful from a managerial standpoint to consider several forms of counterproductive behavior that are known to result from prolonged stress. These counterproductive behaviors include turnover and absenteeism, alcoholism and drug abuse, and aggression and sabotage.

**Turnover and Absenteeism.** Turnover and absenteeism represent convenient forms of withdrawal from a highly stressful job. Results of several studies have indicated a fairly consistent, if modest, relationship between stress and subsequent turnover and absenteeism.<sup>41</sup> In many ways, withdrawal represents one of the easiest ways employees have of handling a stressful work environment, at least in the short run. Indeed, turnover and absenteeism may represent two of the less undesirable consequences of stress, particularly when compared to alternative choices such as alcoholism, drug abuse, or aggression. Although high turnover and absenteeism may inhibit productivity, at least they do little physical harm to the individual or coworkers. Even so, there are many occasions when employees are not able to leave because of family or financial obligations, a lack of alternative employment, and so forth. In these situations, it is not unusual to see more dysfunctional behavior.

**Alcoholism and Drug Abuse.** It has long been known that stress is linked to alcoholism and drug abuse among employees at all levels in the organizational hierarchy. These two forms of withdrawal offer a temporary respite from severe anxiety and severe frustration. One study by the Department of Health, Education, and Welfare reported, “Our interviews with blue-collar workers in heavy industry revealed a number who found it necessary to drink large quantities of alcohol during lunch to enable them to withstand the pressure or overwhelming boredom of

their tasks.”<sup>42</sup> A study in New York revealed a surprising amount of drug abuse by young employees on blue-collar jobs—especially among assembly-line employees and long-haul truck drivers. A third study of a UAW local involving 3,400 workers found 15 percent of the workforce addicted to heroin. And, finally, there is an alarming increase of drug and substance abuse among managers.<sup>43</sup>

Both alcohol and drugs are used by a significant proportion of employees to escape from the rigors of a routine or stressful job. Although many companies have begun in-house programs aimed at rehabilitating chronic cases, these forms of withdrawal seem to continue to be on the increase, presenting another serious problem for modern managers. One answer to this dilemma involves reducing stress on the job that is creating the need for withdrawal from organizational activities.

**Aggression and Sabotage.** Severe frustration can also lead to overt hostility in the form of aggression toward other people and toward inanimate objects. Aggression occurs when individuals feel frustrated and can find no acceptable, legitimate remedies for the frustration. For instance, a busy secretary may be asked to type a stack of letters, only to be told later that the boss changed his mind and no longer needs the letters typed. The frustrated secretary may react by covert verbal abuse or an intentional slowdown on subsequent work. A more extreme example of aggression can be seen in the periodic reports in newspapers about a worker who “goes berserk” (usually after a reprimand or punishment) and attacks fellow employees.

One common form of aggressive behavior on the job is sabotage. As one study found:

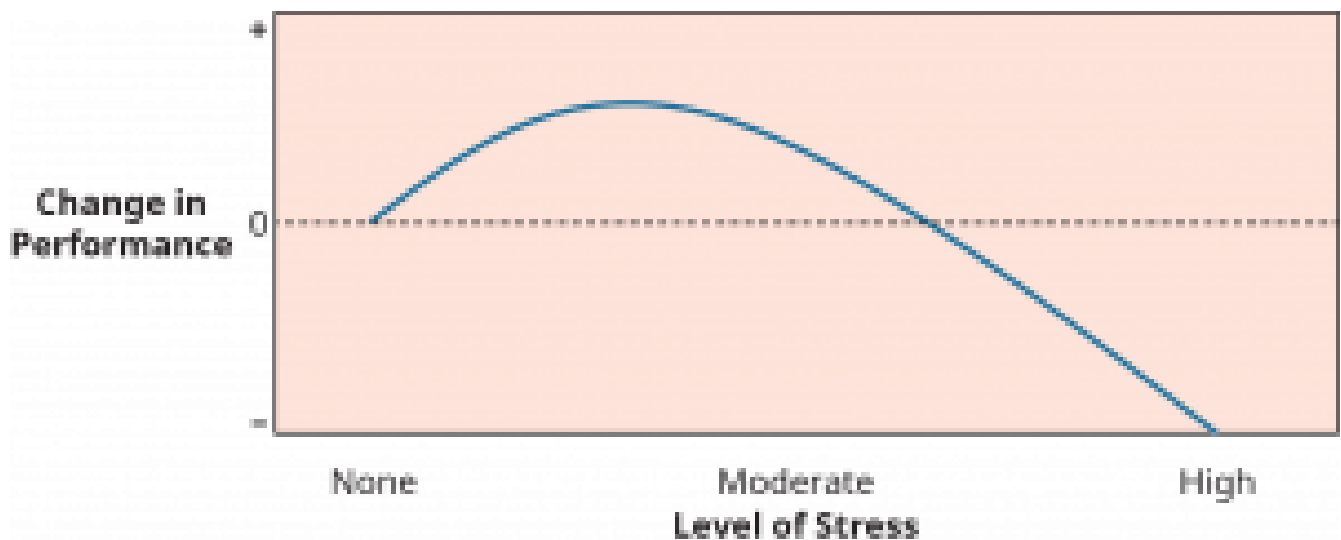
“The roots of sabotage, a frequent aspect of industrial violence, are illustrated by this comment of a steelworker. ‘Sometimes, out of pure meanness, when I make something, I put a little dent in it. I like to do something to make it really unique. Hit it with a hammer deliberately to see if it’ll get by, just so I can say I did it.’ In a product world where everything is alike, sabotage may be a distortion of the guild craftsman’s signature, a way of asserting individuality in a homogeneous world—the only way for a worker to say, ‘That’s mine.’ It may also be a way of striking back against the hostile, inanimate objects that control the worker’s time, muscles, and brain. Breaking a machine in order to get some rest may be a sane thing to do.”<sup>44</sup>

The extent to which frustration leads to aggressive behavior is influenced by several factors, often under the control of managers. Aggression tends to be subdued when employees anticipate that it will be punished, the peer group disapproves, or it has not been reinforced in the past (that is, when aggressive behavior failed to lead to positive outcomes). Thus, it is incumbent upon managers to avoid reinforcing undesired behavior and, at the same time, to provide constructive outlets for frustration. In this regard, some companies have provided official channels for the discharge of aggressive tendencies. For example, many companies have experimented with *ombudsmen*, whose task it is to be impartial mediators of employee disputes. Results have proved positive. These procedures or outlets are particularly important for nonunion personnel, who do not have contractual grievance procedures.

## Stress and Job Performance

A major concern of management is the effects of stress on job performance. The relationship is not as simple as might be supposed. The stress-performance relationship resembles an inverted J-curve, as shown in **Exhibit 18.7**. At very low or no-stress levels, individuals maintain their current levels of performance. Under these conditions, individuals are not activated, do not experience any stress-related physical strain, and probably see no reason to change their performance levels. Note that this performance level may be high or low. In any event, an absence of stress probably would not cause any change.

On the other hand, studies indicate that under conditions of *low stress*, people are activated sufficiently to motivate them to increase performance. For instance, salespeople and many managers perform best when they are experiencing mild anxiety or frustration. Stress in modest amounts, as when a manager has a tough problem to solve, acts as a stimulus for the individual. The toughness of a problem often pushes managers to their performance limits. Similarly, mild stress can also be responsible for creative activities in individuals as they try to solve difficult (stressful) problems.



**Exhibit 16.6** The Relationship Between Stress and Job Performance (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

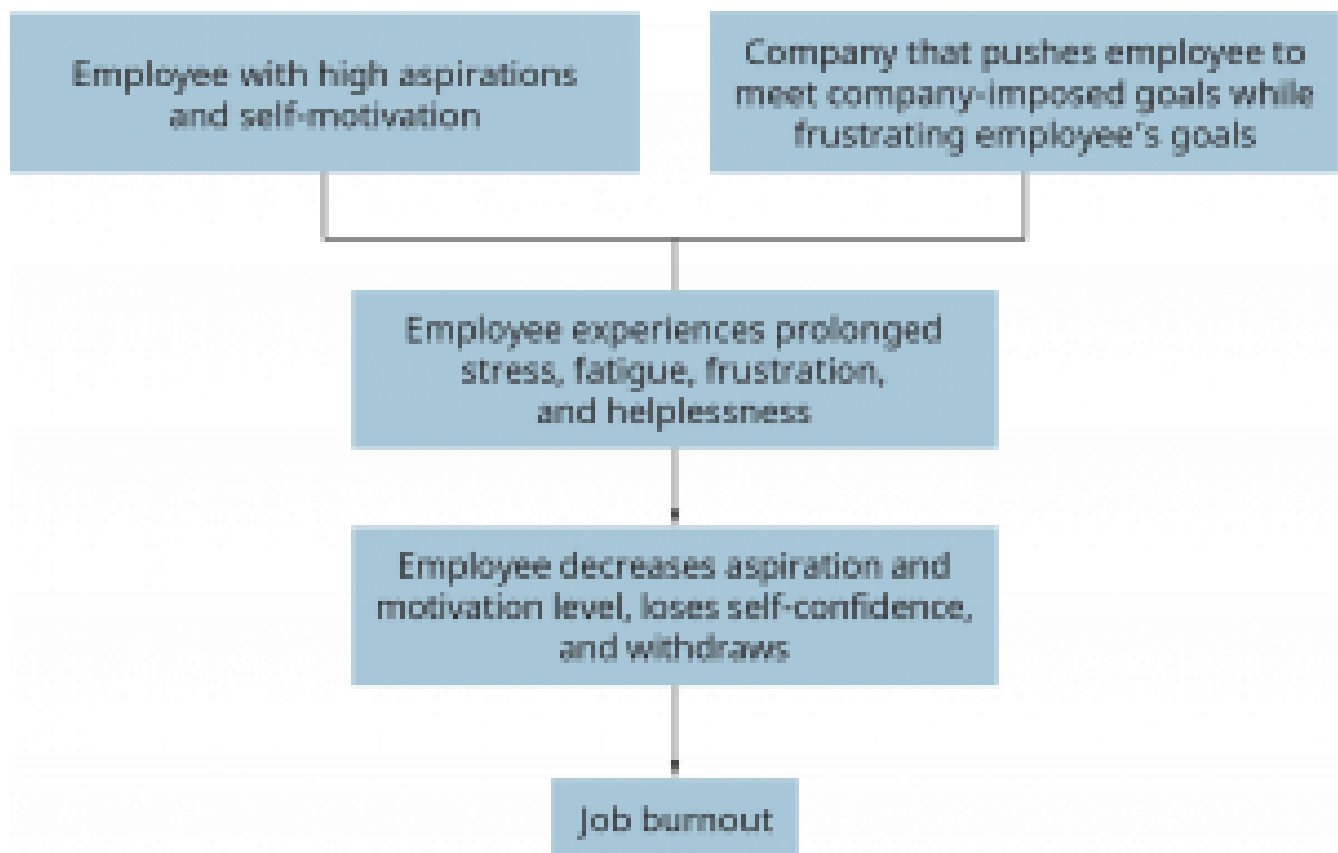
Finally, under conditions of *high* stress, individual performance drops markedly. Here, the severity of the stress consumes attention and energies, and individuals focus considerable effort on attempting to reduce the stress (often employing a variety of counterproductive behaviors as noted below). Little energy is left to devote to job performance, with obvious results.

## Stress and Burnout

When job-related stress is prolonged, poor job performance such as that described above often moves into a more critical phase, known as burnout. Burnout is a general feeling of exhaustion that can develop when a person simultaneously experiences too much pressure to perform and too few sources of satisfaction.<sup>45</sup>

Candidates for job burnout seem to exhibit similar characteristics. That is, many such individuals are idealistic and self-motivated achievers, often seek unattainable goals, and have few buffers against stress. As a result, these people demand a great deal from themselves, and, because their goals are so high, they often fail to reach them. Because they do not have adequate buffers, stressors affect them rather directly. This is shown in **Exhibit 16.7**. As a result of experienced stress, burnout victims develop a variety of negative and often hostile attitudes toward the organization and themselves, including fatalism, boredom, discontent, cynicism, and feelings of personal inadequacy. As a result, the person decreases his or her aspiration levels, loses confidence, and attempts to withdraw from the situation.

Research indicates that burnout is widespread among employees, including managers, researchers, and engineers, that are often hardest to replace by organizations. As a result, it is estimated that 70 percent of the largest U. S. companies have some form of antiburnout/stress reduction training.<sup>46</sup>



**Exhibit 16.7** Influences Leading to Job Burnout (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## CONCEPT CHECK

1. What role does health, social support and hardiness have on the level of stress?
2. What can managers do to reduce stress levels in employees that can harm productivity and can lead to counterproductive behavior in the workplace, absenteeism, as well as alcoholism and drug abuse.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



## 16.4 - Coping with Work related Stress

4. What are the remedies for job-related stress, and how can managers motivate employees to participate actively in health promotion efforts for the benefit of all concerned?

We come now to the most important question from a managerial standpoint: What can be done to reduce job-related stress? Many suggestions for coping with stress are implicit in the previous discussions. However, it is possible to summarize several important actions employees and managers can take in order to provide a more desirable work environment and improve employee adjustment to work.

### Individual Strategies

There are many things people can do to help eliminate the level of experienced stress or, at the very least, to help cope with continuing high stress. Consider the following:

**Developing Self-Awareness.** Individuals can increase awareness of how they behave on the job. They can learn to know their own limits and recognize signs of potential trouble. Employees should know when to withdraw from a situation (known to some as a “mental health day” instead of absenteeism) and when to seek help from others on the job in an attempt to relieve the situation.

**Developing Outside Interests.** In addition, individuals can develop outside interests to take their minds off work. This solution is particularly important for Type A people, whose physical health depends on toning down their drive for success. Employees can ensure that they get regular physical exercise to relieve pent-up stress. Many companies sponsor athletic activities, and some have built athletic facilities on company premises to encourage employee activity.

**Leaving the Organization.** Sometimes an employee may be unable to improve her situation and, as a result, may find it necessary (i.e., healthful) simply to leave the organization and find alternative employment. Although this is clearly a difficult decision to make, there are times when turnover is the only answer.

**Finding a Personal or Unique Solution.** Another means individuals can use to cope with stress is through a variety of personal or unique solutions. For instance, here is how one manager described his reaction to a stressful situation: “If someone finally bugs me, I politely hang up the phone and then pound the hell out of my typewriter, saying all the things on paper I wanted to say to that person on the phone. It works every time. Then, I rip up the paper and throw it into the trash can.”<sup>47</sup> If an employee cannot leave a stressful situation, this may be a good temporary way out of it.

**Physical Exercise.** Because part of the cause of the fatigue resulting from stress is the body’s physical reaction, exercise can be an effective means of enabling the body to more effectively deal with the physical components of stress. Regular exercise can be an important and effective individual strategy.

**Cognitive Perspective.** Finally, because stress is in part a function of how events are perceived and interpreted, controlling one’s cognitive perspective of events can also be an effective strategy. Although one would not want to go so far as framing a truck speeding toward you as an opportunity rather than a threat, positively framing situations as well as distinguishing factors that are within as well as outside your control and influence can be effective means of reducing stress.

### Organizational Strategies

Because managers usually have more control over the working environment than do subordinates, it seems only natural

that they have more opportunity to contribute to a reduction of work-related stress. Among their activities, managers may include the following eight strategies.

**Personnel Selection and Placement.** First, managers can pay more attention in the selection and placement process to the fit between job applicants, the job, and the work environment. Current selection and placement procedures are devoted almost exclusively to preventing qualitative role overload by ensuring that people have the required education, ability, experience, and training for the job. Managers could extend these selection criteria to include a consideration of the extent to which job applicants have a tolerance for ambiguity and can handle role conflict. In other words, managers could be alert in the job interview and subsequent placement process to potential stress-related problems and the ability of the applicant to deal successfully with them.

**Skills Training.** Second, stress can be reduced in some cases through better job-related skills training procedures, where employees are taught how to do their jobs more effectively with less stress and strain. For instance, an employee might be taught how to reduce overload by taking shortcuts or by using new or expanded skills. These techniques would only be successful, however, if management did not follow this increased effectiveness by raising work quotas. Along with this could go greater effort by managers to specify and clarify job duties to reduce ambiguity and conflict. Employees could also be trained in human relations skills in order to improve their interpersonal abilities so that they might encounter less interpersonal and intergroup conflict.

**Job Redesign.** Third, managers can change certain aspects of jobs or the ways people perform these jobs. Much has been written about the benefits of job redesign. Enriching a job may lead to improved task significance, autonomy, responsibility, and feedback. For many people, these jobs will present a welcome challenge, which will improve the job-person fit and reduce experienced stress. It should be noted, however, that all people do not necessarily want an enriched job. Enriching the job of a person with a very low need for achievement or external locus of control may only increase anxiety and fear of failure. Care must be taken in job enrichment to match these efforts to employee needs and desires.

In addition to job enrichment, a related technique aimed at reducing stress is *job rotation*. Job rotation is basically a way of spreading stress among employees and providing a respite—albeit temporary—from particularly stressful jobs. Job rotation is particularly popular in Japan as a means of allocating the more tedious or boring tasks among a large set of employees so prolonged stress is reduced. Japan is also finally working toward a reduced workweek as a means of reducing job-related stress.<sup>48</sup>

**Company-Sponsored Counseling Programs.** Several companies have begun experimenting with counseling programs, the fourth strategy suggested here. For instance, Stanford University's executive program includes a module on coping with stress, and the Menninger Foundation conducts a one-week anti-stress seminar in Topeka. In one experiment among police officers, the value of a stress management program was examined.<sup>49</sup> In the program, which consisted of six two-hour sessions, officers were told about the nature and causes of stress, were shown useful relaxation exercises, and were put through several simulated stressful situations—such as role playing the handling of an arrest. Throughout, emphasis was placed on reinforcing the officers' confidence that they could, in fact, successfully cope with on-the-job stress. The results of the program showed that those officers who went through the program performed better, exhibited greater self-control, and experienced less stress than officers in comparable positions who did not go through the program. Similar findings have emerged in a variety of business organizations. Once again, much work-related stress can be reduced simply by encouraging managers to be more supportive and to provide the necessary tools for people to cope with stress.

**Increased Participation and Personal Control.** Fifth, managers can allow employees greater participation and personal control in decisions affecting their work. As noted above, participation increases job involvement and simultaneously reduces stress by relieving ambiguity and conflict. However, although the benefits of increased participation are many, it should be noted that being more participative is no easy task for some supervisors. One study, for example, found significant differences in the extent to which different supervisors would allow their subordinates to participate in decision-making.<sup>50</sup> Females were found to allow more participation than males. Supervisors with high achievement needs, high levels of confidence in the abilities of their subordinates, and low feelings of being

threatened by others allowed more subordinate participation. The issue of participation does not appear to be whether subordinates desire it; instead, it appears to be whether superiors will allow it.

**Work Group Cohesiveness.** Sixth, managers can attempt to build work group cohesiveness. Team-building efforts are common in industry today. These efforts focus on developing groups that will be both more productive and mutually supportive. A critical ingredient in the extent to which stress is experienced is the amount of social support employees receive. Team building represents one way to achieve this support.

**Improved Communication.** Managers can open communication channels so employees are more informed about what is happening in the organization. With greater knowledge, role ambiguity and conflict are reduced. Managers must be aware, however, that communication is a two-way street; they should allow and be receptive to communication from subordinates. To the extent that subordinates feel their problems and complaints are being heard, they experience less stress and are less inclined to engage in counterproductive behavior.

**Health Promotion Programs.** Finally, many companies have recently embarked on a more systematic and comprehensive approach to stress reduction and wellness in the workplace. These programs are usually referred to as health promotion programs, and they represent a combination of diagnostic, educational, and behavior modification activities that are aimed at attaining and preserving good health.<sup>51</sup> A typical program includes risk assessment, educational and instructional classes, and counseling and referrals. Health promotion programs tackle a wide array of health-related concerns, including physical fitness, weight control, dietary and nutritional counseling, smoking cessation, blood pressure monitoring, alcohol and substance abuse problems, and general lifestyle modification.

Companies involved in such programs usually feel that the costs invested to run them are more than returned through higher levels of productivity and reduced absenteeism and stress-related illness.<sup>52</sup> Moreover, many companies have found that providing such services serves as an attractive incentive when recruiting employees in a tight job market.

Stress is a function of the objective environment but also of individuals' subjective interpretation of events and their consequences. Both body and mind are involved the process. It is important for both firms and individuals to take preventive measures before the cumulative effects of stress manifest themselves in ways that cost both the individual and the company.

Eustress is a term that signifies beneficial stress, either psychological, physical. The term was coined by using the Greek prefix “eu”, meaning “good”, and stress, literally meaning “good stress”. Eustress was originally explored in a stress model by Richard Lazarus. It is the positive cognitive response to stress that is healthy, or gives one a feeling of fulfilment or other positive feelings.<sup>53</sup>

## CONCEPT CHECK

1. What are some things that managers can do to reduce stress in the organization?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Key Terms

**anxiety**

A feeling of inability to deal with anticipated harm.

**burnout**

A general feeling of exhaustion that can develop when a person simultaneously experiences too much pressure to perform and too few sources of satisfaction.

**Eustress**

Beneficial stress.

**frustration**

Refers to a psychological reaction to an obstruction or impediment to goal-oriented behavior.

**general adaptation syndrome**

Consists of three stages: the first stage, alarm; the second stage of resistance; and the third stage, exhaustion.

**hardiness**

Represents a collection of personality characteristics that involve one's ability to perceptually or behaviorally transform negative stressors into positive challenges.

**health promotion programs**

Represent a combination of diagnostic, educational, and behavior modification activities that are aimed at attaining and preserving good health.

**locus of control**

The concept that much of what happens in one's life is either under or outside of their own control.

**personal control**

Represents the extent to which an employee actually has control over factors affecting effective job performance.

**rate of life change**

The variety of life events were identified and assigned points based upon the extent to which each event is related to stress and illness.

**role ambiguity**

Occurs when individuals have inadequate information concerning their roles.

**role conflict**

The simultaneous occurrence of two (or more) sets of pressures or expectations; compliance with one would make it difficult to comply with the other.

**role overload**

A condition in which individuals feel they are being asked to do more than time or ability permits.

**role underutilization**

Occurs when employees are allowed to use only a few of their skills and abilities, even though they are required to make heavy use of them.

**social support**

The extent to which organization members feel their peers can be trusted, are interested in one another's welfare, respect one another, and have a genuine positive regard for one another.

**strain**

The damage resulting from experiencing stress.

**stress**

A physical and emotional reaction to potentially threatening aspects of the environment.

**tolerance for ambiguity**

Individuals measure and affect by role ambiguity (in terms of stress, reduced performance, or propensity to leave) than others with a low tolerance for ambiguity.

**Type A personality**

Type A personality is characterized by impatience, restlessness, aggressiveness, competitiveness, polyphasic activities, and being under considerable time pressure.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Summary of Learning Outcomes

## 16.1 Problems of Work Adjustment

1. How do you recognize the symptoms of stress in yourself and in others?

Stress is a physical and emotional reaction to potentially threatening aspects of the environment. The damage resulting from stress is called strain. The general adaptation syndrome is the common pattern of events that characterizes someone who experiences stress. The three stages of the syndrome are alarm, resistance, and exhaustion. Two primary types of stress can be identified: frustration and anxiety.

## 16.2 Organizational Influences on Stress

2. What are the underlying causes of stress in a particular situation?

Four organization influences on stress can be identified: (1) occupational differences, (2) role ambiguity, (3) role conflict, and (4) role overload or underutilization. Three personal influences on stress are (1) personal control, or the desire to have some degree of control over one's environment; (2) rate of life change; and (3) Type A personality. Type A personality refers to individuals characterized by impatience, restlessness, aggressiveness, competitiveness, and polyphasic activities (that is, attempting to do several activities at the same time).

## 16.3 Buffering Effects of Work related Stress

3. How do managers and organizations minimize the dysfunctional consequences of stressful behavior?

The effects of potential stress can be buffered by two factors: (1) social support from one's coworkers or friends and (2) hardiness, or the ability to perceptually and behaviorally transform negative stressors into positive challenges. Sustained stress can lead to (1) health problems; (2) counterproductive behavior, such as turnover, absenteeism, drug abuse, and sabotage; (3) poor job performance; and (4) burnout.

## 16.4 Coping with Work related Stress

4. What are the remedies for job-related stress, and how can managers motivate employees to participate actively in health promotion efforts for the benefit of all concerned?

Burnout is defined as a general feeling of exhaustion that can develop when a person simultaneously experiences too much pressure to perform and too few sources of satisfaction. Individual strategies to reduce stress include (1) developing one's self-awareness about how to behave on the job, (2) developing outside interests, (3) leaving the organization, and (4) finding a unique solution. Organizational strategies to reduce stress include (1) improved personnel selection and job placement, (2) skills training, (3) job redesign, (4) company-sponsored counseling programs, (5)

increased employee participation and personal control, (6) enhanced work group cohesiveness, (7) improved communication, and (8) health promotion programs.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Chapter Review Questions

1. Discuss the five types of problems related to employee work adjustment.
2. Define stress. How does it differ from strain?
3. Describe the general adaptation syndrome.
4. Contrast frustration with anxiety.
5. Identify the major categories of variables that have been found to influence stress. What role does social support play in the process? What role does hardiness play?
6. In the chapter, the plight of assembly-line workers was discussed. What realistic suggestions would you make to relieve the tension and stress of this job?
7. Compare and contrast role conflict and role ambiguity.
8. How does a manager achieve a useful balance in a person-job fit so neither role overload nor role underutilization occurs?
9. How should a manager deal with a subordinate who is clearly a Type A personality? How should a manager who is a Type A personality handle her own stress?
10. Of what utility is the rate-of-life-change concept?
11. In organizations with which you are familiar, which of the many suggestions for coping with stress would be most applicable? Are the strategies you selected individual or organizational strategies?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



# Management Skills Application Exercises

1. You may wish to see if you have experienced stress in your present (or previous) part- or full-time job. To do so, simply complete this self-assessment. When you have finished, refer to the scoring procedures in **Appendix B**.

## *How Stressful Is Your Job?*

**Instructions:** This instrument focuses on the stress level of your current (or previous) job. Think of your job, and answer the following items as frankly and honestly as possible.

	Strongly Disagree		Strongly Agree	
1. I am often irritable with my coworkers.	1	2	3 4	5
2. At work, I constantly feel rushed or behind schedule.	1	2	3 4	5
3. I often dread going to work.	1	2	3 4	5
4. I often experience headaches, stomachaches, or backaches at work.	1	2	3 4	5
5. I often lose my temper over minor problems.	1	2	3 4	5
6. Everything I do seems to drain my energy level.	1	2	3 4	5
7. I often interpret questions or comments from others as a criticism of my work.	1	2	3 4	5
8. Time is my enemy.	1	2	3 4	5
9. I often have time for only a quick lunch (or no lunch) at work.	1	2	3 4	5
10. I spend considerable time at home worrying about problems at work.	1	2	3 4	5

2. Are you interested in determining whether you are a Type A or Type B? If so, simply complete this self-assessment. When you have finished, score your results as shown in **Appendix B**.

## *Are You a Type A?*

*Instructions:* Choose from the following responses to answer the questions below:

- a. Almost always true
- b. Usually true.
- c. Seldom true
- d. Never true

**Answer each question according to what is generally true for you:**

- 
- 1. I do not like to wait for other people to complete their work before I can proceed with my own.
  - 2. I hate to wait in most lines.
  - 3. People tell me that I tend to get irritated too easily.
  - 4. Whenever possible I try to make activities competitive.
  - 5. I have a tendency to rush into work that needs to be done before knowing the procedure I will use to complete the job.
  - 6. Even when I go on vacation, I usually take some work along.
  - 7. When I make a mistake, it is usually due to the fact that I have rushed into the job before completely planning it through.
  - 8. I feel guilty for taking time off from work.
  - 9. People tell me I have a bad temper when it comes to competitive situations.
  - 10. I tend to lose my temper when I am under a lot of pressure at work.
  - 11. Whenever possible, I will attempt to complete two or more tasks at once.
  - 12. I tend to race against the clock.
  - 13. I have no patience for lateness.
  - 14. I catch myself rushing when there is no need.

Source: Adapted from "Are You a Type A?" *The Stress Mess Solution: The Causes and Cures of Stress on the Job*, by G. S. Everly and D. A. Girdano. Reprinted by permission of the authors.

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3. The Holmes and Rahe "Schedule of Recent Experiences" is shown here in this self-assessment. You are encouraged to complete this scale by checking all those events that have occurred to you within the past year. Next, follow the scoring procedures described in **Appendix B**.

### *How Stable Is Your Life?*

*Instructions:* Place a check mark next to each event you experienced within the past year. Then add the scores associated with the various events to derive your total life stress score.

Life Event	Scale Value
---- Death of spouse	100
---- Divorce	73
---- Marital separation	65
---- Jail term	63
---- Death of a close family member	63
---- Major personal injury or illness	53
---- Marriage	50
---- Fired from work	47
---- Marital reconciliation	45
---- Retirement	45
---- Major change in health of family member	44
---- Pregnancy	40
---- Sex difficulties	39
---- Gain of a new family member	39
---- Business readjustment	39
---- Change in financial state	38
---- Death of a close friend	37
---- Change to a different line of work	36
---- Change in number of arguments with spouse	35
---- Mortgage or loan for big purchase (home, etc.)	31
---- Foreclosure of mortgage or loan	30
---- Change in responsibilities at work	29
---- Son or daughter leaving home	29
---- Trouble with in-laws	29
---- Outstanding personal achievement	28
---- Spouse begins or stops work	26
---- Begin or end school	26
---- Change in living conditions	25
---- Revision of personal habits	24
---- Trouble with boss	23
---- Change in work hours or conditions	20
---- Change in residence	20
---- Change in schools	20
---- Change in recreation	19
---- Change in church activities	19
---- Change in social activities	18
---- Mortgage or loan for lesser purchase (car, etc.)	17
---- Change in sleeping habits	16
---- Change in number of family get-togethers	15

Source: Adapted from "Scaling of Life Change: Comparison of Direct and Indirect Methods" by L. O. Ruch and T. H. Holmes, *Journal of Psychosomatic Research* 15 (1971): 224, 1971.

---- Change in eating habits	15
---- Vacation	13
---- Christmas	12
---- Minor violations of the law	11

Total Score = ----

Source: Adapted from "Scaling of Life Change: Comparison of Direct and Indirect Methods" by L. O. Ruch and T. H. Holmes, *Journal of Psychosomatic Research* 15 (1971): 224, 1971.

4. If you are interested in your own potential for burnout, you may wish to complete this self-assessment. Simply answer the ten questions as honestly as you can. When you have finished, follow the scoring instructions shown in Appendix B.

### *Are You Suffering from Burnout?*

**Instructions:** Check whether each item is "mostly true" or "mostly untrue" for you. Answer as honestly as you can. When you have finished, add up the number of checks for "mostly true."

	<b>Mostly True</b>	<b>Mostly Untrue</b>
1. I usually go around feeling tired.	----	----
2. I think I am working harder but accomplishing less.	----	----
3. My job depresses me.	----	----
4. My temper is shorter than it used to be.	----	----
5. I have little enthusiasm for life.	----	----
6. I snap at people fairly often.	----	----
7. My job is a dead end for me.	----	----
8. Helping others seems like a losing battle.	----	----
9. I don't like what I have become.	----	----
10. I am very unhappy with my job.	----	----

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>

# Critical Thinking Case

## *Managerial Leadership, Sustainability, and Responsible Management: Mindfulness at Google Inc.*

Even though the outside appearance of Google headquarters may be filled with stereotypical visions of nap pods and scenes from “The Internship,” there is still a lot of work that is accomplished by those working there. With work, there can come stress, and job-related stress is a huge issue, with studies by the Behavioral Science and Policy Association stating that working long hours has been shown to increase mortality by 20 percent. No matter how many cushy perks you can get, they won’t make everyone happy, and Google is combating this with creativity. They attempt to counteract the stress-related issues by offering specific classes—for example Meditation 101 and Mindfulness-Based Stress Reduction. They also encourage their employees to join their online and in-person community called gPause. This specific group helps support and encourage meditation practice. The key to this stress-reducing revolution at Google is that they have a company culture that supports the behavior. The company also promotes day meditation retreats at a handful of their locations. This type of creativity is sure to take hold at other companies across the globe.

Questions:

1. Google is one of the leading tech companies in the world. What do you think of their approach to handling stress within the workplace? Do you think that this approach will be effective? Why or why not?
2. A company culture that supports stress reduction is key to the success of any program within the company. What are some obstacles that can arise when handling stress within a workplace? What are some methods that you would employ as manager to counteract these obstacles and implement stress-reduction programs within your workplace?

Sources: J. Goh, J. Pfeffer, S. A. Zenios, “Workplace stressors & health outcomes: Health policy for the workplace,” *Behavioral Science and Policy Association*, February 15, 2017, <https://behavioralpolicy.org/articles/workplace-stressors-health-outcomes-health-policy-for-the-workplace/>; J. Porter, “How Google And Others Help Employees Burn Off Stress In Unique Ways,” *Fast Company*, November 16, 2015, <https://www.fastcompany.com/3053048/how-google-and-other-companies-help-employees-burn-off-stress-in-unique-ways>.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



# 17 - POWER AND POLITICAL BEHAVIOR

## Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. How do power bases work in organizational life?
2. How do you recognize and account for the exercise of counterpower and make appropriate use of strategic contingencies in interunit or interorganizational relations?
3. How do managers cope effectively with organizational politics?
4. How do you recognize and limit inappropriate or unethical political behavior where it occurs?

## EXPLORING MANAGERIAL CAREERS

### *Power Play at General Electric*

For years, General Electric has been the pillar of manufacturing standards and stood as an icon for the American economy. Despite its strong history, CEO woes and a power struggle from within during the past few years have started to unravel the company's control.

Jeff Immelt, long-time CEO, was respected and revered for his discipline. However, this mentality took its toll and led to declines and complacency. The struggling company wanted change and desperately needed growth; it appointed John Flannery. Shortly after the appointment of Flannery, the new CEO pulled a change of his own as well—firing half of the company's board.

This type of move was almost unheard of, and the purge as presented was planning to cut dividends and slash less profitable business lines. The pressure from investors was felt immediately by Flannery, and this move was a desperate attempt to regain some footing and remain atop the industry standard.

Fast forward to 2018: after only one year on the job, the board decided it was done waiting for the turnaround and took drastic action, ousting Flannery and absorbing \$23 billion in loss from the process.

The tumultuous and fast-paced changing tech-dominated economy of the 21st century showcases the harsh realities in this GE change of power. "The market didn't even give the company the benefit of the doubt that things would work," said Ivan Feinseth, chief investment officer at Tigress Financial Partners. "Flannery's plan hasn't worked." The market favors tech companies such as Google and Amazon rather than traditional manufacturers. And the new CEO, Lawrence Culp, will have an uphill battle to take over all of the woes of GE. As the first outsider to take over leadership, he has a lot to prove as well. His successes at Danaher preceded him and the company's stock has soared since the change occurred, already showing a positive impact.

Sources: O. Staley, "GE is firing half its board as a new CEO cleans house," *Quartz at Work*, November 20, 2017, <https://qz.com/work/1133787/ge-is-firing-half-its-board-as-new-ceo-john-flannery-cleans-house/>; T. Heath and J. McGregor, "General Electric, fallen icon of corporate stability, names first outsider as CEO," *Washington Post*, October 2, 2018, [https://www.washingtonpost.com/business/2018/10/01/general-electric-replaces-new-chief-executive-announces-massive-billion-charge-amid-struggles/?utm\\_term=.0111eb2c36ea](https://www.washingtonpost.com/business/2018/10/01/general-electric-replaces-new-chief-executive-announces-massive-billion-charge-amid-struggles/?utm_term=.0111eb2c36ea); M. Sheetz, "GE shares soar after company suddenly dumps John Flannery as CEO," *CNBC*, October 1, 2018, <https://www.cnbc.com/2018/10/01/ge-removes-flannery-as-ceo-takes-23-billion-non-cash-charge-for-power-business-problems-and-withdraws-guidance.html>; T. Rivas, "GE's New CEO Inherits a Troubled Kingdom. Here's What He Has to Do Now," *Barons*, October

2, 2018, <https://www.barrons.com/articles/ges-new-ceo-inherits-a-troubled-kingdom-heres-what-he-has-to-do-now-1538495223>.

Although the circumstances of the changes in leadership at GE may be unique, the exercise of power and political behavior in organizations is certainly not. Power and politics are the lifeblood of most organizations, and, as a result, informed managers need to understand power dynamics. In fact, organizations are composed of coalitions and alliances of different parties that continually compete for available resources. As such, a major influence on how decisions are made is the distribution of power among the decision makers. Unequal distribution of power in organizations can have a critical impact on many aspects of work life, including employee motivation, job satisfaction, absenteeism and turnover, and stress. Hence, an awareness of the nature and pervasiveness of power and politics is essential for a better understanding of these other behavioral processes.

The concept of power is closely related to the concepts of authority and leadership. It is important to understand when one method of influence ceases and another begins. For example, when does a manager stop using legitimate authority in a work situation and start using unauthorized power?

Finally, on an individual level, many people attempt to exercise influence in organizations by using power tactics. An awareness of such tactics helps managers to recognize them and to take appropriate actions. Keep in mind that attempts by others to exercise power do not have to be successful. A number of mechanisms are available to countermand or neutralize influence attempts. Knowledge of these strategies gives a manager greater latitude in his response to power plays by others.

In short, power and political processes in organizations represent a topic of central importance to students of organizational behavior. Along with other group processes, such as communication and decision-making, power and politics can considerably influence both the behavior and the attitudes of employees at various levels of the organization. In addition, they can further influence the extent to which various units within the organization secure the necessary resources for task accomplishment and ultimate organizational success. In short, General Electric is not alone.

## 17.1 - Power in Interpersonal Relations

### 1. How do power bases work in organizational life?

In this chapter, we will examine various aspects of power and politics in organizations, beginning with the topic of power in interpersonal relations. Here, power is defined and distinguished from the related concepts of authority and leadership, and several bases of power and aspects of power dependency are discussed. Although these aspects of power also relate to group situations, they are more germane to interpersonal relations.

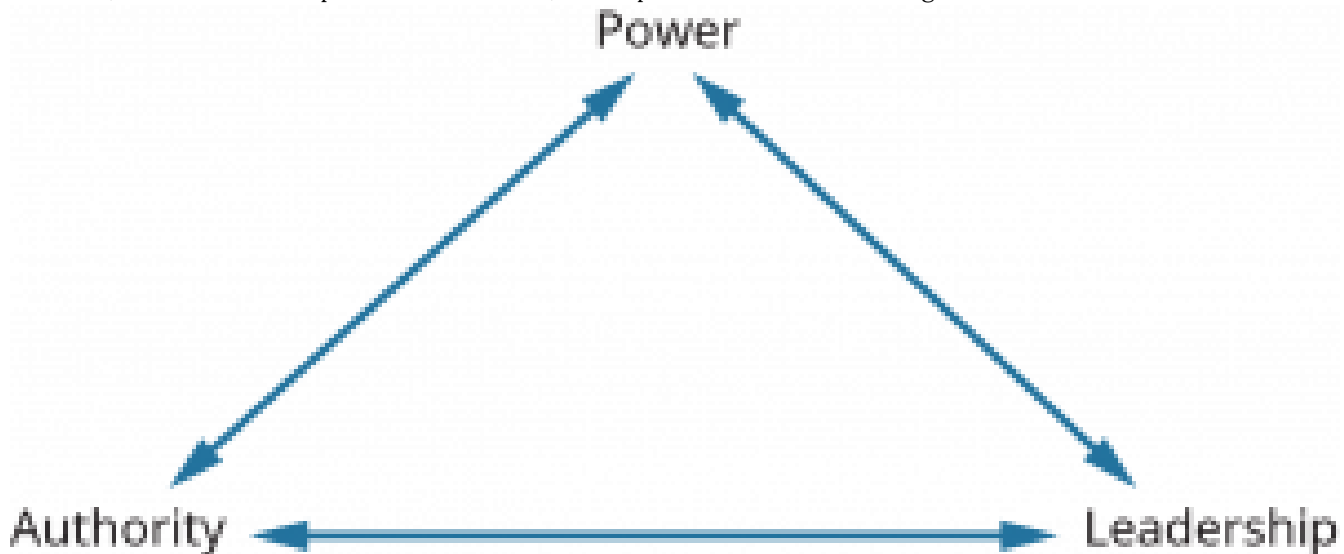
### What Is Power?

Numerous definitions of power abound in the literature on organizations. One of the earliest was suggested by Max Weber, the noted German sociologist, who defined power as “the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance.”<sup>1</sup> Similarly, Emerson wrote, “The power of actor A over actor B is the amount of resistance on the part of B which can be potentially overcome by A.”<sup>2</sup> Following these and other definitions, we will define *power* for our purposes as an interpersonal relationship in which one individual (or group) has the ability to cause another individual (or group) to take an action that would not be taken otherwise.

In other words, power involves one person changing the behavior of another. It is important to note that in most organizational situations, we are talking about *implied* force to comply, not necessarily actual force. That is, person A has power over person B if person B believes that person A can, in fact, force person B to comply.

### Power, Authority, and Leadership

Clearly, the concept of power is closely related to the concepts of authority and leadership (see **Exhibit 17.1**). In fact, power has been referred to by some as “informal authority,” whereas authority has been called “legitimate power.” However, these three concepts are not the same, and important differences among the three should be noted.<sup>3</sup>



**Exhibit 17.1** Three Major Types of Influence (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0)

license)

As stated previously, power represents the capacity of one person or group to secure compliance from another person or group. Nothing is said here about the *right* to secure compliance—only the ability. In contrast, authority represents the right to seek compliance by others; the exercise of authority is backed by legitimacy. If a manager instructs a secretary to type certain letters, they presumably have the authority to make such a request. However, if the same manager asked the secretary to run personal errands, this would be outside the bounds of the legitimate exercise of authority. Although the secretary may still act on this request, the secretary's compliance would be based on power or influence considerations, not authority.

Hence, the exercise of authority is based on group acceptance of someone's right to exercise legitimate control. As Grimes notes, "What legitimates authority is the promotion or pursuit of collective goals that are associated with group consensus. The polar opposite, power, is the pursuit of individual or particularistic goals associated with group compliance."<sup>4</sup>

Finally, leadership is the ability of one individual to elicit responses from another person that go beyond required or mechanical compliance. It is this voluntary aspect of leadership that sets it apart from power and authority. Hence, we often differentiate between headship and leadership. A department head may have the right to require certain actions, whereas a leader has the ability to inspire certain actions. Although both functions may be served by the same individual, such is clearly not always the case.

## Types of Power

If power is the ability to secure compliance by others, how is such power exercised? On what is it based? At least two efforts have been made to identify the bases of power. One model has been proposed by Etzioni, identifying three types of power.<sup>5</sup> In fact, it is argued that organizations can be classified according to which of the three types of power is most prevalent. Coercive power involves forcing someone to comply with one's wishes. A prison organization is an example of a coercive organization. Utilitarian power is power based on performance-reward contingencies; for example, a person will comply with a supervisor in order to receive a pay raise or promotion. Business organizations are thought to be essentially utilitarian organizations. Finally, normative power rests on the beliefs of the members in the right of the organization to govern their behavior. An example here would be a religious organization.

## Bases of Power

Although useful for comparative analysis of divergent organizations, this model may have limited applicability, because most business and public organizations rest largely on utilitarian power. Instead, a second model, developed by French and Raven, of the bases of power may be more helpful.<sup>6</sup> French and Raven identified five primary ways in which power can be exerted in social situations.

**Referent Power.** In some cases, person B looks up to or admires person A, and, as a result, B follows A largely because of A's personal qualities, characteristics, or reputation. In this case, A can use referent power to influence B. Referent power has also been called *charismatic power*, because allegiance is based on interpersonal attraction of one individual for another. Examples of referent power can be seen in advertising, where companies use celebrities to recommend their products; it is hoped that the star appeal of the person will rub off on the products. In work environments, junior managers often emulate senior managers and assume unnecessarily subservient roles more because of personal admiration than because of respect for authority.

**Expert Power.** Expert power is demonstrated when person A gains power because A has knowledge or expertise

relevant to B. For instance, professors presumably have power in the classroom because of their mastery of a particular subject matter. Other examples of expert power can be seen in staff specialists in organizations (e.g., accountants, labor relations managers, management consultants, and corporate attorneys). In each case, the individual has credibility in a particular—and narrow—area as a result of experience and expertise, and this gives the individual power in that domain.

**Legitimate Power.** Legitimate power exists when person B submits to person A because B feels that A has a right to exert power in a certain domain.<sup>7</sup> Legitimate power is really another name for authority, as explained earlier. A supervisor has a right, for instance, to assign work. Legitimate power differs from reward and coercive power in that it depends on the official position a person holds, and not on his or her relationship with others.

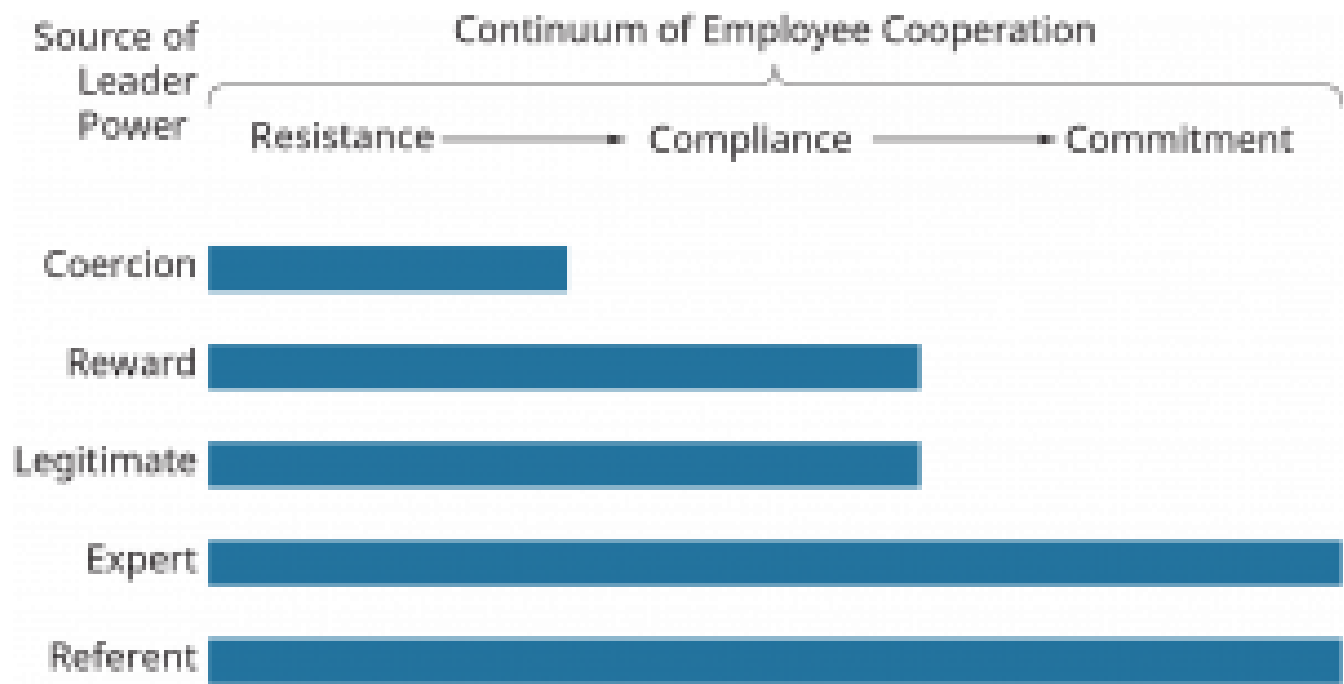
Legitimate power derives from three sources. First, prevailing cultural values can assign power to some group. In Japan and Korea, for instance, older employees derive power simply because of their age. Second, legitimate power can be attained as a result of the accepted social structure. For example, many Western European countries, as well as Japan, have royal families that serve as a cornerstone to their societies. Third, legitimate power may be designated, as in the case of a board of directors choosing a new company president or a person being promoted into a managerial position. Whatever the reason, people exercise legitimate power because subordinates assume they have a right to exercise it. A principal reason given for the downfall of the shah of Iran is that the people came to first question and then denounce his right to legitimate power.

**Reward Power.** Reward power exists when person A has power over person B because A controls rewards that B wants. These rewards can cover a wide array of possibilities, including pay raises, promotions, desirable job assignments, more responsibility, new equipment, and so forth. Research has indicated that reward power often leads to increased job performance as employees see a strong performance-reward contingency.<sup>8</sup> However, in many organizations, supervisors and managers really do not control very many rewards. For example, salary and promotion among most blue-collar workers is based on a labor contract, not a performance appraisal.

**Coercive Power.** *Coercive power* is based primarily on fear. Here, person A has power over person B because A can administer some form of punishment to B. Thus, this kind of power is also referred to as punishment power. As Kipnis points out, coercive power does not have to rest on the threat of violence. “Individuals exercise coercive power through a reliance upon physical strength, verbal facility, or the ability to grant or withhold emotional support from others. These bases provide the individual with the means to physically harm, bully, humiliate, or deny love to others.”<sup>9</sup> Examples of coercive power in organizations include the ability (actual or implied) to fire or demote people, transfer them to undesirable jobs or locations, or strip them of valued perquisites. Indeed, it has been suggested that a good deal of organizational behavior (such as prompt attendance, looking busy, avoiding whistle-blowing) can be attributed to coercive, not reward, power. As Kipnis explains, “Of all the bases of power available to man, the power to hurt others is possibly the most often used, most often condemned and most difficult to control.”<sup>10</sup>

## Behavioral Consequences of Power

We have seen, then, that at least five bases of power can be identified. In each case, the power of the individual rests on a particular attribute of the power holder, the follower, or their relationship. In some cases (e.g., reward power), power rests in the superior; in others (e.g., referent power), power is given to the superior by the subordinate. In all cases, the exercise of power involves subtle and sometimes threatening interpersonal consequences for the parties involved. In fact, when power is exercised, employees have several ways in which to respond. These are shown in **Exhibit 17.2**.



**Exhibit 17.2** Employee Reactions to Bases of Power (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

If the subordinate accepts and identifies with the leader, his behavioral response will probably be one of *commitment*. That is, the subordinate will be motivated to follow the wishes of the leader. This is most likely to happen when the person in charge uses referent or expert power. Under these circumstances, the follower believes in the leader's cause and will exert considerable energies to help the leader succeed.

A second possible response is *compliance*. This occurs most frequently when the subordinate feels the leader has either legitimate power or reward power. Under such circumstances, the follower will comply, either because it is perceived as a duty or because a reward is expected; but commitment or enthusiasm for the project is lacking. Finally, under conditions of coercive power, subordinates will more than likely use *resistance*. Here, the subordinate sees little reason—either altruistic or material—for cooperating and will often engage in a series of tactics to defeat the leader's efforts.

## Power Dependencies

In any situation involving power, at least two persons (or groups) can be identified: the person attempting to influence others and the target or targets of that influence. Until recently, attention focused almost exclusively on how people tried to influence others. Only recently has attention been given to how people try to nullify or moderate such influence attempts. In particular, we now recognize that the extent to which influence attempts are successful is determined in large part by the power dependencies of those on the receiving end of the influence attempts. In other words, all people are not subject to (or dependent upon) the same bases of power. What causes some people to be more submissive or vulnerable to power attempts? At least three factors have been identified.<sup>11</sup>

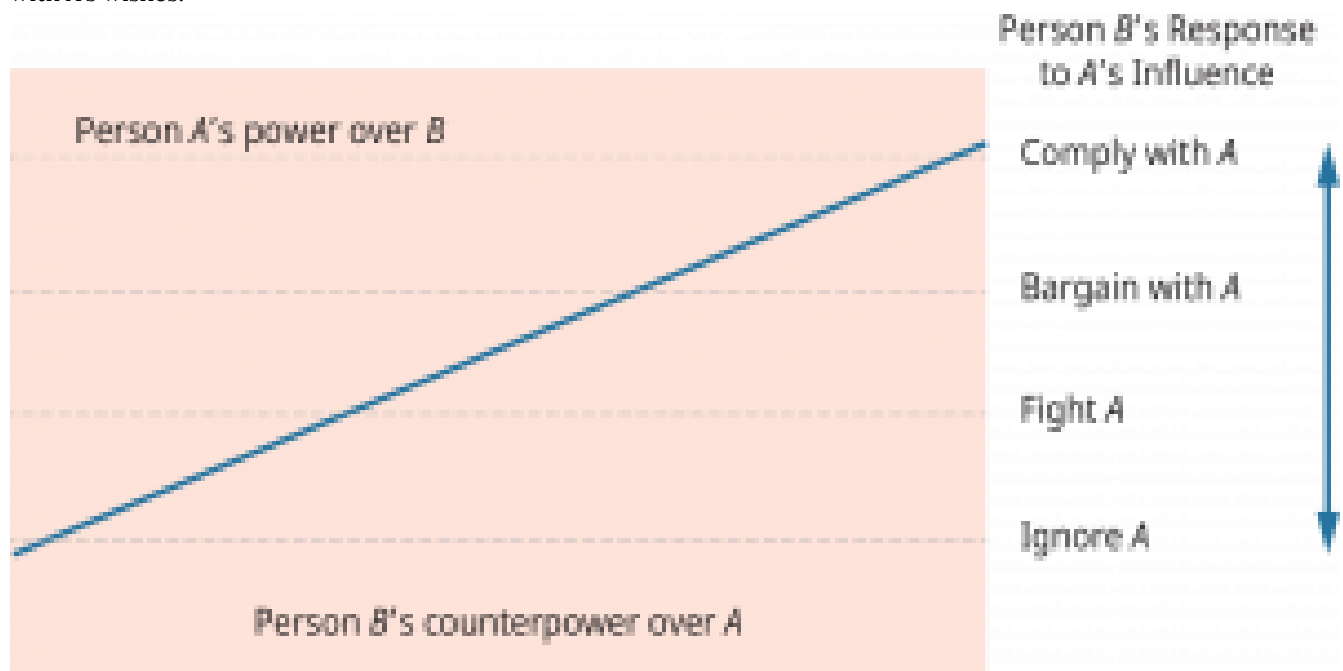
**Subordinate's Values.** To begin, person B's values can influence his susceptibility to influence. For example, if the outcomes that A can influence are important to B, then B is more likely to be open to influence than if the outcomes were unimportant. Hence, if an employee places a high value on money and believes the supervisor actually controls pay raises, we would expect the employee to be highly susceptible to the supervisor's influence. We hear comments about how young people don't really want to work hard anymore. Perhaps a reason for this phenomenon is that some

young people don't place a high value on those things (for example, money) that traditionally have been used to influence behavior. In other words, such complaints may really be saying that young people are more difficult to influence than they used to be.

**Nature of Relationship Between A and B.** In addition, the nature of the relationship between A and B can be a factor in power dependence. Are A and B peers or superior and subordinate? Is the job permanent or temporary? A person on a temporary job, for example, may feel less need to acquiesce, because they won't be holding the position for long. Moreover, if A and B are peers or good friends, the influence process is likely to be more delicate than if they are superior and subordinate.

**Counterpower.** Finally, a third factor to consider in power dependences is counterpower. The concept of counterpower focuses on the extent to which B has other sources of power to buffer the effects of A's power. For example, if B is unionized, the union's power may serve to negate A's influence attempts. The use of counterpower can be clearly seen in a variety of situations where various coalitions attempt to bargain with one another and check the power of their opponents.

**Exhibit 17.3** presents a rudimentary model that combines the concepts of bases of power with the notion of power dependencies. As can be seen, A's bases of power interact with B's extent of power dependency to determine B's response to A's influence attempt. If A has significant power and B is highly dependent, we would expect B to comply with A's wishes.



**Exhibit 17.3** Typical Response Patterns in Dyadic Power Relationships (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

If A has more modest power over B, but B is still largely power dependent, B may try to bargain with A. Despite the fact that B would be bargaining from a point of weakness, this strategy may serve to protect B's interests better than outright compliance. For instance, if your boss asked you to work overtime, you might attempt to strike a deal whereby you would get compensatory time off at a later date. If successful, although you would not have decreased your working hours, at least you would not have increased them. Where power distribution is more evenly divided, B may attempt to develop a cooperative working relationship with A in which both parties gain from the exchange. An example of this position is a labor contract negotiation where labor-management relations are characterized by a balance of power and a good working relationship.

If B has more power than A, B will more than likely reject A's influence attempt. B may even become the aggressor and attempt to influence A. Finally, when B is not certain of the power relationships, he may simply try to ignore A's

efforts. In doing so, B will discover either that A does indeed have more power or that A cannot muster the power to be successful. A good illustration of this last strategy can be seen in some companies' responses to early governmental efforts to secure equal opportunities for minorities and women. These companies simply ignored governmental efforts until new regulations forced compliance.

## MANAGERIAL LEADERSHIP

### *Administrative Assistants: The Power Behind the Throne*

It is relatively easy to see the power of managers. They often have the ability to hire and fire, make important decisions, sign contracts, spend money, and so forth. They are, in fact, powerful entities within a corporation. What may be less apparent, however, is the power that managers' executive or administrative assistants (EA) often have. In fact, if you want to discover just how powerful secretaries are, think of what would happen if they were not there. Most paperwork would not get done, many important decisions would not be made, and the organization would eventually grind to a halt.

The EA is intertwined with a very important piece of privileged information and requires the person to be highly detail oriented and have incredible soft skills and to be more than just technologically savvy. Many tech companies are paying top dollar to procure the right person for the job. Base salaries for executive assistants in the Bay area have been reportedly starting at \$80–100K base.

Highly skilled EAs have become increasingly hard to recruit and retain, causing their power to increase. Despite the salary, there is often a negative connotation with the role of “assistant.” “There’s definitely a stigma” about the title, says 32-year-old Shana Larson, one of four EAs at Pinterest, the San Francisco visual discovery company. But for Shana, who holds a master’s degree from the University of Southern California, after the initial transition period, she felt that it was the best career decision to make—a long-term career with growth opportunities.

EAs represent a true example of counterpower within the organization. Yes, their bosses have power over them; but at the same time, they have considerable power over their bosses. Secretaries—the word is derived from the Latin word meaning “keeper of secrets”—are often privy to considerable confidential information. They routinely handle private calls, correspondence, and reports. They often serve as the manager’s sounding board for new ideas, and they more than likely know how the boss feels about coworkers and superiors. This knowledge, along with stereotypes, stigmas, and increased scarcity, gives high-quality EAs considerable leverage in dealing with their bosses and their organizations.

Questions:

1. As a new manager who receives an assistant, what are important considerations to consider when starting in the role?
2. What other stigmas or stereotypes can occur with support roles in the workplace? How does this affect your personal feelings about taking a support role for a company in the future?
3. Why is it important for CEOs and other organizational powers to understand the innate power of an administrative assistant as part of the holistic picture to understand the company environment as a



whole?

Sources: *LinkedIn* website accessed November 12, 2018, <https://www.linkedin.com/salary/senior-executive-assistant-salaries-in-san-francisco-bay-area-at-hitachi-data-systems>; S. Sathian, "Executive assistant is the new power job," *USA Today*, October 14, 2014, <https://www.usatoday.com/story/money/business/2014/10/14/ozy-executive-assistant-power-job/17244533/>; M. Lawn, "The Real Power of the Executive Assistant," *Executive Secretary Magazine*, July 27, 2013, <http://executivesecretary.com/the-real-power-of-the-executive-assistant/>; N. Price, "The Evolving Role of the Company Secretary in Today's Corporate World," *Board Effect Blog*, June 12, 2017, <https://www.boardeffect.com/blog/evolving-role-company-secretary-todays-corporate-world/>.

## CONCEPT CHECK

1. Define what Power is.
2. What are the components that constitute power in organizations?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 17.2 - Uses of Power

2. How do you recognize and account for the exercise of counterpower and make appropriate use of strategic contingencies in interunit or interorganizational relations?

As we look around organizations, it is easy to see the manifestations of power almost anywhere. In fact, there are a wide variety of power-based methods used to influence others. Here, we will examine three aspects of the use of power: commonly used power tactics in organizations, symbols of managerial power, and the ethical use of power.

### Common Power Tactics in Organizations

As noted above, many power tactics are available for use by managers. However, as we will see, some are more ethical than others. Here, we look at some of the more commonly used power tactics found in both business and public organizations.<sup>12</sup>

**Controlling Access to Information.** Most decisions rest on the availability of relevant information, so persons *controlling access to information* play a major role in decisions made. A good example of this is the common corporate practice of pay secrecy. Only the personnel department and senior managers typically have salary information—and power—for personnel decisions.

**Controlling Access to Persons.** Another related power tactic is the practice of *controlling access to persons*. A well-known factor contributing to President Nixon's downfall was his isolation from others. His two senior advisers had complete control over who saw the president. Similar criticisms were leveled against President Reagan.

**Selective Use of Objective Criteria.** Very few organizational questions have one correct answer; instead, decisions must be made concerning the most appropriate criteria for evaluating results. As such, significant power can be exercised by those who can practice *selective use of objective criteria* that will lead to a decision favorable to themselves. According to Herbert Simon, if an individual is permitted to select decision criteria, they needn't care who actually makes the decision. Attempts to control objective decision criteria can be seen in faculty debates in a university or college over who gets hired or promoted. One group tends to emphasize teaching and will attempt to set criteria for employment dealing with teacher competence, subject area, interpersonal relations, and so on. Another group may emphasize research and will try to set criteria related to number of publications, reputation in the field, and so on.

**Controlling the Agenda.** One of the simplest ways to influence a decision is to ensure that it never comes up for consideration in the first place. There are a variety of strategies used for *controlling the agenda*. Efforts may be made to order the topics at a meeting in such a way that the undesired topic is last on the list. Failing this, opponents may raise a number of objections or points of information concerning the topic that cannot be easily answered, thereby tabling the topic until another day.

**Using Outside Experts.** Still another means to gain an advantage is *using outside experts*. The unit wishing to exercise power may take the initiative and bring in experts from the field or experts known to be in sympathy with their cause. Hence, when a dispute arises over spending more money on research versus actual production, we would expect differing answers from outside research consultants and outside production consultants. Most consultants have experienced situations in which their clients fed them information and biases they hoped the consultant would repeat in a meeting.

**Bureaucratic Gamesmanship.** In some situations, the organizations own policies and procedures provide ammunition for power plays, or bureaucratic gamesmanship. For instance, a group may drag its feet on making changes in the workplace by creating red tape, work slowdowns, or "work to rule." (Working to rule occurs when employees diligently follow every work rule and policy statement to the letter; this typically results in the organization's grinding to a halt as

a result of the many and often conflicting rules and policy statements.) In this way, the group lets it be known that the workflow will continue to slow down until they get their way.

**Coalitions and Alliances.** The final power tactic to be discussed here is that of coalitions and *alliances*. One unit can effectively increase its power by forming an alliance with other groups that share similar interests. This technique is often used when multiple labor unions in the same corporation join forces to gain contract concessions for their workers. It can also be seen in the tendency of corporations within one industry to form trade associations to lobby for their position. Although the various members of a coalition need not agree on everything—indeed, they may be competitors—sufficient agreement on the problem under consideration is necessary as a basis for action.

Although other power tactics could be discussed, these examples serve to illustrate the diversity of techniques available to those interested in acquiring and exercising power in organizational situations. In reviewing the major research carried out on the topic of power, Pfeffer states:

If there is one concluding message, it is that it is probably effective, and it is certainly normal that these managers do behave as politicians. It is even better that some of them are quite effective at it. In situations in which technologies are uncertain, preferences are conflicting, perceptions are selective and biased, and information processing capacities are constrained, the model of an effective politician may be an appropriate one for both the individual and for the organization in the long run.<sup>13</sup>

## Symbols of Managerial Power

How do we know when a manager has power in an organizational setting? Harvard professor Rosabeth Moss Kanter has identified several of the more common symbols of managerial power.<sup>14</sup> For example, managers have power to the extent that they can intercede favorably on behalf of someone in trouble with the organization. Have you ever noticed that when several people commit the same mistake, some don't get punished? Perhaps someone is watching over them.

Moreover, managers have power when they can get a desirable placement for a talented subordinate or get approval for expenditures beyond their budget. Other manifestations of power include the ability to secure above-average salary increases for subordinates and the ability to get items on the agenda at policy meetings.

And we can see the extent of managerial power when someone can gain quick access to top decision makers or can get early information about decisions and policy shifts. In other words, who can get through to the boss, and who cannot? Who is “connected,” and who is not?

Finally, power is evident when top decision makers seek out the opinions of a particular manager on important questions. Who gets invited to important meetings, and who does not? Who does the boss say “hello” to when they enter the room? Through such actions, the organization sends clear signals concerning who has power and who does not. In this way, the organization reinforces or at least condones the power structure in existence.

## The Ethical Use of Power

People are often uncomfortable discussing the topic of power, which implies that somehow they see the exercise of power as unseemly. On the contrary, the question is not whether power tactics are or are not ethical; rather, the question is *which* tactics are appropriate and which are not. The use of power in groups and companies is a fact of organizational life that all employees must accept. In doing so, however, all employees have a right to know that the exercise of power within the organization will be governed by ethical standards that prevent abuse or exploitation.

Several guidelines for the ethical use of power can be identified. These can be arranged according to our previous discussion of the five bases of power, as shown in **Table 17.1**. As will be noted, several techniques are available that accomplish their aims without compromising ethical standards. For example, a manager using reward power can

verify subordinate compliance with work directives, ensure that all requests are both feasible and reasonable, make only ethical or proper requests, offer rewards that are valued by employees, and ensure that all rewards for good performance are credible and reasonably attainable.

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### The Ethical Use of Power

Basis of Power	Guidelines for Use
Referent power	<ul style="list-style-type: none"> <li>• Treat subordinates fairly</li> <li>• Defend subordinates' interests</li> <li>• Be sensitive to subordinates' needs, feelings</li> <li>• Select subordinates similar to oneself</li> <li>• Engage in role modeling</li> </ul>
Expert power	<ul style="list-style-type: none"> <li>• Promote image of expertise</li> <li>• Maintain credibility</li> <li>• Act confident and decisive</li> <li>• Keep informed</li> <li>• Recognize employee concerns</li> <li>• Avoid threatening subordinates' self-esteem</li> </ul>
Legitimate power	<ul style="list-style-type: none"> <li>• Be cordial and polite</li> <li>• Be confident</li> <li>• Be clear and follow up to verify understanding</li> <li>• Make sure request is appropriate</li> <li>• Explain reasons for request</li> <li>• Follow proper channels</li> <li>• Exercise power regularly</li> <li>• Enforce compliance</li> <li>• Be sensitive to subordinates' concerns</li> </ul>
Reward power	<ul style="list-style-type: none"> <li>• Verify compliance</li> <li>• Make feasible, reasonable requests</li> <li>• Make only ethical, proper requests</li> <li>• Offer rewards desired by subordinates</li> <li>• Offer only credible rewards</li> </ul>
Coercive power	<ul style="list-style-type: none"> <li>• Inform subordinates of rules and penalties</li> <li>• Warn before punishing</li> <li>• Administer punishment consistently and uniformly</li> <li>• Understand the situation before acting</li> <li>• Maintain credibility</li> <li>• Fit punishment to the infraction</li> <li>• Punish in private</li> </ul>

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Source: Adapted from Gary A. Yukl, *Leadership in Organizations*, 8<sup>th</sup> edition 2013 (Englewood Cliffs, N.J.; Pearson), pp. 44–58.

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Even coercive power can be used without jeopardizing personal integrity. For example, a manager can make sure that all employees know the rules and penalties for rule infractions, provide warnings before punishing, administer punishments fairly and uniformly, and so forth. The point here is that managers have at their disposal numerous tactics that they can employ without crossing over into questionable managerial behavior. In view of the increasing number of lawsuits filed by employees for harmful practices, it seems wise for a manager to consider his behaviors before acting; this will help ensure the highest ethical standards.

## ETHICS IN PRACTICE

### *Investing the Challenger Disaster*

The January 1986 explosion of the space shuttle *Challenger*, at a cost of seven lives, has been analyzed from several managerial standpoints: poor decision-making, poor management control, and poor leadership have all been blamed. We can also see in this tragedy an example of the unethical use of organizational power.

It has been determined that the explosion that doomed the space shuttle was caused by poorly designed seals on the booster rockets. The boosters were manufactured by Morton Thiokol, a major defense contractor. When the U.S. Congress initiated its investigation of the causes of the disaster, it found several disturbing facts. To begin with, several Morton Thiokol engineers had warned that the boosters were unsafe early in the design stage, but no one listened. Once the boosters were in production, engineers again warned of possible problems, but to no avail. The company kept the information quiet.

Equally disturbing was the fact that after two company engineers testified in the congressional hearing, they were abruptly transferred to undesirable assignments elsewhere in the company. When asked by Congress whether they thought their transfers were in retaliation for their whistleblowing, both engineers responded yes. One noted, "I feel I was set aside so I would not have contact with the people from NASA." The company had, in effect, used its power to try to isolate those who talked freely with the congressional investigators. In its defense, Morton Thiokol responded that it had *demoted* no one as a result of the investigation. "We've changed a lot of duties . . . because we're reorganizing," a management representative said.

Sources: A. E. Tenbrussel and M. Bazerman, *Blind Spots: Why we Fail to Do What's Right and What to Do About It*, (Princeton, N.J.: Princeton University Press), © 2012; A. J. McDonald, "Ethics Lessons Learned From the Challenger Disaster," *National Society of Professional Engineers*, July 17, 2015; "Two Critics of Shuttle Perished," *Register-Guard*, May 11, 1986, pp. 1 and 4.

## CONCEPT CHECK

1. How is power used in organizations?
2. How can managers use strategy to counteract the negative use of power in organizations?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>

## 17.3 - Political Behavior in Organizations

### 3. How do managers cope effectively with organizational politics?

Closely related to the concept of power is the equally important topic of politics. In any discussion of the exercise of power—particularly in intergroup situations—a knowledge of basic political processes is essential. We will begin our discussion with this in mind. Next, on the basis of this analysis, we will consider political strategies for acquiring, maintaining, and using power in intergroup relations. Finally, we look at ways to limit the impact of political behavior in organizations.

### What Is Politics?

Perhaps the earliest definition of politics was offered by Lasswell, who described it as who gets what, when, and how.<sup>15</sup> Even from this simple definition, one can see that politics involves the resolution of differing preferences in conflicts over the allocation of scarce and valued resources. Politics represents one mechanism to solve allocation problems when other mechanisms, such as the introduction of new information or the use of a simple majority rule, fail to apply. For our purposes here, we will adopt Pfeffer's definition of politics as involving "those activities taken within organizations to acquire, develop, and use power and other resources to obtain one's preferred outcomes in a situation in which there is uncertainty or dissensus about choices."<sup>16</sup>

In comparing the concept of politics with the related concept of power, Pfeffer notes:

If power is a force, a store of potential influence through which events can be affected, politics involves those activities or behaviors through which power is developed and used in organizational settings. Power is a property of the system at rest; politics is the study of power in action. An individual, subunit or department may have power within an organizational context at some period of time; politics involves the exercise of power to get something accomplished, as well as those activities which are undertaken to expand the power already possessed or the scope over which it can be exercised.<sup>17</sup>

In other words, from this definition it is clear that political behavior is activity that is initiated for the purpose of overcoming opposition or resistance. In the absence of opposition, there is no need for political activity. Moreover, it should be remembered that political activity need not necessarily be dysfunctional for organization-wide effectiveness. In fact, many managers often believe that their political actions on behalf of their own departments are actually in the best interests of the organization as a whole. Finally, we should note that politics, like power, is not inherently bad. In many instances, the survival of the organization depends on the success of a department or coalition of departments challenging a traditional but outdated policy or objective. That is why an understanding of organizational politics, as well as power, is so essential for managers.

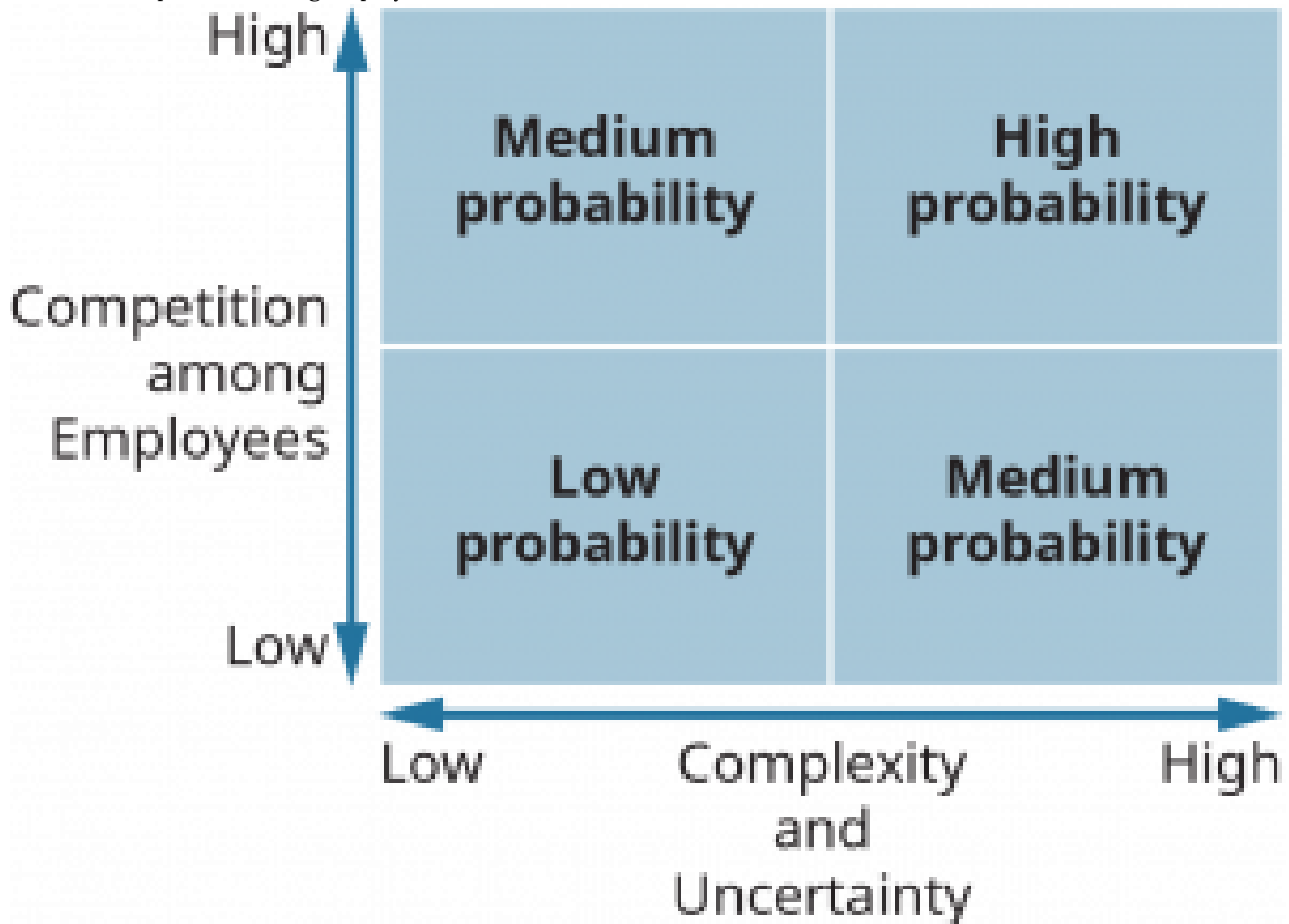
### Intensity of Political Behavior

Contemporary organizations are highly political entities. Indeed, much of the goal-related effort produced by an organization is directly attributable to political processes. However, the intensity of political behavior varies, depending upon many factors. For example, in one study, managers were asked to rank several organizational decisions on the basis of the extent to which politics were involved.<sup>18</sup> Results showed that the most political decisions (in rank order) were those involving interdepartmental coordination, promotions and transfers, and the delegation of authority. Such

decisions are typically characterized by an absence of established rules and procedures and a reliance on ambiguous and subjective criteria.

On the other hand, the managers in the study ranked as least political such decisions as personnel policies, hiring, and disciplinary procedures. These decisions are typically characterized by clearly established policies, procedures, and objective criteria.

On the basis of findings such as these, it is possible to develop a typology of when political behavior would generally be greatest and least. This model is shown in **Exhibit 17.4**. As can be seen, we would expect the greatest amount of political activity in situations characterized by high uncertainty and complexity and high competition among employees or groups for scarce resources. The least politics would be expected under conditions of low uncertainty and complexity and low competition among employees over resources.



**Exhibit 17.4** Probability of Political Behavior in an Organization Source: Adapted from “The Use and Abuse of Corporate Politics” by Don R. Beeman and Thomas W. Sharkey. Reprinted from *Business Horizons*, March–April 1987. (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## Reasons for Political Behavior

Following from the above model, we can identify at least five conditions conducive to political behavior in organizations.<sup>19</sup> These are shown in **Table 17.2**, along with possible resulting behaviors. The conditions include the following:



1. *Ambiguous goals.* When the goals of a department or organization are ambiguous, more room is available for politics. As a result, members may pursue personal gain under the guise of pursuing organizational goals.
2. *Limited resources.* Politics surfaces when resources are scarce and allocation decisions must be made. If resources were ample, there would be no need to use politics to claim one's "share."
3. *Changing technology and environment.* In general, political behavior is increased when the nature of the internal technology is nonroutine and when the external environment is dynamic and complex. Under these conditions, ambiguity and uncertainty are increased, thereby triggering political behavior by groups interested in pursuing certain courses of action.
4. *Nonprogrammed decisions.* A distinction is made between programmed and nonprogrammed decisions. When decisions are not programmed, conditions surrounding the decision problem and the decision process are usually more ambiguous, which leaves room for political maneuvering. Programmed decisions, on the other hand, are typically specified in such detail that little room for maneuvering exists. Hence, we are likely to see more political behavior on major questions, such as long-range strategic planning decisions.
5. *Organizational change.* Periods of organizational change also present opportunities for political rather than rational behavior. Efforts to restructure a particular department, open a new division, introduce a new product line, and so forth, are invitations to all to join the political process as different factions and coalitions fight over territory.

Because most organizations today have scarce resources, ambiguous goals, complex technologies, and sophisticated and unstable external environments, it seems reasonable to conclude that a large proportion of contemporary organizations are highly political in nature.<sup>20</sup> As a result, contemporary managers must be sensitive to political processes as they relate to the acquisition and maintenance of power in organizations. This brings up the question of why we have policies and standard operating procedures (SOPs) in organizations. Actually, such policies are frequently aimed at reducing the extent to which politics influence a particular decision. This effort to encourage more "rational" decisions in organizations was a primary reason behind Max Weber's development of the bureaucratic model. That is, increases in the specification of policy statements often are inversely related to political efforts, as shown in **Exhibit 17.5**. This is true primarily because such actions reduce the uncertainties surrounding a decision and hence the opportunity for political efforts.

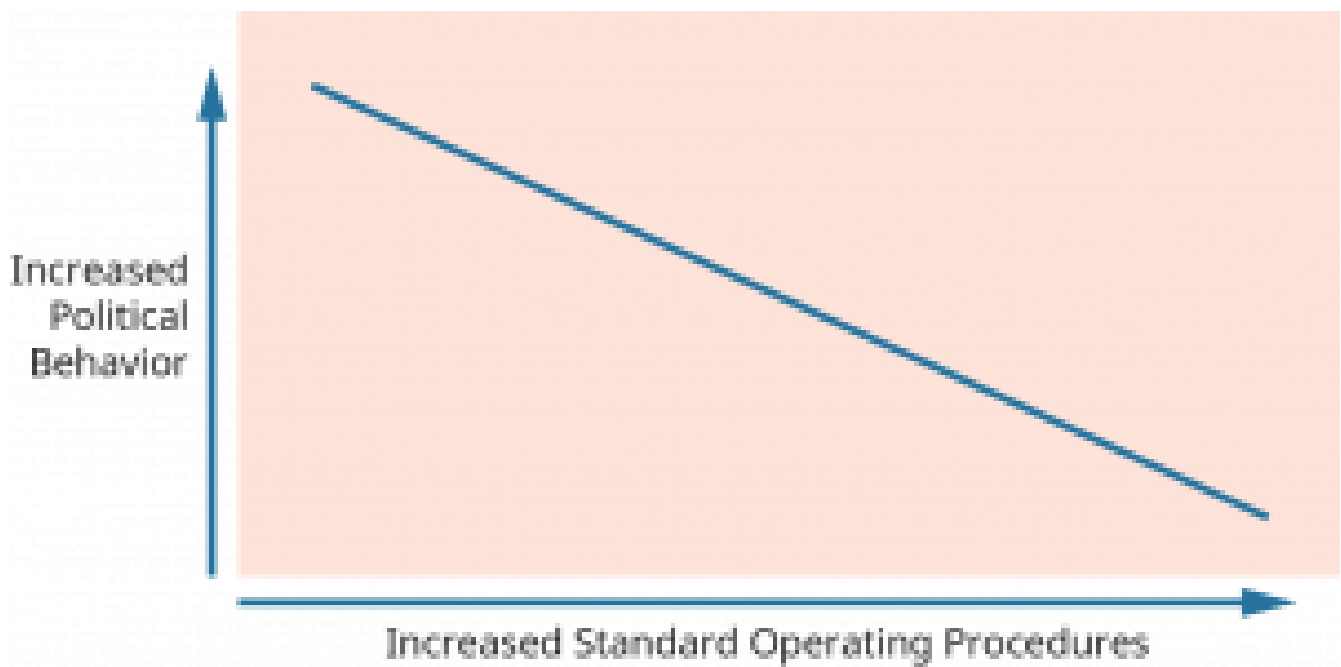
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**Conditions Conducive to Political Behavior**

<b>Prevailing Conditions</b>	<b>Resulting Political Behaviors</b>
Ambiguous goals	Attempts to define goals to one's advantage
Limited resources	Fight to maximize one's share of resources
Dynamic technology and environment	Attempts to exploit uncertainty for personal gain
Nonprogrammed decisions	Attempts to make suboptimal decisions that favor personal ends
Organizational change	Attempts to use reorganization as a chance to pursue own interests and goals

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Table 17.2 (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)



**Exhibit 17.5** Relationship Between Company Standard Operating Procedures and Political Behavior (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

## MANAGERIAL LEADERSHIP

### *Technology, Innovation, and Politics in Performance Appraisals*

Developing a strategy for a performance appraisal is an important step for any company, and keeping out political bias is a main concern as well. Unfortunately, many times there is no way around bringing some bias into a performance appraisal situation. Managers often think of the impact that their review will have on the employee, how it will affect their relationship, and what it means for their career in the future. There are a lot of games played in the rating process and whether managers admit it or not, they may be guilty of playing them. Many companies, such as Adobe, are looking at ways that they can revamp the process to eliminate potential biases and make evaluations fairer.

In 2012, Adobe transformed its business, changing its product cycle; while undergoing process changes, Adobe understood that there needed to be a cultural shift as well. It announced the “Check-in” review process to allow for faster feedback, as well as an end to their outdated annual review process. With the faster-paced reality of their product cycles and subscription-based model in technology, this made complete sense.

This process established a new way of thinking, allowing for two-way communication to become the norm between managers and employees. They were able to have frequent candid conversations, approaching the tough subjects in order make improvements rather than waiting until an annual review and letting bad performance go unchecked or good performance go unnoticed. Eliminating a once-a-year cycle of review also eliminates the issue of politics creeping into the process. Managers are able to think critically about the performance, working alongside their employees to better the outcome rather than worrying about having a tough conversation and the bad result that may follow—and having to live with the fallout. Employees also are given chances to provide feedback and their own personal evaluation, which then is discussed with the manager. They review the items together, and what is formally submitted is agreed upon, rather than set in stone. The addition of the employee feedback is another great way to reduce the insertion of politics or bias in the review.

In result of this change, Adobe’s employees showed higher engagement and satisfaction with their work, consistently

improving. They no longer had negative surprises in their annual review and were able to adjust priorities and behaviors to become more effective workers.

Questions:

1. What are important considerations to eliminate potential political bias in a performance review?
2. Why was Adobe successful in the changes that they implemented in their performance review process?
3. What other positive outcomes could be achieved from an ongoing feedback model versus annual performance review?

Sources: D. Morris, "Death of the Performance Review: How Adobe Reinvented Performance Management and Transformed its Business," *World at Work Journal*, Second Quarter, 2016, <https://www.adobe.com/content/dam/acom/en/aboutadobe/pdfs/death-to-the-performance-review.pdf>; "How Adobe retired performance reviews and inspired great performance," Adobe website, accessed January 4, 2019, <https://www.adobe.com/check-in.html>; K. Duggan, "Six Companies That Are Redefining Performance Management," *Fast Company*, December 15, 2015, <https://www.fastcompany.com/3054547/six-companies-that-are-redefining-performance-management>.

## Political Strategies in Intergroup Relations

Up to this point, we have explained the related concepts of power and politics primarily as they relate to interpersonal behavior. When we shift our focus from the individual or interpersonal to the *intergroup* level of analysis, the picture becomes somewhat more complicated. In developing a portrait of how political strategies are used to attain and maintain power in intergroup relations, we will highlight two major aspects of the topic. The first is the relationship between power and the control of critical resources. The second is the relationship between power and the control of strategic activities. Both will illustrate how subunit control leads to the acquisition of power in organizational settings.

## Power and the Control of Critical Resources

On the basis of what has been called the resource dependence model, we can analyze intergroup political behavior by examining how critical resources are controlled and shared.<sup>21</sup> That is, when one subunit of an organization (perhaps the purchasing department) controls a scarce resource that is needed by another subunit (for example, the power to decide what to buy and what not to buy), that subunit acquires power. This power may be over other subunits within the same organization or over subunits in other organizations (for example, the marketing units of other companies that are trying to sell to the first company). As such, this unit is in a better position to bargain for the critical resources it needs from its own or other organizations. Hence, although all subunits may contribute something to the organization as a whole, power allocation within the organization will be influenced by the relative importance of the resources contributed by each unit. To quote Salancik and Pfeffer,

Subunit power accrues to those departments that are most instrumental in bringing or in providing resources which are highly valued by the total organization. In turn, this power enables these subunits to obtain more of those scarce and critical resources allocated within the organization.

Stated succinctly, power derived from acquiring resources is used to obtain more resources, which in turn can be employed to produce more power—"the rich get richer."<sup>22</sup>

To document their case, Salancik and Pfeffer carried out a major study of university budget decisions. The results were clear. The more clout a department had (measured in terms of the department's ability to secure outside grants and first-rate graduate students, plus its national standing among comparable departments), the easier it was for

the department to secure additional university resources. In other words, resources were acquired through political processes, not rational ones.<sup>23</sup>

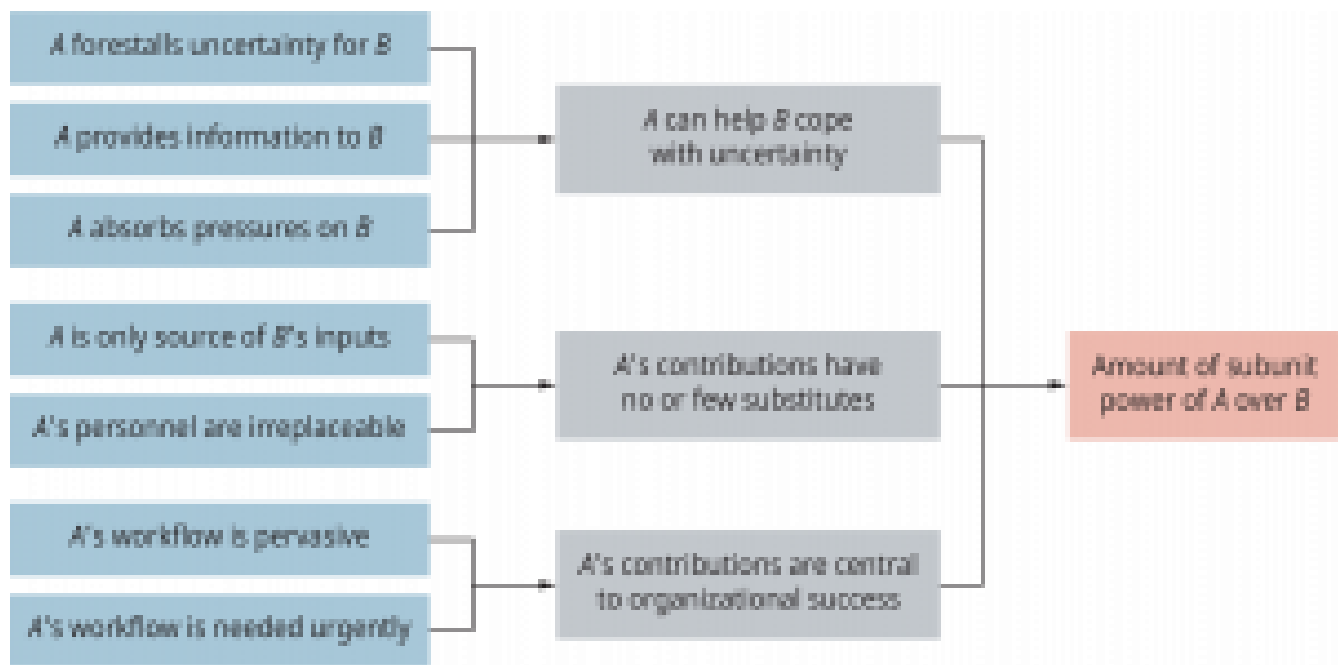
## Power and the Control of Strategic Activities

In addition to the control of critical resources, subunits can also attain power by gaining control over activities that are needed by others to complete their tasks. These critical activities have been called strategic contingencies. A contingency is defined by Miles as “a requirement of the activities of one subunit that is affected by the activities of other subunits.”<sup>24</sup> For example, the business office of most universities represents a strategic contingency for the various colleges within the university because it has veto or approval power over financial expenditures of the schools. Its approval of a request to spend money is far from certain. Thus, a contingency represents a source of uncertainty in the decision-making process. A contingency becomes *strategic* when it has the potential to alter the balance of interunit or interdepartmental power in such a way that interdependencies among the various units are changed.

Perhaps the best way to illustrate this is to consider the example of power distribution in various organizations attempting to deal with a major source of uncertainty—the external environment. In a classic study by Lawrence and Lorsch, influence patterns were examined for companies in three divergent industries: container manufacturing, food processing, and plastics. It was found that in *successful* firms, power distribution conformed to the firm’s strategic contingencies. For example, in the container-manufacturing companies, where the critical contingencies were customer delivery and product quality, the major share of power in decision-making resided in the sales and production staffs. In contrast, in the food-processing firms, where the strategic contingencies focused on expertise in marketing and food sciences, major power rested in the sales and research units. In other words, those who held power in the successful organizations were in areas that were of central concern to the firm and its survival at a particular time. The functional areas that were most important for organizational success were under the control of the decision makers. For less-successful firms, this congruence was not found.

The changing nature of strategic contingencies can be seen in the evolution of power distribution in major public utilities. Many years ago, when electric companies were developing and growing, most of the senior officers of the companies were engineers. Technical development was the central issue. More recently, however, as utilities face greater litigation, government regulation, and controversy over nuclear power, lawyers are predominant in the leadership of most companies. This example serves to emphasize that “subunits could inherit and lose power, not necessarily by their own actions, but by the shifting contingencies in the environment confronting the organization.”<sup>25</sup>

To better understand how this process works, consider the model shown in **Exhibit 17.6**. This diagram suggests that three factors influence the ability of one subunit (called A) over another (called B). Basically, it is argued that subunit power is influenced by (1) A’s ability to help B cope with uncertainty, (2) the degree to which A offers the only source of the required resource for B, and (3) the extent to which A’s contributions are central to organizational success. Let us consider each of these separately.



**Exhibit 17.6** A Strategic Contingencies Model of Subunit Power (Attribution: Copyright Rice University, OpenStax, under CC BY-NC-SA 4.0 license)

**Ability to Cope with Uncertainty.** According to advocates of the strategic contingencies model of power, the primary source of subunit power is the unit's ability to help other units cope with uncertainty. In other words, if our group can help your group reduce the uncertainties associated with *your* job, then our group has power over your group. As Hickson and his colleagues put it:

Uncertainty itself does not give power; coping gives power. If organizations allocate to their various subunits task areas that vary in uncertainty, then those subunits that cope most effectively with the most uncertainty should have most power within the organization, since coping by a subunit reduces the impact of uncertainty on other activities in the organization, a shock absorber function.<sup>26</sup>

As shown in **Exhibit 17.6** above, three primary types of coping activity relating to uncertainty reduction can be identified. To begin, some uncertainty can be reduced through steps by one subunit to *prevent or forestall uncertainty* for the other subunit. For example, if the purchasing group can guarantee a continued source of parts for the manufacturing group, it gains some power over manufacturing by forestalling possible uncertainty surrounding production schedules. Second, a subunit's ability to cope with uncertainty is influenced by its capacity to *provide or collect information*. Such information can forewarn of probable disruptions or problems, so corrective action can be taken promptly. Many business firms use various forecasting techniques to predict sales, economic conditions, and so forth. The third mechanism for coping with uncertainty is the unit's *ability to absorb pressures* that actually impact the organization. For instance, if one manufacturing facility runs low on raw materials and a second facility can supply it with needed materials, this second facility effectively reduces some of the uncertainty of the first facility—and in the process gains influence over it.

In short, subunit A gains power over B subunit if it can help B cope with the contingencies and uncertainties facing it. The more dependent B is upon A to ensure the smooth functioning of the unit, the more power A has over B.

**Non-substitutability of Coping Activities.** Substitutability is the capacity for one subunit to seek needed resources from alternate sources. Two factors influence the extent to which substitutability is available to a subunit. First, the *availability of alternatives* must be considered. If a subunit can get the job done using different products or processes, it is less susceptible to influence. In the IBM-compatible personal computer market, for example, there are so many vendors that no one can control the market. On the other hand, if a company is committed to a Macintosh and

iPad computing environment, only one vendor (Apple Computer) is available, which increases Apple's control over the marketplace.

Second, the *replaceability of personnel* is important. A major reason for the power of staff specialists (personnel managers, purchasing agents, etc.) is that they possess expertise in a specialized area of value to the organization. Consider also a reason for closed-shop union contracts: they effectively reduce the replaceability of workers.

Thus, a second influence on the extent of subunit power is the extent to which subunit A provides goods or services to B for which there are no (or only a few) substitutes. In this way, B needs A in order to accomplish subunit objectives.

**Centrality of Coping Activities.** Finally, one must consider the extent to which a subunit is of central importance to the operations of the enterprise. This is called the subunit's work centrality. The more interconnected subunit A is with other subunits in the organization, the more "central" it is. This centrality, in turn, is influenced by two factors. The first is workflow pervasiveness—the degree to which the actual work of one subunit is connected with the work of the subunits. If subunit B cannot complete its own tasks without the help of the work activities of subunit A, then A has power over B. An example of this is an assembly line, where units toward the end of the line are highly dependent upon units at the beginning of the line for inputs.

The second factor, workflow immediacy, relates to the speed and severity with which the work of one subunit affects the final outputs of the organization. For instance, companies that prefer to keep low inventories of raw materials (perhaps for tax purposes) are, in effect, giving their outside suppliers greater power than those companies that keep large reserves of raw materials.

When taken as a whole, then, the strategic contingency model of intergroup power suggests that subunit power is influenced when one subunit can help another unit reduce or cope with its uncertainty, the subunit is difficult to replace, or the subunit is central to continued operations. The more these three conditions prevail, the more power will become vested in the subunit. Even so, it should be recognized that the power of one subunit or group can shift over time. As noted by Hickson and his colleagues, "As the goals, outputs, technologies, and markets of organizations change, so, for each subunit, the values of the independent variables [such as coping with uncertainty, non-substitutability, and centrality] change, and the patterns of power change."<sup>27</sup> In other words, the strategic contingency model suggested here is a dynamic one that is subject to change over time as various subunits and groups negotiate, bargain, and compromise with one another in an effort to secure a more favorable position in the organizational power structure.

## MANAGERIAL LEADERSHIP

### *The Politics of Innovation*

A good example of the strategic contingencies approach to the study of power and politics can be seen in a consideration of organizational innovation. It has long been recognized that it is easier to invent something new from outside an organization than to innovate within an existing company. As a result, a disproportionate share of new products originates from small businesses and entrepreneurs, not the major corporations with all the resources to innovate. Why? Much of the answer can be found in politics.

When a person or group has a new idea for a product or service, it is often met with a barrage of resistance from different sectors of the company. These efforts are motivated by the famous "not-invented-here syndrome," the tendency of competing groups to fight over turf, and the inclination to criticize and

destroy any new proposal that threatens to change the status quo. Other groups within the company simply see little reason to be supportive of the idea.

This lack of support—indeed, hostility—occurs largely because within every company there is competition for resources. These resources can include money, power, and opportunities for promotion. As one consultant noted, “One person’s innovation is another person’s failure.” As a result, there is often considerable fear and little incentive for one strategic group within a company to cooperate with another. Because both groups usually need each other for success, nothing happens. To the extent that politics could be removed from such issues, far more energy would be available to capitalize on an innovative idea and get it to market before the competition.

Sources: M. Z. Taylor, *The Politics of Innovation*, (New York: Oxford University Press), 2017; B. Godin, “*The Politics of Innovation: Why Some Countries Are Better Than Others at Science and Technology* by Mark Zachary Taylor (review),” *Technology and Culture*, April 2018; W. Kiechel, “The Politics of Innovation,” *Fortune*, April 11, 1988, p. 131.

## CONCEPT CHECK

1. What is politics and political behavior in organizations?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 17.4 - Limiting the Influence of Political Behavior

### 4. How do you recognize and limit inappropriate or unethical political behavior where it occurs?

The final topic we will examine concerns ways in which people and groups can attempt to lessen the impact of political behavior. Clearly, politics in organizations cannot be eliminated. Yet to some extent, the negative aspects of it can be neutralized if managers carefully monitor the work environment and take remedial action where necessary. Part of this issue was discussed above, in the section on counterpower. Beyond this, however, several strategies can be identified that can help manage organizational politics. As shown in **Table 17.3**, four basic strategies can be used.<sup>28</sup>

First, efforts can be made to reduce the uncertainty in the organization through clarifying job responsibilities, bases for evaluations and rewards, and so forth. The less ambiguity in the system, the less room there is for dysfunctional political behavior. Second, managers can try to reduce interpersonal or intergroup competition by using impartial standards for resource allocation and by emphasizing the superordinate goals of the entire organization—toward which all members of the organization should be working. Third, managers can attempt to break up existing political fiefdoms through personnel reassignment or transfer or by changing the reward system to encourage interunit cooperation. Finally, managers can work to prevent the development of future fiefdoms through training programs, selection and promotion, and reward distribution.

To the extent that employees see the organization as a fair place to work and to the extent that clear goals and resource allocation procedures are present, office politics should subside, though not disappear. In organizations where politics prosper, in fact, you are likely to find a reward system that encourages and promotes such behavior. The choice is up to the organization.

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#### Limiting the Effects of Political Behavior

##### To Reduce System Uncertainty

- Make clear what are the bases and processes for evaluation.
- Differentiate rewards among high and low performers.
- Make sure the rewards are as immediately and directly related to performance as possible.

##### To Reduce Competition

- Try to minimize resource competition among managers.
- Replace resource competition with externally oriented goals and objectives.

##### To Break Existing Political Fiefdoms

- Where highly cohesive political empires exist, break them apart by removing or splitting the most dysfunctional subgroups.
- If you are an executive, be keenly sensitive to managers whose mode of operation is the personalization of political patronage. First, approach these persons with a directive to “stop the political maneuvering.” If it continues, remove them from the positions and preferably from the company.

##### To Prevent Future Fiefdoms

- Make one of the most important criteria for promotion an apolitical attitude that puts organizational ends ahead of personal power ends.

Source: Adapted from “The Use and Abuse of Corporate Politics,” by Don R. Beeman and Thomas W. Sharkey. Reprinted from *Business Horizons*, March–April 1987 by the Foundation for the School of Business at Indiana University.

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## CONCEPT CHECK

1. How can managers limit inappropriate and unethical behavior in the organization?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Key Terms

**Authority**

Represents the right to seek compliance by others.

**Bases of power**

The five bases of power are referent, expert, legitimate, reward, and coercive power.

**Bureaucratic gamesmanship**

A situation where the organizations own policies and procedures provide ammunition for power plays.

**Coalition**

A situation where one unit can effectively increase its power by forming an alliance with other groups that share similar interests.

**Coercive power**

Involves forcing someone to comply with one's wishes.

**Counterpower**

Focuses on the extent to which person B has other sources of power to buffer the effects of person A's power.

**Expert power**

Occurs when person A gains power because A has knowledge or expertise relevant to person B.

**Leadership**

The ability of one individual to elicit responses from another person that go beyond required or mechanical compliance.

**Legitimate power**

Exists when person B submits to person A because B feels that A has a right to exert power in a certain domain.

**Normative power**

Rests on the beliefs of the members in the right of the organization to govern their behavior.

**Politics**

Involves those activities taken within an organization to acquire, develop, and use power and other resources to attain preferred outcomes in a situation in which there is uncertainty and disagreement over choices.

**Power**

The probability that one actor within a social relationship will be in a position to carry out his own will despite resistance.

**Power dependencies**

A state where all people are not subject to (or dependent upon) the same bases of power.

**Referent power**

A state where allegiance is based on interpersonal attraction of one individual for another.

**Resource dependence**

When one subunit of an organization controls a scarce resource that is needed by another subunit, that subunit acquires power.

**Reward power**

Exists when person A has power over person B because A controls rewards that B wants. These rewards can cover a wide array of possibilities, including pay raises, promotions, desirable job assignments, more responsibility, new equipment, and so forth.

**Strategic contingencies**

A requirement of the activities of one subunit that is affected by the activities of other subunits.

**Utilitarian power**

Power based on performance-reward contingencies; for example, a person will comply with a supervisor in order to receive a pay raise or promotion.

**Work centrality**

The more interconnected subunit A is with other subunits in the organization, the more central it is.

**Work to rule**

Occurs when employees diligently follow every work rule and policy statement to the letter; this typically results in the organization's grinding to a halt as a result of the many and often conflicting rules and policy statements.

**Workflow immediacy**

Relates to the speed and severity with which the work of one subunit affects the final outputs of the organization.

**Workflow pervasiveness**

The degree to which the actual work of one subunit is connected with the work of the subunits.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Summary of Learning Outcomes

## 17.1 Power in Interpersonal Relations

### 1. How do power bases work in organizational life?

We might think of power like a car battery and influence as the current that actually gets the starter motor to turn over. There are many potential sources of power such as knowledge, information, and money. But just as the car battery unconnected cannot start an engine, these sources of power do not by themselves cause others to do anything. Actually, influencing others is achieved by possessing, or having others believe you possess, resources that they desire and depend upon and for which substitutes are not easily obtained and then establishing behavioral contingencies in the direction of the behaviors you desire to evoke.

Power is an interpersonal relationship in which one person or group has the ability to cause another person or group to take an action that it would not have taken otherwise.

There are five basic kinds of power: (1) referent, (2) expert, (3) legitimate, (4) reward, and (5) coercive.

Depending upon which kind of power is employed, the recipient of a power effort can respond with commitment, compliance, or resistance.

## 17.2 Uses of Power

### 2. How do you recognize and account for the exercise of counterpower and make appropriate use of strategic contingencies in interunit or interorganizational relations?

Power dependency is the extent to which a person or group is susceptible to an influence attempt. Included here is the notion of counterpower, or the ability of the subordinate to exercise some power and buffer the influence attempt of another.

Common power tactics include controlling access to information, controlling access to persons, the selective use of objective criteria, controlling the agenda, using outside experts, bureaucratic gamesmanship, and forming coalitions and alliances.

The resource dependence model suggests that one unit within an organization has power over another unit when the first unit controls scarce and valued resources needed by the second unit.

The strategic contingencies model asserts that one unit has power over another when the first group has the ability to block the second group's goal attainment—that is, when it controls some strategic contingency needed by the second group to complete its task.

## 17.3 Political Behavior in Organizations

### 3. How do managers cope effectively with organizational politics?

Politics involves those activities taken within an organization to acquire, develop, and use power and other resources to attain preferred outcomes in a situation in which there is uncertainty and disagreement over choices.

Political behavior is more likely to occur when (1) there are ambiguous goals, (2) there is a scarcity of resources, (3) nonroutine technology and a complex external environment are involved, (4) nonprogrammed decisions are being considered, and (5) organizational change is occurring.

## 17.4 Limiting the Influence of Political Behavior

4. How do you recognize and limit inappropriate or unethical political behavior where it occurs?

Political behavior can be reduced or minimized in organizations through four techniques: (1) reducing organization uncertainty, (2) reducing interunit competition, (3) breaking up political fiefdoms, and (4) preventing the development of future fiefdoms.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Chapter Review Questions

1. Compare and contrast power, authority, and leadership.
2. Identify five bases of power, and provide an example of each. Which base (or bases) of power do you feel would be most commonly found in organizations?
3. Discuss the concept of power dependencies. What is the relationship between power dependencies and bases of power?
4. What is counterpower? Provide an example of counterpower from your own experience.
5. Why is it important to understand political behavior in organizations?
6. Define politics. How does politics differ from power?
7. Compare and contrast the resource dependence model of power and politics with the strategic contingency model.
8. Identify several specific power tactics in organizations, and provide an example of each.
9. Why is it important that the exercise of power and politics be handled in an ethical fashion? What might happen if employees felt that managers were using power in an unethical fashion?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Management Skills Application Exercises

1. You might find it interesting to look at your own bases of power in an organization you have worked with. To do this, simply think of your present or past job, and complete this self-assessment. When you have finished, refer to **Appendix B** for scoring procedures.

## *What Are Your Bases of Power?*

*Instructions:* Using a current or former job, answer each of the following items by circling the response that most suits your answer.

	Strongly Disagree		Strongly Agree	
1. I always try to set a good example for other employees.	1	2	3 4	5
2. My coworkers seem to respect me on the job.	1	2	3 4	5
3. Many employees view me as their informal leader at work.	1	2	3 4	5
4. I know my job very well.	1	2	3 4	5
5. My skills and abilities help me a lot on this job.	1	2	3 4	5
6. I continually try to improve the way I do my job.	1	2	3 4	5
7. I have considerable authority in my job.	1	2	3 4	5
8. Decisions made at my level are critical to organizational success.	1	2	3 4	5
9. Employees frequently ask me for guidance.	1	2	3 4	5
10. I am able to reward people at lower levels in the organization.	1	2	3 4	5
11. I am responsible for evaluating those below me.	1	2	3 4	5
12. I have a say in who gets a bonus or pay raise.	1	2	3 4	5
13. I can punish employees at lower levels.	1	2	3 4	5
14. I check the work of lower-level employees.	1	2	3 4	5
15. My diligence helps to reduce the errors of others on the job.	1	2	3 4	5

2. It might be interesting for you to evaluate your own level of political behavior. To do this, complete this self-assessment. When you have finished, score your questionnaire according to the procedure outlined in **Appendix B**.



## How Political Are You?

**Instructions:** To determine your political appreciation and tendencies, please answer the following questions. Select the answer that better represents your behavior or belief, even if that particular behavior or belief is not present all the time.

---

- |  |                           |
|--|---------------------------|
| 1. You should make others feel important through an open appreciation of their ideas and work.   | _____ True<br>_____ False |
| 2. Because people tend to judge you when they first meet you, always try to make a good first impression.  | _____ True<br>_____ False |
| 3. Try to let others do most of the talking, be sympathetic to their problems, and resist telling people that they are totally wrong.                  | _____ True<br>_____ False |
| 4. Praise the good traits of the people you meet and always give people an opportunity to save face if they are wrong or make a mistake.               | _____ True<br>_____ False |
| 5. Spreading false rumors, planting misleading information, and backstabbing are necessary, if somewhat unpleasant, methods to deal with your enemies. | _____ True<br>_____ False |
| 6. Sometimes it is necessary to make promises that you know you will not or cannot keep.   | _____ True<br>_____ False |
| 7. It is important to get along with everybody, even with those who are generally recognized as windbags, abrasive, or constant complainers.           | _____ True<br>_____ False |
| 8. It is vital to do favors for others so that you can call in these IOUs at times when they will do you the most good.                                | _____ True<br>_____ False |
| 9. Be willing to compromise, particularly on issues that are minor to you but important to others.   | _____ True<br>_____ False |
| 10. On controversial issues, it is important to delay or avoid your involvement if possible.   | _____ True<br>_____ False |

Source: Adapted from Joseph F. Byrnes, "Connecting Organizational Politics and Conflict Resolution," *Personnel Administrator*, June 1986, p.49.

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Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Managerial Decision Exercises

1. You have recently been promoted to the position of president of the division from your current role as VP of accounting and finance. Many people thought that the VP of sales and marketing would get the position, but you and he had always been friendly, and you thought that things would go smoothly. After about six months in the new position, you notice that he has been fighting you in small and subtle ways. You recognize his value, so you decide to let things play out and even mention other possibilities for promotion within the organization that he could apply for and that you would be supportive. After 11 months, things have not improved, and you are considering letting your colleague go. You are hesitant, however, because your organization needs a strong sales and marketing department. What should you do? If this power struggle continues, how do you think it will affect the larger organization?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Critical Thinking Case

## *The Ohio Connection*

Janey worked as an executive assistant to a product manager at her company: Ohio Connection. Overall, she loved her job; she was happy to work with a company that provided great benefits, and she found enjoyment in her day-to-day work. She had the same product manager boss for years, but last year, her manager left Ohio Connection and retired. Recently her new manager has been treating her unfairly and showcasing bullying behavior.

Yesterday, Janey came into work, and her boss decided to use their power as her manager and her “superior” to demand that she stay late to cover for him, correct reports that he had made mistakes on, and would not pay her overtime. She was going to be late to pick up her son from soccer practice if she stayed late; she told him this, and he was not happy.

Over subsequent days, her boss consistently would make comments about her performance, even though she had always had good remarks on reviews, and created a very negative work environment. The next time she was asked to stay late, she complied for fear of losing her job or having other negative impacts on her job. Janey’s situation was not ideal, but she didn’t feel she had a choice.

Questions:

1. What type of power did Janey’s boss employ to get her to do the things that he wanted her to do?
2. What negative consequences are apparent in this situation and other situations where power is not balanced in the workplace?
3. What steps should Janey take to counteract the power struggle that is occurring with her new manager?

Sources: A. Morin, “How to Prevent a Workplace Bully from taking Your Power,” *Inc.*, June 25, 2018, <https://www.inc.com/amy-morin/how-to-prevent-a-workplace-bully-from-taking-your-power.html>; V. Giang, “The 7 Types Of Power That Shape The Workplace,” *Business Insider*, July 31, 2013, <https://www.businessinsider.com/the-7-types-of-power-that-shape-the-workplace-2013-7>; B. Weinstein, “10 Tips for Dealing with a Bully Boss,” *CIO*, accessed October 13, 2018, [https://www.cio.com.au/article/198499/10\\_tips\\_dealing\\_bully\\_boss/](https://www.cio.com.au/article/198499/10_tips_dealing_bully_boss/).

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# 18 - DIVERSITY

## Learning Outcomes

**After reading this chapter, you should be able to answer these questions:**

1. What is diversity?
2. How diverse is the workforce?
3. How does diversity impact companies and the workforce?
4. What is workplace discrimination, and how does it affect different social identity groups?
5. What key theories help managers understand the benefits and challenges of managing the diverse workforce?
6. How can managers reap benefits from diversity and mitigate its challenges?
7. What can organizations do to ensure applicants, employees, and customers from all backgrounds are valued?

## EXPLORING MANAGERIAL CAREERS

*Dr. Tamara A. Johnson, Assistant Chancellor for Equity, Diversity, and Inclusion at University of Wisconsin-Eau Claire*

Dr. Tamara Johnson's role as assistant chancellor for equity, diversity, and inclusion at the University of Wisconsin-Eau Claire involves supervising and collaborating with various campus entities to ensure their operations continue to support the university's initiatives to foster diversity and equity within the university community. Dr. Johnson oversees the Affirmative Action, Blugold Beginnings (pre-college program), Gender and Sexuality Resource Center, Office of Multicultural Affairs, Ronald E. McNair Program, Services for Students with Disabilities, Student Support Services, University Police, and Upward Bound units and leads campus-wide initiatives to educate and train faculty, students, and staff about cultural awareness, diversity, and institutional equity.

Dr. Johnson's journey to her current role began more than 20 years ago when she worked as a counselor for the Office of Multicultural Student Affairs at the University of Illinois. Her role in this office launched her on a path through university service—Dr. Johnson went on to work as the associate director for University Career Services at Illinois State University, the director for multicultural student affairs at Northwestern University, and the director for faculty diversity initiatives at the University of Chicago. As faculty at the Chicago School of Professional Psychology, Argosy University, and Northwestern University, Dr. Johnson taught counseling courses at the undergraduate, master's, and doctorate levels.

Dr. Johnson's work at the University of Wisconsin-Eau Claire involves developing a program and protocols to ensure all faculty and staff across the institution receive baseline diversity training. In addition, one of her goals is to include criteria related to diversity factors in the evaluations of all faculty/staff. A primary issue that she seeks to address is to increase the awareness of the challenges experienced by underrepresented students. This includes individuals who may come from backgrounds of low income, students of color, first-generation students, and other marginalized groups such as lesbian, gay, bisexual, and transgender students. Dr. Johnson understands the importance of creating initiatives to support individuals in those groups so their specific concerns may be addressed in multiple ways. As you will learn in this chapter, when leaders proactively create an inclusive and supportive climate that values diversity, benefits are produced that result in positive outcomes for organizations.

Source contents: <https://openstax.org/details/books/principles-management> and <https://openstax.org/details/books/organizational-behavior>

# 18.1 - An Introduction to Workplace Diversity

## 1. What is diversity?

Diversity refers to identity-based differences among and between two or more people<sup>1</sup> that affect their lives as applicants, employees, and customers. These identity-based differences include such things as race and ethnicity, gender, sexual orientation, and age. Groups in society based on these individual differences are referred to as identity groups. These differences are related to discrimination and disparities between groups in areas such as education, housing, healthcare, and employment. The term managing diversity is commonly used to refer to ways in which organizations seek to ensure that members of diverse groups are valued and treated fairly within organizations<sup>2</sup> in all areas including hiring, compensation, performance evaluation, and customer service activities. The term *valuing diversity* is often used to reflect ways in which organizations show appreciation for diversity among job applicants, employees, and customers.<sup>3</sup> Inclusion, which represents the degree to which employees are accepted and treated fairly by their organization,<sup>4</sup> is one way in which companies demonstrate how they value diversity. In the context of today's rapidly changing organizational environment, it is more important than ever to understand diversity in organizational contexts and make progressive strides toward a more inclusive, equitable, and representative workforce.

Three kinds of diversity exist in the workplace (see **Table 18.1**). Surface-level diversity represents an individual's visible characteristics, including, but not limited to, age, body size, visible disabilities, race, or sex.<sup>5</sup> A collective of individuals who share these characteristics is known as an identity group. Deep-level diversity includes traits that are nonobservable such as attitudes, values, and beliefs.<sup>6</sup> Hidden diversity includes traits that are deep-level but may be concealed or revealed at the discretion of individuals who possess them.<sup>7</sup> These hidden traits are called invisible social identities<sup>8</sup> and may include sexual orientation, a hidden disability (such as a mental illness or chronic disease), mixed racial heritage,<sup>9</sup> or socioeconomic status. Researchers investigate these different types of diversity in order to understand how diversity may benefit or hinder organizational outcomes.

Diversity presents challenges that may include managing dysfunctional conflict that can arise from inappropriate interactions between individuals from different groups. Diversity also presents advantages such as broader perspectives and viewpoints. Knowledge about how to manage diversity helps managers mitigate some of its challenges and reap some of its benefits.

Types of Diversity	
Surface-level diversity	Diversity in the form of characteristics of individuals that are readily visible including, but not limited to, age, body size, visible disabilities, race or sex.
Deep-level diversity	Diversity in characteristics that are nonobservable such as attitudes, values, and beliefs, such as religion.
Hidden diversity	Diversity in characteristics that are deep-level but may be concealed or revealed at discretion by individuals who possess them, such as sexual orientation.

Table 18.1 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## CONCEPT CHECK

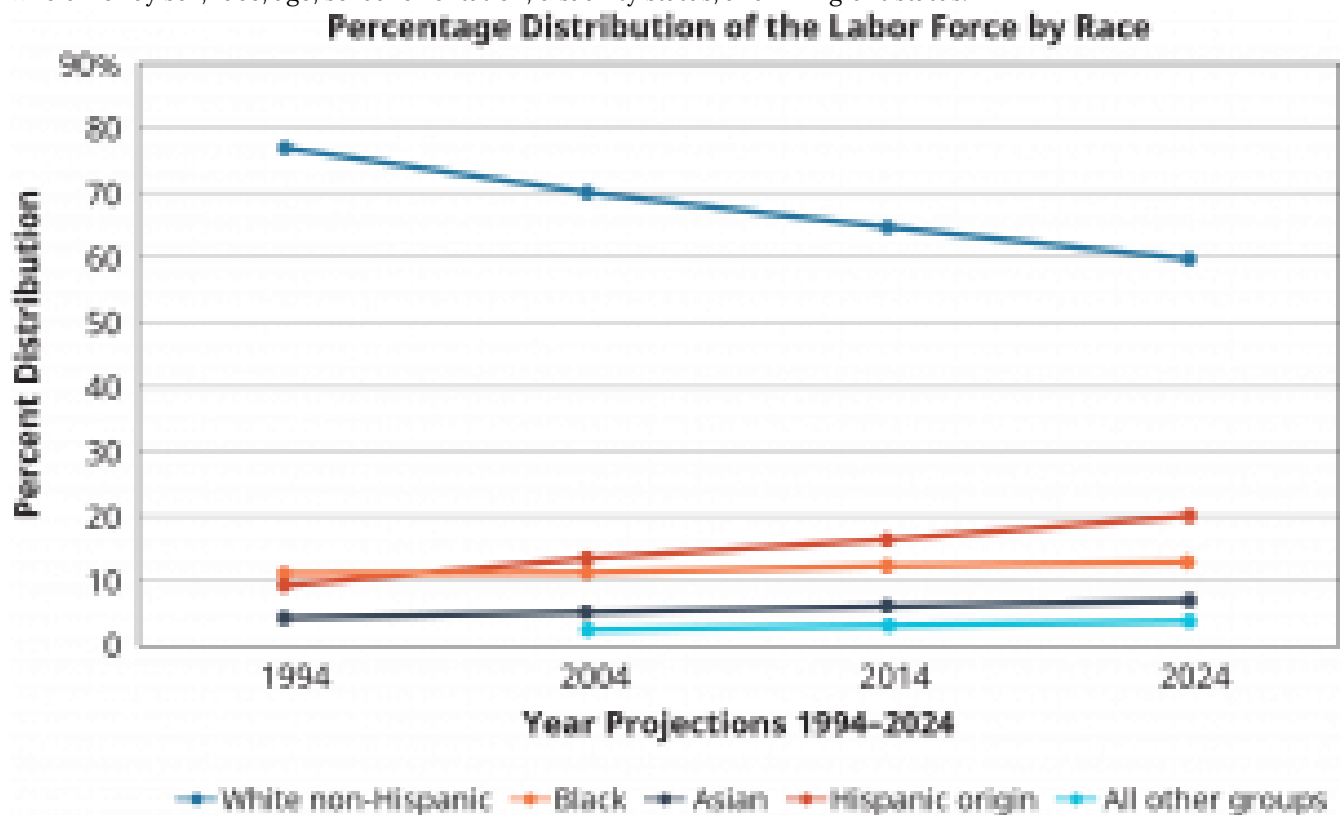
1. What is diversity?
2. What are the three types of diversity encountered in the workplace?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 18.2 - Diversity and the Workforce

### 2. How diverse is the workforce?

In 1997, researchers estimated that by the year 2020, 14% of the workforce would be Latino, 11% Black, and 6% Asian.<sup>10</sup> Because of an increase in the number of racial minorities entering the workforce over the past 20 years, most of those projections have been surpassed as of 2016, with a workforce composition of 17% Hispanic or Latino of any race, followed by 12% Black and 6% Asian (see **Exhibit 18.1**). American Indians, Alaska Natives, Native Hawaiians, and Other Pacific Islanders together made up a little over 1% of the labor force, while people of two or more races made up about 2% of the labor force.<sup>11</sup> Women constitute approximately 47% of the workforce compared to approximately 53% for men,<sup>12</sup> and the average age of individuals participating in the labor force has also increased because more employees retire at a later age.<sup>13</sup> Although White people still predominantly make up the workforce with a 78% share,<sup>14</sup> the U.S. workforce is becoming increasingly more diverse, a trend that presents both opportunities and challenges. These demographic shifts in the labor market affect the workforce in a number of ways due to an increasing variety of workers who differ by sex, race, age, sexual orientation, disability status, and immigrant status.



**Exhibit 18.1** Percentage distribution of the labor force by race (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

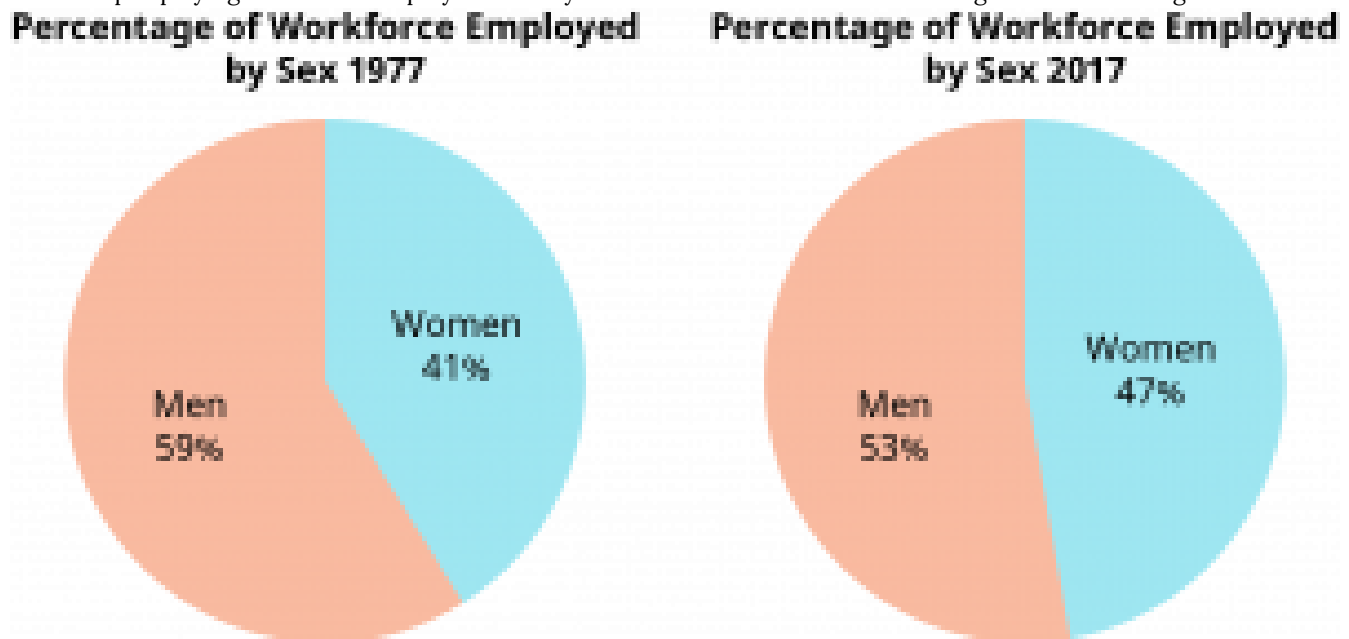
### Gender

Increasingly more women are entering the workforce.<sup>15</sup> Compared to 59% in 1977, the labor force participation rate for men is now approximately 53% and is expected to decrease through 2024 to 52%.<sup>16</sup> As the labor force participation rate



decreases for men, the labor force growth rate for women will be faster. Their percentage of the workforce has steadily risen, as can be seen in **Exhibit 18.2**, which compares the percentage of the workforce by gender in 1977 to 2017.<sup>17</sup>

Although more women are entering the labor force and earning bachelor's degrees at a higher rate than men,<sup>18</sup> women still face a number of challenges at work. The lack of advancement opportunities awarded to qualified women is an example of a major challenge that women face called the glass ceiling,<sup>19</sup> which is an invisible barrier based on the prejudicial beliefs that underlie organizational decisions that prevent women from moving beyond certain levels within a company. Additionally, in organizations in which the upper-level managers and decision makers are predominantly men, women are less likely to find mentors, which are instrumental for networking and learning about career opportunities. Organizations can mitigate this challenge by providing mentors for all new employees. Such a policy would help create a more equal playing field for all employees as they learn to orient themselves and navigate within the organization.



**Exhibit 18.2** Percentage Distribution of the Labor Force by Sex (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

One factor that greatly affects women in organizations is sexual harassment. Sexual harassment is illegal, and workers are protected from it by federal legislation.<sup>20</sup> Two forms of sexual harassment that can occur at work are quid pro quo and hostile environment.<sup>21</sup> Quid pro quo harassment refers to the exchange of rewards for sexual favors or punishments for refusal to grant sexual favors. Harassment that creates a hostile environment refers to behaviors that create an abusive work climate. If employees are penalized (for example by being demoted or transferred to another department) for refusing to respond to repeated sexual advances, quid pro quo sexual harassment has taken place. The telling of lewd jokes, the posting of pornographic material at work, or making offensive comments about women in general are examples of actions that are considered to create a hostile work environment. According to the Equal Employment Opportunity Commission, sexual harassment is defined as the “unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature. Harassment can also include offensive remarks about a person’s sex.”<sup>22</sup> Although both men and women can be sexually harassed, women are sexually harassed at work more often.<sup>23</sup> In addition, Black and other minority women are especially likely to be subjected to sexual discrimination and harassment.<sup>24</sup>

It is in the organization’s best interest to prevent sexual harassment from occurring. Ways to do this include companies providing ongoing (e.g., annual) training so that employees are able to recognize sexual harassment. Employees should know what constitutes acceptable and unacceptable behavior and what channels and protocols are in place for

reporting unacceptable behaviors. Managers should understand their role and responsibilities regarding harassment prevention, and a clear and understandable policy should be communicated throughout the organization.

Just as gender-based discrimination is illegal and inappropriate, so is discrimination or mistreatment based on pregnancy, childbirth, or related medical conditions. While organizations may have different policies regarding maternity and paternity leave, they must comply with both the Pregnancy Discrimination Act and the Family Medical Leave Act.

## Race

Another important demographic shift in workforce diversity is the distribution of race. (Note that we are using categories defined by the U.S. Census Bureau. It uses the term “Black (African American)” to categorize U.S. residents. In this chapter, we use the term “Black.”)

While the White non-Hispanic share of the workforce continues to shrink, the share of racial and ethnic minority groups will continue to grow.<sup>25</sup> Specifically, Hispanic people and Asian people will grow at a faster rate than other racial minorities, and Hispanic people are projected to make up almost one-fifth of the labor force by 2024.<sup>26</sup> The projected changes in labor force composition between 2014 and 2024 are as follows:

White non-Hispanic participation in the labor force will decline by 3%. Other groups’ share of the labor force is expected to increase: Black (10.1%), Hispanic/Latino (28%), Asian (23.2%), and Other groups (i.e., multiracial, American Indian, Alaska Native, Native Hawaiian, and Other Pacific Islanders) labor force share is expected to increase by 22.2%.<sup>27</sup> With the workforce changing, managers will need to be mindful of issues employees encounter that are uniquely tied to their experiences based on race and ethnicity, including harassment, discrimination, stereotyping, and differential treatment by coworkers and decision makers in organizations.

### *Discrimination Against Black Employees*

Race is one of the most frequent grounds for discrimination.<sup>28</sup> Although Black people do not make up the largest share of the workforce for racial minorities, research studies show they face discrimination more often than other racial minorities. As a matter of fact, some experts believe that hiring discrimination against Black people has not declined over the past 25 years while workplace discrimination against other racial minority groups has declined.<sup>29</sup>

## ETHICS IN PRACTICE

### *Discrimination in the Sharing Economy—#AirbnbWhileBlack*

Airbnb, a popular home-sharing website founded in San Francisco in 2008, offers millions of homes for short-term rental in more than 190 countries. This company has revolutionized the sharing economy in the same way that ride-sharing services such as Uber and Lyft have, and according to the company, the site’s drive to connect hosts and potential renters has been able to contribute to the quality of life of both homeowners and travelers. According to Airbnb’s press releases and information campaigns, their services can reduce housing costs for travelers on a budget and can provide unique experiences for adventurous travelers who wish to have the flexibility to experience a city like a local. The organization also claims that most of its users are homeowners looking to supplement their incomes by

renting out rooms in their homes or by occasionally renting out their whole homes. According to a statement, most of the listings on the site are rented out fewer than 50 nights per year.

Despite the carefully crafted messages Airbnb has presented to the public, in 2016 the company came under intense scrutiny when independent analyses by researchers and journalists revealed something startling: While some Airbnb hosts did in fact use the services only occasionally, a significant number of hosts were using the services as though they were hotels. These hosts purchased a large number of properties and continuously rented them, a practice that affected the availability of affordable housing in cities and, because these hosts were not officially registered as hoteliers, made it possible for Airbnb hosts to avoid paying the taxes and abiding by the laws that hotels are subject to.

Title II of the Civil Rights Act of 1964 mandates that hotels and other public accommodations must not discriminate based on race, national origin, sex, or religion, and Title VIII of the Civil Rights Act of 1968 (also known as the Fair Housing Act [FHA]) prohibits discrimination specifically in housing. However, Airbnb's unique structure allows it to circumvent those laws. The company also claims that while it encourages hosts to comply with local and federal laws, it is absolved from responsibility if any of its hosts break these laws. In 2017, researcher Ben Edelman conducted a field experiment and found that Airbnb users looking to rent homes were 16% less likely to have their requests to book accepted if they had traditionally African American sounding names like Tamika, Darnell, and Rasheed.

These findings, coupled with a viral social media campaign, #AirbnbWhileBlack, in which users claimed they were denied housing requests based on their race, prompted the state of California's Department of Fair Employment and Housing (DFEH) to file a complaint against the company. In an effort to resolve the complaint, Airbnb reported banning any hosts who were found to have engaged in discriminatory practices, and they hired former U.S. Attorney General Eric Holder and former ACLU official Laura Murphy to investigate any claims of discrimination within the company.<sup>30</sup> In 2016, Airbnb released a statement outlining changes to company practices and policies to combat discrimination, and while they initially resisted demands by the DFEH to conduct an audit of their practices, the company eventually agreed to an audit of roughly 6,000 of the hosts in California who have the highest volume of properties listed on the site.

Sources: AirBnB Press Room, accessed December 24, 2018, <https://press.atairbnb.com/about-us/>; "Airbnb's data shows that Airbnb helps the middle class. But does it?", *The Guardian*, accessed December 23, 2018, <https://www.theguardian.com/technology/2016/jul/27/airbnb-panel-democratic-national-convention-survey> ; and Quittner, Jeremy, "Airbnb and Discrimination: Why It's All So Confusing", *Fortune*, June 23, 2016, <http://fortune.com/2016/06/23/airbnb-discrimination-laws/>.

#### Discussion Questions

1. What are some efforts companies in the sharing economy can take before problems of discrimination threaten to disrupt operations?
2. Should Airbnb be held responsible for discriminatory actions of its hosts?

Currently, White men have higher participation rates in the workforce than do Black men,<sup>31</sup> and Black women have slightly higher participation rates than White women.<sup>32</sup> Despite growth and gains in both Black education and Black employment, a Black person is considerably more likely to be unemployed than a White person, even when the White person has a lower level of education<sup>33</sup> or a criminal record.<sup>34</sup>

Black people frequently experience discrimination in the workplace in spite of extensive legislation in place to prohibit such discrimination. Research has shown that stereotypes and prejudices about Black people can cause them to be denied the opportunity for employment when compared to equally qualified White people.<sup>35</sup> It is estimated that about 25% of businesses have no minority workers and another 25% have less than 10% minority workers.<sup>36</sup> In terms of employed Black people, research has shown that, regardless of managers' race, managers tended to give significantly higher performance ratings to employees who were racially similar to them. Because White people are much more likely to be managers than Black people, this similarity effect tends to advantage White employees over Black employees.<sup>37</sup> Black people are also significantly more likely to be hired in positions that require low skills, offer little to no room for growth, and pay less. These negative employment experiences affect both the mental and physical health of Black employees.<sup>38</sup>

## *Hispanic/Latino*

Hispanic people are the second-fastest-growing minority group in the United States behind Asian people,<sup>39</sup> and they make up 17% of the labor force.<sup>40</sup> Despite this and the fact that Hispanic people have the highest labor participation rate of all the minority groups, they still face discrimination and harassment in similar ways to other minority groups. (Note that we are again using the categories as defined by the U.S. Census Bureau, which predominantly uses the term “Hispanic” to refer to people of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin.)

Hispanic people can be of any race.<sup>41</sup> As a matter of fact, increasingly more Hispanic people are identifying racially as White. In 2004 almost half of Hispanic people identified themselves racially as White, while just under half identified themselves as “some other race.”<sup>42</sup> More than 10 years later, approximately 66% of Hispanic people now identify themselves racially as White while only 26% identify themselves as “some other race.”<sup>43</sup> The remaining Hispanic population, totaling approximately 7%, identify as either Black, American Indian, Asian, Alaskan Native, Pacific Islander, or Native Hawaiian.<sup>44</sup>

Why would a minority identity group identify racially as White? A Pew study found that the longer Hispanic families lived in the United States, the more likely they were to claim White as their race even if they had not done so in the past.<sup>45</sup> This suggests that upward mobility in America may be perceived by some Hispanic people to be equated with “Whiteness.”<sup>46</sup> Consequently, Hispanic people who self-identify racially as White experience higher rates of education and salary, and lower rates of unemployment.<sup>47</sup> Additionally, only 29% of Hispanic people polled by the Pew Hispanic Center believe they share a common culture.<sup>48</sup> According to the Pew Research Center, this finding may be due to the fact that the Hispanic ethnic group in the United States is made up of at least 14 Hispanic origin groups (such as Puerto Rican, Cuban, Spanish, Mexican, Dominican, and Guatemalan, among many others).<sup>49</sup> Each of these groups has its own culture with different customs, values, and norms.

These cultural differences among the various Hispanic groups, combined with different self-perceptions of race, may also affect attitudes toward their workplace environment. For example, one study found that the absenteeism rate among Black people was related to the level of diversity policies and activities visible in the organization, while the absenteeism rate among Hispanic people was similar to that of White people and not related to those diversity cues.<sup>50</sup> Results from this study suggest that managers need to be aware of how diversity impacts their workplace, namely addressing the relationship between Hispanic job seekers or workers and organizational outcomes concerning diversity policies as it may differ from that of other racial minorities.

## *Asian and Asian American*

Asian people are the fastest-growing ethnic group in the United States, growing 72% between 2000 and 2015.<sup>51</sup> Compared to the rest of the U.S. population overall, households headed by Asian Americans earn more money and are more likely to have household members who hold a bachelor’s degree.<sup>52</sup> However, there is a wide range of income levels among the Asian population that differs between the more than 19 groups of Asian origin in the United States.<sup>53</sup>

Similar to other racial and ethnic minority groups, Asian people are stereotyped and face discrimination at work. Society through media often stereotypes Asian men as having limited English-speaking skills and as being highly educated, affluent, analytical, and good at math and science.<sup>54</sup> Asian women are often portrayed as weak and docile.<sup>55</sup> For Asian women, and other minority women as well, social stereotypes depicting them as exotic contribute to reports of sexual harassment from women minority groups.<sup>56</sup>

The model minority myth<sup>57</sup> is a reflection of perceptions targeting Asian people and Asian Americans that contrast the stereotypes of “conformity” and “success” of Asian men with stereotypes of “rebelliousness” and “laziness” of other minority men. It also contrasts the stereotyped “exotic” and “obedient” nature of Asian women against the stereotypical beliefs that White women are “independent” and “pure.”<sup>58</sup> These perceptions are used not only to invalidate injustice

that occurs among other racial minorities, but also to create barriers for Asian and Asian Americans seeking leadership opportunities as they are steered toward “behind the scenes” positions that require less engagement with others. These stereotypes also relegate Asian women into submissive roles in organizations, making it challenging for Asian men and women to advance in rank at the same rate as White male employees.<sup>59</sup>

## *Multiracial*

Although the U.S. Census Bureau estimates that approximately 2% of the U.S. population describes themselves as belonging to more than one race, the Pew Research Center estimates that number should be higher, with around 7% of the U.S. population considered multiracial.<sup>60</sup> This is due to the fact that some individuals may claim one race for themselves even though they have parents from different racial backgrounds. To complicate matters even more, when collecting data from multiracial group members, racial identity for individuals in this group may change over time because race is a social construct that is not necessarily based on a shared culture or country of origin in the same way as ethnicity. As a result, multiracial individuals (and Hispanic people) have admitted to changing their racial identity over the course of their life and even based on the situation. Approximately 30% of multiracial individuals polled by the Pew Research Center say that they have varied between viewing themselves as belonging to one race or belonging to multiple races. Within the group polled, the order in which they first racially identified as belonging to one racial group versus belonging to more than one group varied.<sup>61</sup>

Despite the fact that multiracial births have risen tenfold between 1970 and 2013,<sup>62</sup> their participation in the labor force is only around 2%.<sup>63</sup> Additionally, multiracial individuals with a White racial background are still considered a racial minority unless they identify themselves solely as White, and approximately 56% of them on average say they have been subjected to racial jokes and slurs.<sup>64</sup> Discrimination also varies when multiracial groups are broken down further, with Black–American Indians having the highest percentage of individuals reporting discrimination and White–Asian people having the lowest percentage.<sup>65</sup>

At work, multiracial employees are sometimes mistaken for races other than their own. If their racial minority background is visible to others, they may experience negative differential treatment. Sometimes they are not identified as having a racial or ethnic minority background and are privy to disparaging comments from unsuspecting coworkers about their own race, which can be demoralizing and can lead to lower organizational attachment and emotional strain related to concealing their identity.<sup>66</sup>

## *Other Groups*

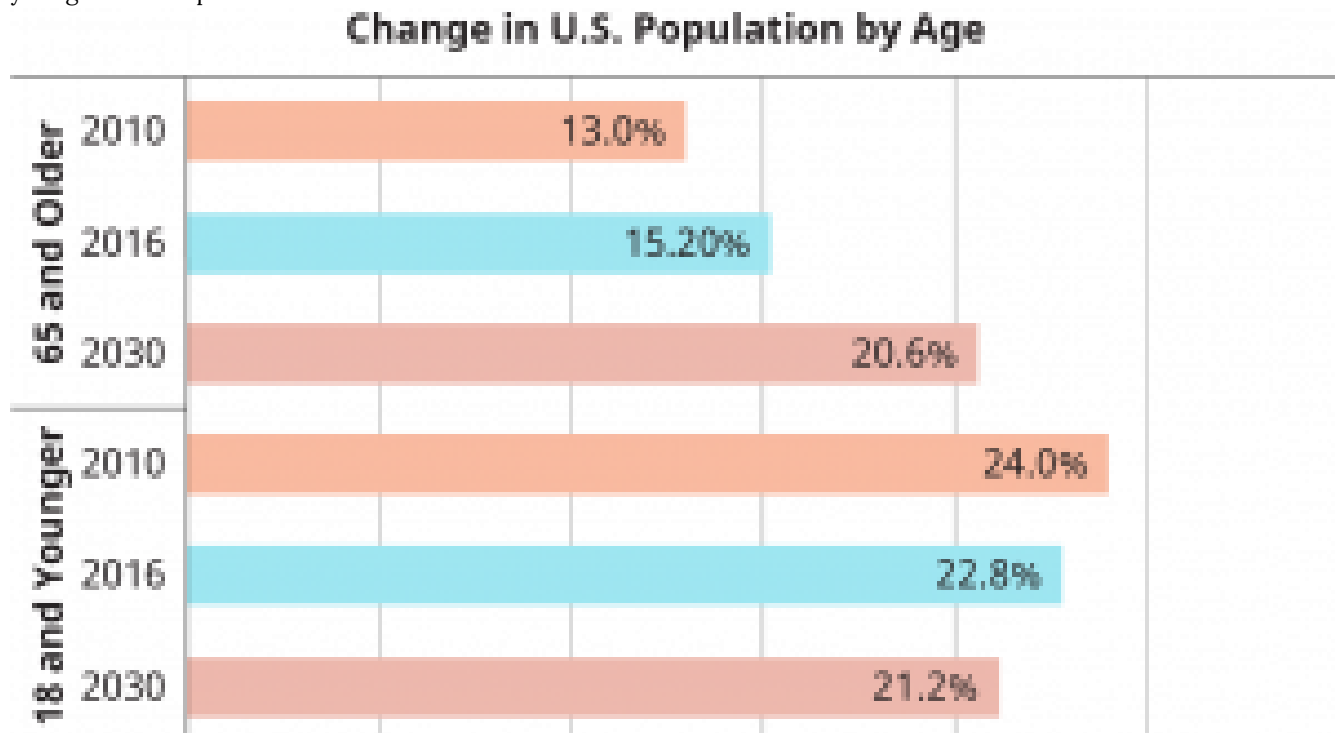
Approximately 1% of the labor force identifies as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or some other race.<sup>67</sup>

## *Age*

The age distribution of an organization's workforce is an important dimension of workplace diversity as the working population gets older. Some primary factors contributing to an older population include the aging of the large Baby Boomer generation (people born between 1946 and 1964), lower birth rates, and longer life expectancies<sup>68</sup> due to advances in medical technology and access to health care. As a result, many individuals work past the traditional age of retirement (65 years old) and work more years than previous generations in order to maintain their cost of living.

**Exhibit 18.3** compares the percentage of the population over the age of 65 to those under the age of 18 between 2010

and 2016. The number of older individuals has increased and is projected to reach 20.6% by the year 2030 while the number of younger individuals has steadily decreased within that time period. These numbers imply that organizations will increasingly have employees across a wide range of ages, and cross-generational interaction can be difficult to manage. Although older workers are viewed as agreeable and comfortable to work with, they are also stereotyped by some employees as incompetent<sup>69</sup> and less interested in learning new tasks at work compared to younger workers.<sup>70</sup> Studies have found support for the proposition that age negatively relates to cognitive functioning.<sup>71</sup> However, if managers offer less opportunity to older workers solely because of declining cognitive functioning, it can be detrimental to organizational performance because older workers outperform younger workers on a number of other job performance measures. Compared to younger workers, older workers are more likely to perform above their job expectations and follow safety protocols. They are also less likely to be tardy, absent, or abuse drugs or alcohol at work compared to their younger counterparts.



**Exhibit 18.3** Change in U.S. population by age (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

## Sexual Orientation and Gender Identity

Sexual orientation diversity is increasing in the workforce. In June, 2020, the Supreme Court ruled that the Civil Rights Act prohibits discrimination based on sexual orientation and gender identity. Until this ruling, only 21 states and Washington D.C. prohibited such discrimination.<sup>72</sup> With this new federal protection, individuals cannot be hired or fired for their sexual orientation, gender identity, or gender expression.<sup>73</sup> However, although the Civil Rights Act does not provide federal protection to lesbian, gay, bisexual and transgender, and queer/questioning (LGBTQ) employees, that protection is not complete. LGBTQ people can still face other types of discrimination inside and outside of the workplace, and some employers and lawmakers may take up the issue in the future. On a positive note, more than half of the Fortune 500 companies have corporate policies that protect sexual minorities from discrimination at work and offer domestic-partner benefits.<sup>74</sup> Many employers are beginning to understand that being perceived as inclusive will make

them more attractive to a larger pool of job applicants.<sup>75</sup> Furthermore, many organizations have come to recognize that gender and sexual orientation equity aligns to their mission and ethics.

Unfortunately, the percentage of hate crimes relating to sexual orientation discrimination has increased.<sup>76</sup> Indeed, LGBTQ employees are stigmatized so much that in a recent study, researchers found that straight-identifying participants were more attracted to employers with no job security to offer them compared to gay-friendly employers.<sup>77</sup> In other words, individuals would waive job security to avoid working with sexual minorities. Also, compared to heterosexuals, sexual minorities have higher education levels<sup>78</sup> but still face hiring and treatment discrimination frequently.<sup>79</sup>

LGBTQ employees are often faced with the decision of whether or not to be truthful about their sexual orientation at work for fear of being stigmatized and treated unfairly. To be clear, any stigmatization is the fault of the people who mistreat others, and sometimes even the organization itself. But as a result, LGBTQ and other people may choose to engage in what is sometimes called passing, or the decision not to disclose something about oneself. Passing often involves a great risk of emotional strain that can affect performance and wellbeing.<sup>80</sup> Individuals who pass may distance themselves from coworkers or clients to avoid disclosure about their personal life. This behavior can also result in decreased networking and mentoring opportunities, which over time can limit advancement opportunities. The decision to be transparent about sexual orientation is sometimes called revealing.<sup>81</sup> Just like passing, revealing has its own set of risks including being ostracized, stigmatized, and subjected to other forms of discrimination at work. However, compared to passing, the benefits of building relationships at work and using their identity as a catalyst for tolerance and progressive organizational change may outweigh the risks when LGBTQ employees decide to reveal. The decision to “come out” should be made exclusively by the individual; “outing” someone else as any sexual orientation or gender identity is considered highly inappropriate and hurtful, and may have employment-related consequences.

Research shows that when laws are passed to prevent sexual orientation discrimination, incidents of workplace discrimination decrease.<sup>82</sup> This same effect occurs when firms adopt policies that protect the rights of sexual minority employees.<sup>83</sup> By creating a safe and inclusive work environment for LGBTQ employees, companies can create a culture of tolerance and trust for all employees regardless of their sexual orientation or gender identity.

## MANAGING CHANGE

### *Removing Bias In Recruiting*

An increasing number of companies are testing new and innovative methods of recruiting. In many cases, firms remove any identifying information about applicants during the recruitment process. An example of this may include anonymous applications that omit fields requesting information such as an applicant's name or age. Using computer application technology, some companies like Google administer surveys to their anonymous applicants that measure the abilities required for the job before they are considered in the next step of the recruitment process. Alternatively, companies may request that applicants remove identifying information such as names and address from their resumes before applying for positions. As resumes are received, hiring managers can assign a temporary identification number.

Although more companies are using this method of recruiting, the idea is not new for symphony orchestras, many of which have been using this type of auditioning since the 1970s. In some instances musicians audition behind screens so they are evaluated only by their music. This process removes bias associated with race and gender because the performer cannot be seen and only heard. A study investigating this practice examined 11 symphony orchestras that varied their auditions. Researchers found that those orchestras that held “unseen” auditions increased the likelihood that a woman would be hired by between 25 and 46%. A recruitment process like this can help organizations attract more candidates, hire the best talent, increase their workplace diversity, and avoid discrimination liability.

In other efforts, organizations work to alter their job descriptions to remove terms that result in gender or other

biases. By involving diversity and equity experts, and sometimes using artificial intelligence-based language analysis, recruiters can eliminate unintended barriers and improve their hiring processes. Sources: Grothaus, M. (Mar 14 2016). How “blind” recruitment works and why you should consider it. Fast Company. Retrieved from <https://www.fastcompany.com/3057631/how-blind-recruitment-works-and-why-you-should-consider>; and Miller, C.C. (Feb 25 2016). Is blind hiring the best hiring? The New York Times Magazine. Retrieved from <https://www.nytimes.com/2016/02/28/magazine/is-blind-hiring-the-best-hiring.html>.

#### Discussion Questions

1. Should all companies change their resume screening and interview processes to eliminate biases or are there exceptions that must be considered?
2. If improved recruiting helps eliminate bias during the recruitment process, then what does that say about social media platforms such as Linked In that are commonly used for recruiting applicants? Will using those platforms expose companies to greater liability compared to using more traditional means of recruiting?
3. How does working to eliminate bias recruiting help organizations? How may it hinder organizations?

## Immigrant Workers

Every year a new record is set for the time it takes to reach the U.S. cap of H-1B visas granted to employers.<sup>84</sup> H-1B visas are a type of work visa, a temporary documented status that authorizes individuals to permanently or temporarily live and work in the United States.<sup>85</sup> As a result of the demand for work visas by employers, the number of immigrant workers in the U.S. workforce has steadily grown within the last decade from 15% in 2005 to 17% in 2016.<sup>86</sup> Compared to those born in the United States, the immigrant population in America is growing significantly faster.<sup>87</sup> This is partly because of the U.S. demand for workers who are proficient in math and science<sup>88</sup> and wish to work in America.

Although a huge demand for immigrant labor exists in the United States, immigrant labor exploitation occurs, with immigrant employees receiving lower wages and working longer hours compared to American workers.<sup>89</sup> Foreign-born job seekers are attracted to companies that emphasize work visa sponsorship for international employees, yet they are still mindful of their vulnerability to unethical employers who may try to exploit them. For example, Lambert and colleagues found that some of the job-seeking MBA students from the Philippines in their study believed that companies perceived to value international diversity and sponsor H-1B visas signaled a company wishing to exploit workers.<sup>90</sup> Others believed that those types of companies might yield diminishing returns to each Filipino in the company because their token value becomes limited. In news stories, companies have been accused of drastically shortchanging foreign student interns on their weekly wages.<sup>91</sup> In another case, Infosys, a technology consulting company, paid \$34 million to settle allegations of visa fraud due to suspicion of underpaying foreign workers to increase profits.<sup>92</sup>

## Other Forms of Diversity at Work

Workers with disabilities are projected to experience a 10% increase in job growth through the year 2022.<sup>93</sup> This means that more public and corporate policies will be revised to allow greater access to training for workers with disabilities and employers.<sup>94</sup> Also, more companies will use technology and emphasize educating employees about physical and mental disabilities as workplace accommodations are used more often.

In the past, the United States has traditionally been a country with citizens who predominantly practice the Christian faith. However, over the past almost 30 years the percentage of Americans who identify as Christian has significantly decreased—by approximately 12%. Over that same time period, affiliation with other religions overall increased by



approximately 25%.<sup>95</sup> The increase in immigrant workers from Asian and Middle Eastern countries means that employers must be prepared to accommodate religious beliefs other than Christianity. Although federal legislation protects employees from discrimination on the basis of race, religion, and disability status, many employers have put in place policies of their own to deal with the variety of diversity that is increasingly entering the workforce.

## CONCEPT CHECK

1. How is diversity defined in relation to the workplace?
2. What are the components that make up a diverse workplace and workforce?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 18.3 - Diversity and Its Impact on Companies

### 3. How does diversity impact companies and the workforce?

Due to trends in globalization and increasing ethnic and gender diversity, it is imperative that employers learn how to manage cultural differences and individual work attitudes. As the labor force becomes more diverse there are both opportunities and challenges to managing employees in a diverse work climate. Opportunities include gaining a competitive edge by embracing change in the marketplace and the labor force. Challenges include effectively managing employees with different attitudes, values, and beliefs, in addition to avoiding liability when leadership handles various work situations improperly.

### Reaping the Advantages of Diversity

The business case for diversity introduced by Taylor Cox and Stacy Blake outlines how companies may obtain a competitive advantage by embracing workplace diversity.<sup>96</sup> Six opportunities that companies may receive when pursuing a strategy that values diversity include cost advantages, improved resource acquisition, greater marketing ability, system flexibility, and enhanced creativity and better problem solving (see **Exhibit 18.4**).



**Exhibit 18.4** Managing Cultural Diversity (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

### *Cost Advantages*

Traits such as race, gender, age, and religion are protected by federal legislation against various forms of discrimination (covered later in this chapter). Organizations that have policies and procedures in place that encourage tolerance for a work climate of diversity and protect female and minority employees and applicants from discrimination may reduce

their likelihood of being sued due to workplace discrimination. Cox and Blake identify this decreased liability as an opportunity for organizations to reduce potential expenses in lawsuit damages compared to other organizations that do not have such policies in place.

Additionally, organizations with a more visible climate of diversity experience lower turnover among women and minorities compared to companies that are perceived to not value diversity.<sup>97</sup> Turnover costs can be substantial for companies over time, and diverse companies may ameliorate turnover by retaining their female and minority employees. Although there is also research showing that organizations that value diversity experience a higher turnover of White employees and male employees compared to companies that are less diverse,<sup>98</sup> some experts believe this is due to a lack of understanding of how to effectively manage diversity. Also, some research shows that White people with a strong ethnic identity are attracted to diverse organizations similarly to non-White people.<sup>99</sup>

### *Resource Acquisition*

Human capital is an important resource of organizations, and it is acquired through the knowledge, skills, and abilities of employees. Organizations perceived to value diversity attract more women and minority job applicants to hire as employees. Studies show that women and minorities have greater job-pursuit intentions and higher attraction toward organizations that promote workplace diversity in their recruitment materials compared to organizations that do not.<sup>100</sup> When employers attract minority applicants, their labor pool increases in size compared to organizations that are not attractive to them. As organizations attract more job candidates, the chances of hiring quality employees increases, especially for jobs that demand highly skilled labor. In summary, organizations gain a competitive advantage by enlarging their labor pool by attracting women and minorities.

### *Marketing*

When organizations employ individuals from different backgrounds, they gain broad perspectives regarding consumer preferences of different cultures. Organizations can gain insightful knowledge and feedback from demographic markets about the products and services they provide. Additionally, organizations that value diversity enhance their reputation with the market they serve, thereby attracting new customers.

### *System Flexibility*

When employees are placed in a culturally diverse work environment, they learn to interact effectively with individuals who possess different attitudes, values, and beliefs. Cox and Blake contend that the ability to effectively interact with individuals who differ from oneself builds *cognitive flexibility*, the ability to think about things differently and adapt one's perspective. When employees possess cognitive flexibility, system flexibility develops at the organizational level. Employees learn from each other how to tolerate differences in opinions and ideas, which allows communication to flow more freely and group interaction to be more effective.

### *Creativity and Problem Solving*

Teams from diverse backgrounds produce multiple points of view, which can lead to innovative ideas. Different perspectives lead to a greater number of choices to select from when addressing a problem or issue.

Life experience varies from person to person, sometimes based on race, age, or sex. Creativity has the opportunity to flourish when those experiences are shared. Diverse teams not only produce more alternatives, but generate a broader range of perspectives to address tasks and problems. One way in which diverse teams enhance problem-solving ability is by preventing groupthink,<sup>101</sup> a dysfunction in decision-making that occurs in homogeneous groups as a result of group pressures and group members' desire for conformity and consensus. Diverse group membership prevents groupthink because individuals from varied backgrounds with different values, attitudes, and beliefs can test the assumptions and reasoning of group members' ideas.

## Aligning Diversity Programs with an Organization's Mission and Strategic Goals

Diversity helps organizations perform best when it is aligned with a specific business strategy. For example, when companies use heterogeneous management teams that are directed by an entrepreneurial strategy focusing on innovation, the companies' productivity increases.

When an entrepreneurial strategy is not present, however, team diversity has little effect on productivity.<sup>102</sup> An entrepreneurial strategy includes innovation that reflects a company's commitment to being creative, supporting new ideas, and supporting experimentation as a way to gain a competitive advantage. In other words, managers may properly utilize the multiple perspectives that emerge from heterogeneous teams by integrating them as a resource for pursuing the overall strategy of the organization.

## Using Human Resources Tools Strategically

To effectively align diversity with an organization's strategy, the human resources function must be able to engage employees at dynamic levels. Using a strategic human resources management approach to an organization can successfully integrate diversity with the organization's goals and objectives.<sup>103</sup> Strategic human resources management (SHRM) is a system of activities arranged to engage employees in a manner that assists the organization in achieving a sustainable competitive advantage. SHRM practices vertically integrate with the mission and strategy of the organization while horizontally integrating human resources activities across its functional areas. By doing so, a unique set of resources can be made available to specific to the needs of the organization. Furthermore, when human resources becomes a part of the strategic planning process instead of just providing ancillary services, improved communication, knowledge sharing, and greater synergy between decision makers can occur within the organization to improve organizational functioning.

The resource-based view of the firm has been used to support the argument for diversity because it demonstrates how a diverse workforce can create a sustainable competitive advantage for organizations. Based on the resource-based view of the firm, when companies possess resources that are rare, valuable, difficult to imitate, and non-substitutable, a sustained competitive advantage can be attained.<sup>104</sup> The SHRM approach assumes that human capital—the current and potential knowledge, skills, and abilities of employees—is instrumental to every organization's success and sustainability and longevity.

If a diverse composition of employees within organizations is rare, employing minorities in positions of leadership is even rarer. One exception is Northern Trust, an investment management firm that was recently listed on Forbes magazine's 2018 Best Employers for Diversity list.<sup>105</sup> Thirty-eight percent of Northern Trust's top executives are women, which is impressive because it matches the average percentage of women in full-time one-year MBA programs over the past five years.<sup>106</sup> The average for S&P 500 companies is just 27%. In addition, African Americans make up 23% of Northern Trust's board, which also demonstrates the commitment Northern Trust has to diversity. This rare degree of

diversity helps Northern Trust become an employer of choice for minorities and women. In turn, attracting minority applicants increases the labor pool available to Northern Trust and increases its ability to find good talent.

Diverse companies may capitalize on the multiple perspectives that employees from different backgrounds contribute to problem solving and idea generation. In group settings, members from collectivist cultures from Asia and South America, for example, engage with others on tasks differently than members from North America. Similarly, Asian, Black, and Hispanic people usually act more collectively and engage more interdependently than White people, who are generally more individualistic. More harmonious working interactions benefit group cohesion and team performance,<sup>107</sup> and employees can grasp better ways of doing things when there is a diverse population to learn from.

For a company to attain a sustained competitive advantage, its human resource practices must be difficult to copy or imitate. As we will see later in the chapter, companies may hold one of three perspectives on workplace diversity. The integration and learning perspective results in the best outcomes for employees and the organization. However, it is not easy to become an employer that can effectively manage diversity and avoid the challenges we learned about earlier in this chapter. Historical conditions and often-complex interplay between various organizational units over time can contribute to a company's ability to perform effectively as a diverse organization. Best practices for targeting diverse applicants or resolving conflicts based on cultural differences between employees may occur organically and later become codified into the organizational culture. Sometimes, however, the origin of diversity practices is unknown because they arose from cooperation among different functional areas (e.g., marketing and human resources working strategically with leadership to develop recruitment ideas) that occurred so long ago that not even the company itself, let alone other companies, could replicate the process.

## Diversity and Organizational Performance

Research indicates that having diversity in an organization produces mixed results for its success. Some studies show a positive relationship, some show a negative relationship, and others show no relationship between diversity and performance. Some researchers believe that although findings regarding a direct relationship between diversity and success in the marketplace may be inconsistent, the relationship may be due to other variables not taken into account.

Taking the resource-based view perspective, Richard and colleagues demonstrated that racially diverse banking institutions focused on innovation experienced greater performance than did racially diverse banks with a low focus on innovation.<sup>108</sup> These findings suggest that for the potential of racial diversity to be fully realized, companies should properly manage the system flexibility, creativity, and problem-solving abilities used in an innovative strategy. Other studies show that when top management includes female leadership, firm performance improves when organizations are innovation driven.<sup>109</sup>

### CONCEPT CHECK

1. What are the challenges and opportunities that diversity provides to companies?
2. What are the responsibilities of human resources regarding diversity?
3. Can diversity be a strategic advantage to organizations?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details:  
<https://openstax.org/subjects/view-all>

## 18.4 - Challenges of Diversity

### 4. What is workplace discrimination, and how does it affect different social identity groups?

Although diversity has its benefits, there are also challenges that managers must face that can only be addressed with proper leadership. Some of the most common challenges observed in organizations and studied in research include lower organizational attachment and misunderstanding work diversity initiatives and programs.

### Lower Organizational Attachment

Although diversity programs attract and retain women and minorities, they may have the opposite effect on other, nonminority employees. When diversity is not managed effectively, White and male employees can feel alienated from or targeted by the organization as diversity programs are put in place. A study that examined 151 work groups across three large organizations investigated whether the proportion of group membership based on race or sex affected the group members' absentee rates, psychological attachment to their work group, and turnover intentions,<sup>110</sup> three factors that play significant roles in an employee's attachment to their organization. Results showed a positive relationship between group heterogeneity and lower organizational attachment, higher turnover intentions, and greater frequency of absences for men and for White group members. In other words, as work group diversity increased, White employees and male employees felt less attached to the organization and were more likely to quit. Because heterogeneous groups improve creativity and judgment, managers should not avoid using them because they may be challenging to manage. Instead, employers need to make sure they understand the communication structure and decision-making styles of their work groups and seek feedback from employees to learn how dominant group members may adjust to diversity.

### Legal Challenges and Diversity

The legal system is used to combat discrimination. Among the ways that we will cover here are reverse discrimination, workplace discrimination, harassment, age discrimination, disability discrimination, national origin discrimination, pregnancy discrimination, race/color discrimination, religious discrimination, sex-based discrimination and other forms of discrimination.

#### *Reverse Discrimination*

As research shows, workplace discrimination against women and racial or ethnic minorities is common. Reverse discrimination is a term that has been used to describe a situation in which dominant group members perceive that they are experiencing discrimination based on their race or sex. This type of discrimination is uncommon, but is usually claimed when the dominant group perceives that members of a protected (diverse) class of citizens are given preference in workplace or educational opportunities based not on their merit or talents, but on a prescribed preferential treatment awarded only on the basis of race or sex.

Research conducted in the 1990s shows that only six federal cases of reverse discrimination were upheld over a four-year period (1990–1994), and only 100 of the 3,000 cases for discrimination over that same four-year period were claims of reverse discrimination.<sup>111</sup> Interestingly, a recent poll administered by the Robert Wood Johnson Foundation and the



Harvard T.H. Chan School of Public Health found that a little more than half of White Americans believe that White people face discrimination overall, and 19% believe they have experienced hiring discrimination due to the color of their skin.<sup>112</sup> This misperception stems in part from the recalibration of the labor force as it become more balanced due to increased equal employment opportunities for everyone. Members of dominant identity groups, White people and men, perceive fewer opportunities for themselves when they observe the workforce becoming more diverse. In reality, the workforce of a majority of companies is still predominantly White and male employees. The only difference is that legislation protecting employees from discrimination and improvements in equal access to education have created opportunities for minority group members when before there were none.

## *Workplace Discrimination*

Workplace discrimination occurs when an employee or an applicant is treated unfairly at work or in the job-hiring process due to an identity group, condition, or personal characteristic such as the ones mentioned above. Discrimination can occur through marital status, for example when a person experiences workplace discrimination because of the characteristics of a person to whom they are married. Discrimination can also occur when the offender is of the same protected status of the victim, for example when someone discriminates against someone based on a national origin that they both share.

The Equal Employment Opportunity Commission (EEOC) was created by Title VII of the Civil Rights Act of 1964 with the primary goal of making it illegal to discriminate against someone in the workplace due to their race, national origin, sex, disability, religion, or pregnancy status.<sup>113</sup> and the 2020 Supreme Court decision upheld the same protections for sexual orientation and gender identity. The EEOC enforces laws and issues guidelines for employment-related treatment. It also has the authority to investigate charges of workplace discrimination, attempt to settle the charges, and, if necessary, file lawsuits when the law has been broken.

All types of workplace discrimination are prohibited under different laws enacted and enforced by the EEOC, which also considers workplace harassment and sexual harassment forms of workplace discrimination and mandates that men and women must be given the same pay for equal work.<sup>114</sup>

The provision for equal pay is covered under the Equal Pay Act of 1963, which was an amendment to the Fair Labor Standards Act of 1938. Virtually all employers are subject to the provisions of the act, which was an attempt to address pay inequities between men and women. More than 50 years later, however, women still earn about 80 cents to every dollar that men earn, even while performing the same or similar jobs.<sup>115</sup>

## *Harassment*

Harassment is any unwelcome conduct that is based on characteristics such as age, race, national origin, disability, gender, or pregnancy status. Harassment is a form of workplace discrimination that violates Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, and the Americans with Disabilities Act of 1990.<sup>116</sup>

Sexual harassment specifically refers to harassment based on a person's sex, and it can (but does not have to) include unwanted sexual advances, requests for sexual favors, or physical and verbal acts of a sexual nature. Though members of any sex can be the victim of sexual harassment, women are the primary targets of this type of harassment.<sup>117</sup>

## *Age Discrimination*

Age discrimination consists of treating an employee or applicant less favorably due to their age. The Age Discrimination in Employment Act (ADEA) forbids discrimination against individuals who are age 40 and above. The act prohibits

harassment because of age, which can include offensive or derogatory remarks that create a hostile work environment.<sup>118</sup>

### *Disability Discrimination*

A person with a disability is a person who has a physical or mental impairment that limits one or more of the person's life actions. Disability discrimination occurs when an employee or applicant who is covered by the Americans with Disabilities Act (ADA) is treated unfavorably due to their physical or mental disability. The ADA is a civil rights law that prohibits discrimination in employment, public services, public accommodations, and telecommunications against people with disabilities.<sup>119</sup> To be covered under the ADA, individuals must be able to perform the essential functions of their job with or without reasonable accommodations. Research has shown that reasonable accommodations are typically of no or low cost (less than \$100) to employers.<sup>120</sup>

### *National Origin Discrimination*

National origin discrimination involves treating someone unfavorably because of their country of origin, accent, ethnicity, or appearance. EEOC regulations make it illegal to implement an employment practice or policy that applies to everyone if it has a negative impact on people of a certain national origin. For example, employers cannot institute an "English-only" language policy unless speaking English at all times is essential to ensure the safe and efficient operation of the business. Employers also cannot mandate employees be fluent in English unless fluency in English is essential to satisfactory job performance. The EEOC also prohibits businesses from hiring only U.S. citizens or lawful residents unless the business is required by law to do so.<sup>121</sup>

### *Pregnancy Discrimination*

Pregnancy discrimination involves treating an employee or applicant unfairly because of pregnancy status, childbirth, or medical conditions related to pregnancy or childbirth. The Pregnancy Discrimination Act (PDA) prohibits any discrimination as it relates to pregnancy in any of the following areas: hiring, firing, compensation, training, job assignment, insurance, or any other employment conditions. Further, certain conditions that result from pregnancy may be protected under the ADA, which means employers may need to make reasonable accommodations for any employee with disabilities related to pregnancy.

Under the Family and Medical Leave Act (FMLA), new parents, including adoptive and foster parents, may be eligible for 12 weeks of unpaid leave (or paid leave only if earned by the employee) to care for the new child. Also, nursing mothers have the right to express milk on workplace premises.<sup>122</sup>

### *Race/Color Discrimination*

Race/color discrimination involves treating employees or applicants unfairly because of their race or because of physical characteristics typically associated with race such as skin color, hair color, hair texture, or certain facial features.

As with national origin discrimination, certain workplace policies that apply to all employees may be unlawful if they unfairly disadvantage employees of a certain race. Policies that specify that certain hairstyles must or must not

be worn, for example, may unfairly impact African American employees, and such policies are prohibited unless their enforcement is necessary to the operations of the business.<sup>123</sup>

*Religious Discrimination*

Religious discrimination occurs when employees or applicants are treated unfairly because of their religious beliefs. The laws protect those who belong to traditional organized religions and those who do not belong to organized religions but hold strong religious, ethical, or moral beliefs of some kind. Employers must make reasonable accommodations for employees' religious beliefs, which may include flexible scheduling or modifications to workplace practices. Employees are also permitted accommodation when it comes to religious dress and grooming practices, unless such accommodations will place an undue burden on the employer. Employees are also protected from having to participate (or not participate) in certain religious practices as terms of their employment.<sup>124</sup>

*Sex-Based Discrimination*

Sex-based discrimination occurs when employees or applicants are treated unfairly because of their sex. This form of discrimination includes unfair treatment due to gender, transgender status, and sexual orientation. Harassment and policies that unfairly impact certain groups protected under sex discrimination laws are prohibited under EEOC legislation.<sup>125</sup>

The key diversity-related federal laws are summarized in **Table 18.2**.

Key Diversity Related Legislation	
<b>Title VII of the Civil Rights Act of 1964</b>	Created the Equal Employment Opportunity Commission with the primary role of making it illegal to discriminate against someone in the workplace due to their race, national origin, sex, disability, religion, or pregnancy status.
<b>Equal Pay Act of 1963</b>	Mandates that men and women must be given the same pay for equal work
<b>Age Discrimination in Employment Act (ADEA)</b>	Forbids discrimination against individuals who are age 40 and above.
<b>Americans with Disabilities Act (ADA)</b>	Prohibits discrimination against people with disabilities in employment, public services, public accommodations, and in telecommunications
<b>Pregnancy Discrimination Act (PDA)</b>	Prohibits any discrimination as it relates to pregnancy, including hiring, firing, compensation, training, job assignment, insurance, or any other employment conditions.
<b>Family and Medical Leave Act (FMLA)</b>	Grants new parents up to 12 weeks of paid or unpaid leave to care for the new child, and gives nursing mothers the right to express milk on workplace premises.

Table 18.2 (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

*Other Types of Discrimination*

Beyond the key types of discrimination outlined by the EEOC, diversity and management scholars have identified other types of discrimination that frequently impact certain identity groups more than others. Access discrimination is a catchall term that describes when people are denied employment opportunities because of their identity group or personal characteristics such as gender, race, age, or other factors. Treatment discrimination describes a situation in which people are employed but are treated differently while employed, mainly by receiving different and unequal job-

related opportunities or rewards.<sup>126</sup> Scholars have also identified a form of discrimination called **interpersonal** or covert discrimination that involves discrimination that manifests itself in ways that are not visible or readily identifiable, yet is serious because it can impact interpersonal interactions between employees, employees and customers, and other important workplace relationships.

This type of discrimination poses unique challenges because it is difficult to identify. For example, one study examining customer service and discrimination found that obese customers were more likely to experience interpersonal discrimination than average-weight customers. Salespersons spent less time interacting with obese customers than average-weight customers, and average-weight customers reported more positive interactions with salespeople when asked about standard customer service metrics such as being smiled at, receiving eye contact, and perceived friendliness.<sup>127</sup>

## CONCEPT CHECK

1. What is the role of the EEOC?
2. What are the types of discrimination encountered in the workplace?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 18.5 - Key Diversity Theories

### 5. What key theories help managers understand the benefits and challenges of managing the diverse workforce?

Many theories relevant to managing the diverse workforce center on an individual's reactions (such as categorization and assessment of the characteristics of others) to people who are different from the individual. Competing viewpoints attempt to explain how diversity is either harmful or beneficial to organizational outcomes.

- The cognitive diversity hypothesis suggests that multiple perspectives stemming from the cultural differences between group or organizational members result in creative problem solving and innovation.
- The similarity-attraction paradigm and social identity theory hold that individuals' preferences for interacting with others like themselves can result in diversity having a negative effect on group and organizational outcomes.
- The justification-suppression model explains under what conditions individuals act on their prejudices.

### Cognitive Diversity Hypothesis

Some research shows that diversity has no relationship to group performance, and some shows that there is a relationship. Of the latter research, some shows a negative relationship (greater diversity means poorer group performance, less diversity means better group performance) and some shows a positive relationship.

These various findings may be due to the difference in how diversity can affect group members. **Cognitive diversity** refers to differences between team members in characteristics such as expertise, experiences, and perspectives.<sup>128</sup> Many researchers contend that physical diversity characteristics such as race, age, or sex (also known as bio-demographic diversity) positively influence performance because team members contribute unique cognitive attributes based on their experiences stemming from their demographic background.<sup>129</sup>

There is research that supports the relationship between group performance and task-related diversity as reflected in characteristics not readily detectable such as ability, occupational expertise, or education. However, the relationship between bio-demographic diversity and group performance has produced mixed results.<sup>130</sup> For example, Watson and colleagues studied the comparison of group performance between culturally homogeneous and culturally heterogeneous groups. Groups were assigned business cases to analyze, and their group performance was measured over time based on four factors: the range of perspectives generated, the number of problems identified in the case, the number of alternatives produced, and the quality of the solution. Overall performance was also calculated as the average of all the factors. The factors were measured at four intervals: Interval 1 (at 5 weeks), Interval 2 (at 9 weeks), Interval 3 (at 13 weeks), and Interval 4 (at 17 weeks).

For Intervals 1 and 2, the overall performance of homogeneous groups was higher than heterogeneous groups. However, by Intervals 3 and 4, there were no significant differences in overall performance between the groups, but the heterogeneous group outperformed the homogeneous group in generating a greater range of perspectives and producing a greater number of alternatives.

This research suggests that although homogeneous groups may initially outperform culturally diverse groups, over time diverse groups benefit from a wider range of ideas to choose from when solving a problem. Based on the cognitive diversity hypothesis, these benefits stem from the multiple perspectives generated by the cultural diversity of group members. On the other hand, it takes time for members of diverse groups to work together effectively due to their unfamiliarity with one another, which explains why homogeneous groups outperform heterogeneous groups in the early stages of group functioning. (This is related to the similarity-attraction paradigm, discussed in the next section.) Other studies have shown that ethnically diverse groups cooperate better than homogeneous groups at tasks that

require decision-making and are more creative and innovative. While homogeneous groups may be more efficient, heterogeneous groups sacrifice efficiency for effectiveness in other areas.

## Similarity-Attraction Paradigm

The cognitive diversity hypothesis explains how diversity benefits organizational outcomes. The similarity-attraction paradigm explains how diversity can have negative outcomes for an organization.

Some research has shown that members who belong to diverse work units may become less attached, are absent from work more often, and are more likely to quit.<sup>131</sup> There is also evidence that diversity may produce conflict and higher employee turnover. Similarity-attraction theory is one of the foundational theories that attempts to explain why this occurs; it posits that individuals are attracted to others with whom they share attitude similarity.<sup>132</sup>

Attitudes and beliefs are common antecedents to interpersonal attraction. However, other traits such as race, age, sex, and socioeconomic status can serve as signals to reveal deep-level traits about ourselves. For example, numerous studies investigating job-seeker behaviors have shown that individuals are more attracted to companies whose recruitment literature includes statements and images that reflect their own identity group. One study showed that companies perceived to value diversity based on their recruitment literature are more attractive to racial minorities and women compared to White people.<sup>133</sup> Another study showed that when organizations use recruitment materials that target sexual minorities, the attraction of study participants weakened among heterosexuals.<sup>134</sup> Even foreign-born potential job candidates are more attracted to organizations that depict international employees in their job ads.<sup>135</sup>

## Social Cognitive Theory

**Social cognitive theory** is another theory that seeks to explain how diversity can result in negative outcomes in a group or organization. Social cognitive theory suggests that people use categorization to simplify and cope with large amounts of information. These categories allow us to quickly and easily compartmentalize data, and people are often categorized by their visible characteristics, such as race, sex, and age. Thus, when someone sees a person of a particular race, automatic processing occurs and beliefs about this particular race are activated. Even when the person is not visible, they can be subject to this automatic categorization. For example, when sorting through resumes a hiring manager might engage in gender categorization because the person's name provides information about the person's gender or racial categorization because the person's name provides information about their race.<sup>136</sup> Stereotypes are related to this categorization, and refer to the overgeneralization of characteristics about large groups. Stereotypes are the basis for prejudice and discrimination. In a job-related context, using categorization and stereotyping in employment decision-making is often illegal. Whether illegal or not, this approach is inconsistent with a valuing-diversity approach.

## Social Identity Theory

**Social identity theory** is another explanation of why diversity may be perceived as a negative outcome. Social identity theory suggests that when we first come into contact with others, we categorize them as belonging to an in-group (i.e., the same group as us) or an out-group (not belonging to our group).<sup>137</sup> We tend to see members of our in-group as heterogeneous but out-group members as homogeneous. That is, we perceive out-group members as having similar attitudes, behaviors, and characteristics (i.e., fitting stereotypes).

Researchers posit that this perspective may occur because of the breadth of interactions we have with people from

our in-group as opposed to out-groups. There is often strong in-group favoritism and, sometimes, derogation of out-group members. In some cases, however, minority group members do not favor members of their own group.<sup>138</sup> This may happen because of being continually exposed to widespread beliefs about the positive attributes of White people or men and to common negative beliefs about some minorities and women. When in-group favoritism does occur, majority-group members will be hired, promoted, and rewarded at the expense of minority-group members, often in violation of various laws.

## Schema Theory

Schema theory explains how individuals encode information about others based on their demographic characteristics.<sup>139</sup> Units of information and knowledge experienced by individuals are stored as having patterns and interrelationships, thus creating schemas that can be used to evaluate one's self or others. As a result of the prior perceived knowledge or beliefs embodied in such schemas, individuals categorize people, events, and objects. They then use these categories to evaluate newly encountered people and make decisions regarding their interaction with them.

Based on schema theory, employees develop schemas about coworkers based on race, gender, and other diversity traits. They also form schemas about organizational policies, leadership, and work climates. Schemas formed can be positive or negative and will affect the attitudes and behaviors employees have toward one another.

## Justification-Suppression Model

The justification-suppression model explains the circumstances in which prejudiced people might act on their prejudices. The process by which people experience their prejudice is characterized as a “two-step” process in which people are prejudiced against a certain group or individual but experience conflicting emotions in regard to that prejudice and are motivated to suppress their prejudice rather than act upon it.<sup>140</sup> Theory about prejudice suggests that all people have prejudices of some sort, that they learn their prejudices from an early age, and that they have a hard time departing from them as they grow older. Prejudices are often reinforced by intimate others, and individuals use different methods to justify those prejudices.

Most people will attempt to suppress any outward manifestations of their prejudices. This suppression can come from internal factors like empathy, compassion, or personal beliefs regarding proper treatment of others. Suppression can also come from societal pressures; overt displays of prejudice are no longer socially acceptable, and in some cases are illegal.

At times, however, prejudiced individuals will look for reasons to justify acting on their prejudiced beliefs. Research has shown people are more likely to act in prejudiced ways when they are physically or emotionally tired, when they can do so and remain anonymous, or when social norms are weak enough that their prejudiced behavior will not be received negatively.

## CONCEPT CHECK

1. What are the theories that can help managers understand diversity?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>



# 18.6 - Benefits and Challenges of Workplace Diversity

## 6. How can managers reap benefits from diversity and mitigate its challenges?

Much theoretical work has espoused the benefits of workplace diversity, but empirical studies have often had conflicting results, which have shown researchers that certain conditions can affect how successful initiatives to increase and enhance workplace diversity are. Managers can work to make sure that the efforts and initiatives they enact to increase diversity in the workplace come from a perspective that ensures and strives for equity and fairness, and not simply from the perspective of only benefitting the company's bottom line. By approaching diversity and diversity issues in a thoughtful, purposeful way, managers can mitigate the challenges posed by a diverse workforce and enhance the benefits a diverse workforce can offer.

## Three Perspectives on Workplace Diversity

Ely and Thomas's work on cultural diversity was designed to theoretically and empirically support some of the hypothesized relationships between diversity and workplace outcomes. Their research yielded a paradigm that identifies three perspectives regarding workplace diversity:<sup>141</sup> integration and learning, access and legitimacy, and discrimination and fairness.

### *The Integration-and-Learning Perspective*

The integration-and-learning perspective posits that the different life experiences, skills, and perspectives that members of diverse cultural identity groups possess can be a valuable resource in the context of work groups. Under this perspective, the members of a culturally diverse workgroup can use their collective differences to think critically about work issues, strategies, products, and practices in a way that will allow the group to be successful in its business operations. The assumption under this perspective is that members of different cultural identity groups can learn from each other and work together to best achieve shared goals. This perspective values cultural identity and strongly links diversity of the group to the success of the firm.

Downfalls of the integration-and-learning perspective can be that White members of the work group can feel marginalized when they are not asked to join in on diversity-related projects or discussions. Similarly, workforce members of color might experience burnout if they are always expected to work on those projects and discussions that specifically deal with diversity issues.

### *The Access-and-Legitimacy Perspective*

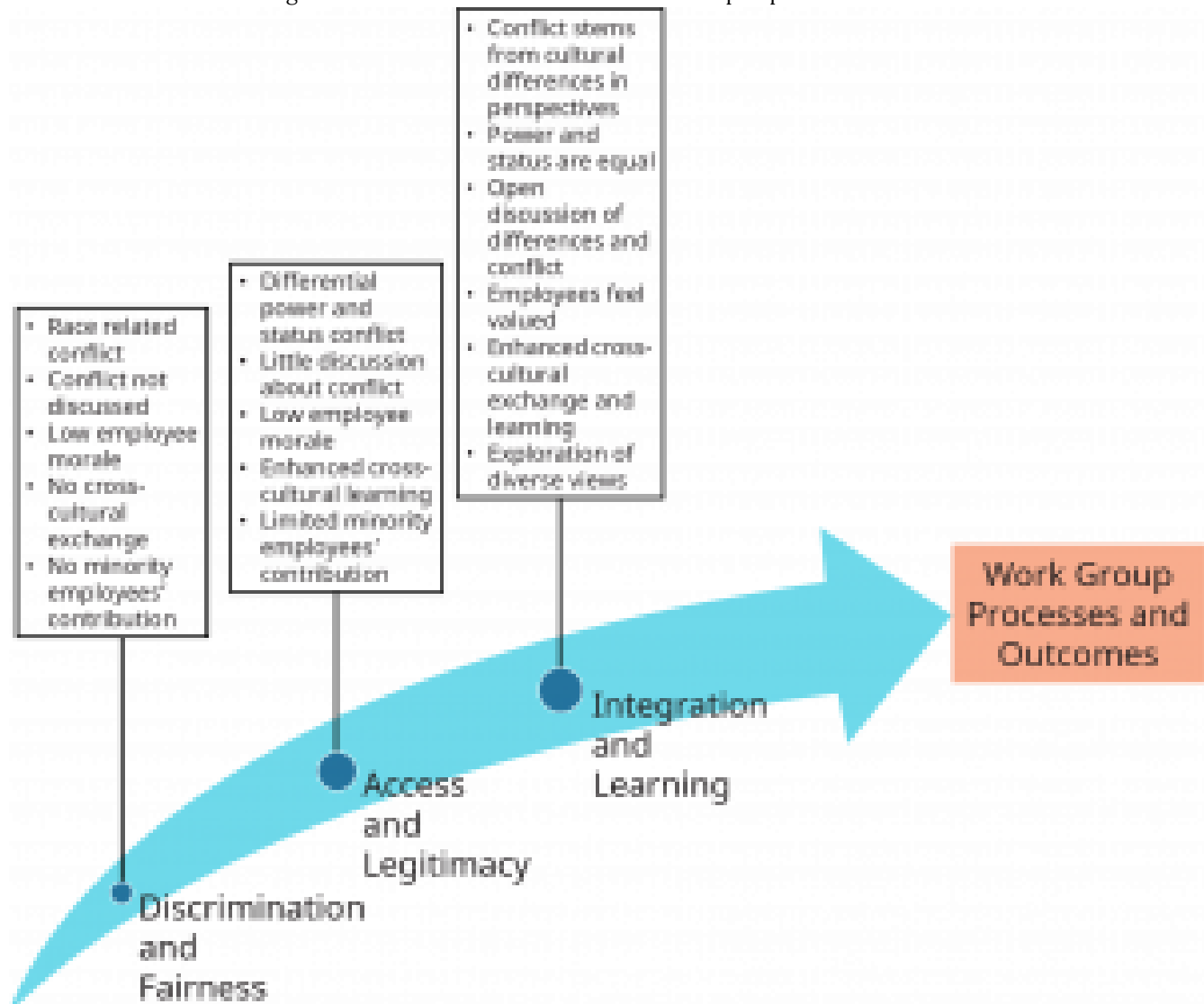
The access-and-legitimacy perspective focuses on the benefit that a diverse workforce can bring to a business that wishes to operate within a diverse set of markets or with culturally diverse clients. Work groups that operate under this perspective are doing so in order to gain access to diverse markets and because their diversity affords them some level of legitimacy when attempting to gain access to diverse markets. This type of workplace diversity is more of a functional type of diversity that does not attempt to integrate or value diversity at the business's core. The danger of this diversity

perspective is that it can limit the roles of certain minority groups by valuing members of these groups only because they can increase the access to diverse markets and clients and not because they can make other potentially valuable contributions.<sup>142</sup>

### *The Discrimination-and-Fairness Perspective*

The discrimination-and-fairness perspective stems from a belief that a culturally diverse workforce is a moral duty that must be maintained in order to create a just and fair society. This perspective is characterized by a commitment to equal opportunities in hiring and promotions, and does not directly link a work group's productivity or success with diversity. Many times firms operating under this perspective will have a spoken or unspoken assumption that assimilation into the dominant (White) culture should take place by the members of other cultural identity groups. One drawback of this perspective is that because it measures progress by the recruitment and retention of diverse people, employees of traditionally underrepresented groups can feel devalued. Often, assimilation is pushed on diverse employees under the guise of reducing conflict or in an effort to demonstrate that differences between cultural identity groups are unimportant.<sup>143</sup>

**Exhibit 18.5** shows the degrees of effectiveness and benefits for each perspective.



**Exhibit 18.5** Cultural Diversity Perspectives at Work Source: Adapted from Ely, Robin J., and David A. Thomas. “Cultural diversity at work: The effects of diversity perspectives on work group processes and outcomes.” *Administrative science quarterly*. 46.2 (2001): 229-273.

## CONCEPT CHECK

1. How can managers reap the benefits of diversity?
2. How can managers mitigate the challenges of diversity?
3. What is the access-and-legitimacy perspective? Differentiate it from the discrimination-and-fairness perspective.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

## 18.7 - Recommendations for Managing Diversity

### 7. What can organizations do to ensure applicants, employees, and customers from all backgrounds are valued?

Organizations that are committed to equality and inclusion must take steps to combat the examples of discrimination and harassment that have been covered in this chapter. And they must take steps to make diversity a goal in the pre-employment stages as well as in the post-employment stages. Anyone with managerial or supervisory responsibilities should pay careful attention to hiring and performance-rewarding practices, and make sure to rely on relevant information for making decisions and ignore race-based stereotypes. The following are examples of what leaders and organizations can do make sure employees feel valued.

### Interview Selection Process

To ensure fairness for all applicants, organizations should use highly structured interviews during the selection process to avoid bias based on race or gender.<sup>144</sup> Highly structured interviews consists of the following 15 characteristics: “(1) job analysis, (2) same questions, (3) limited prompting, (4) better questions, (5) longer interviews, (6) control of ancillary information, (7) limited questions from candidates, (8) multiple rating scales, (9) anchored rating scales, (10) detailed notes, (11) multiple interviewers, (12) consistent interviewers, (13) no discussion between interviews, (14) training, and (15) statistical prediction.”<sup>145</sup> Similarity bias can occur when interviewers prefer interviewees with whom they share similar traits. Organizations can mitigate this challenge if all 15 characteristics of a structured interview are used consistently with each job applicant.

### Diversified Mentoring Relationships

Thanks to the rapid growth of international travel and globalization, managers are often called upon to manage a workforce that is increasingly diverse. Research has shown that racially and ethnically diverse firms have better financial performance than more homogeneous firms, because, as mentioned, employees from different backgrounds and with different experiences can give the firm a competitive advantage in various ways. It is necessary, however, that managers and those in positions of power are adequately equipped to manage diverse workforces in ways that are beneficial to all. Diversified mentoring relationships are relationships in which the mentor and the mentee differ in terms of their status within the company and within larger society. The differences could be in terms of race, gender, class, disability, sexual orientation, or other status. Research has found that these types of relationships are mutually beneficial and that the mentor and the mentee both have positive outcomes in terms of knowledge, empathy, and skills related to interactions with people from different power groups.<sup>146</sup>

## MANAGERIAL LEADERSHIP

### *Diversity Training Programs*

As the workforce becomes increasingly more diverse, managers will face a major challenge in understanding how to

manage diversity. One of many decisions to be made is whether an organization should offer diversity training and, if so, what topics and issues should be addressed based on the organizational goals.

There has been a debate over the effectiveness of corporate diversity training since the Civil Rights Act of 1964 helped prompt corporate diversity training with the organizational goal of simply being compliant with the law. Prior research shows that it can be effective, ineffective, or even detrimental for employees, but as diversity training has evolved through the years, it has become an important factor in helping employers manage diversity.

In the 1980s through the late 1990s, diversity training evolved from focusing solely on compliance to addressing the needs of women and minorities as they entered the workforce at a faster rate. Unfortunately, this type of training was perceived by White people and men as singling them out as the problem; sometimes such training was even formatted as “confession” sessions for White employees to express their complicity in institutional racism. Not unexpectedly, this type of training would often backfire and would further separate employees from each other, the exact opposite of its intention.

Recently, diversity training has evolved to focus on (1) building cultural competencies regarding fellow employees, (2) valuing differences, and (3) learning how diversity helps make better business decisions. This perspective toward diversity training is more effective than simply focusing on causes of a lack of diversity and the historical roots of discrimination. Understanding how to comply with the law is still important, but training has a greater effect when the other factors are also included.

A recent study investigated various diversity-training methods, including having participants engage in activities on perspective taking and goal setting. For perspective-taking activities, participants were asked to write a few sentences about the challenges they believed minority group members might experience. Goal-setting activities involved writing specific and measurable goals related to workplace diversity such as crafting future policies or engaging in future behaviors. Researchers found that when these activities were used as a diversity-training method, pro-diversity attitudes and behavioral intentions persisted months later.

Issues regarding employee sexual orientation have also been introduced into corporate diversity training in recent years. Because employees' religious beliefs are protected by Title VII of the Civil Rights Act, employers should be sensitive to balancing the rights of lesbian, gay, bisexual, and transgender employees and employees' religious rights. Attempting to protect the rights of one group and not be perceived to disrespect another is a difficult situation for managers. In order to mitigate any backlash from some employees, employers should seek feedback from all groups to learn the best ways to accommodate them, and should assess the organizational climate. Additionally, managers should explain how diversity based on sexual orientation aligns with the company's strategic objectives and explain the company's legal position with supportive reasoning. Lastly, based on their organizational climate and how it reshapes itself over time, some companies may wish to address diversity training on sexual orientation, gender identity, and gender expression in training separate from other diversity issues.

Sources: Young, Cheri A., Badiah Haffjee, and David L. Corsun. “Developing Cultural Intelligence and Empathy Through Diversified Mentoring Relationships.” *Journal of Management Education* (2017): 1052562917710687; Bezrukova, K., Jehn, K.A., & Spell, C.S. (2012). Reviewing diversity training: Where we have been and where we should go. *Academy of Management Learning & Education*, 11 (2): 207-227; Anand, R., & Winters, M. (2008). A retrospective view of corporate diversity training from 1964 to the present. *Academy of Management Learning & Education*, 7 (3): 356-372; Lindsey, A., King, E., Membere, A., & Cheung, H.K. (July 28, 2017). Two types of diversity training that really work. *Harvard Business Review*.

#### Discussion Questions

1. Why do you believe diversity training is resisted by some employees?
2. Do you believe there will always be a need for workplace diversity training?
3. How would you determine what types of diversity training are needed at your company?

## Visible Leadership

Another key to ensure that employees are treated fairly is utilizing appropriate leadership strategies.<sup>147</sup> Leadership must sincerely value variety of opinions, and organizational culture must encourage openness and make workers feel valued. Organizations must also have a well-articulated and widely understood mission and a relatively egalitarian, nonbureaucratic structure. Having such a work environment will ensure that the attitudes and values of employees are aligned with those of the organization. In this way culture serves as a control mechanism for shaping behaviors.

## Strategies for Employees

Individuals can increase positive employment outcomes by obtaining high levels of education, because for all groups education is a predictor of employment and increased earnings. Individuals can also seek employment in larger firms, which are more likely to have formal hiring programs and specific diversity provisions in place. Individuals of any race or ethnic background can also take steps to eliminate discrimination by being aware of their own personal stereotypes or biases and taking steps to challenge and address them.

### CONCEPT CHECK

1. How can managers ensure fairness in the interviewing and selection process regarding diversity?
2. What is the role of leadership regarding diversity?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Key Terms

**access discrimination**

A catchall term that describes when people are denied employment opportunities because of their identity group or personal characteristics such as gender, race, or age.

**access-and-legitimacy perspective**

Focuses on the benefits that a diverse workforce can bring to a business that wishes to operate within a diverse set of markets or with culturally diverse clients.

**age discrimination**

Treating an employee or applicant less favorably due to their age.

**Age Discrimination in Employment Act (ADEA)**

Forbids discrimination against individuals who are age 40 and above, including offensive or derogatory remarks that create a hostile work environment.

**Americans with Disabilities Act (ADA)**

Prohibits discrimination in employment, public services, public accommodations, and telecommunications against people with disabilities.

**cognitive diversity**

Differences between team members regarding characteristics such as expertise, experiences, and perspectives.

**cognitive diversity hypothesis**

Multiple perspectives stemming from the cultural differences between group or organizational members result in creative problem-solving and innovation.

**covert discrimination (interpersonal)**

An interpersonal form of discrimination that manifests in ways that are not visible or readily identifiable.

**deep-level diversity**

Diversity in characteristics that are nonobservable such as attitudes, values, and beliefs, such as religion.

**disability discrimination**

Occurs when an employee or applicant is treated unfavorably due to their physical or mental disability.

**discrimination-and-fairness perspective**

A culturally diverse workforce is a moral duty that must be maintained in order to create a just and fair society.

**diversified mentoring relationships**

Relationships in which the mentor and the mentee differ in terms of their status within the company and within larger society.

**diversity**

Identity-based differences among and between people that affect their lives as applicants, employees, and customers.

**Equal Employment Opportunity Commission**

An organization that enforces laws and issues guidelines for employment-related treatment according to Title VII of the Civil Rights Act of 1964.

**Equal Pay Act of 1963**

An amendment to the Fair Labor Standards Act of 1938.

**Family and Medical Leave Act (FMLA)**

Provides new parents, including adoptive and foster parents, with 12 weeks of unpaid leave (or paid leave only if earned by the employee) to care for the new child and requires that nursing mothers have the right to express milk on workplace premises.

**glass ceiling**

An invisible barrier based on the prejudicial beliefs of organizational decision makers that prevents women from

moving beyond certain levels within a company.

**groupthink**

A dysfunction in decision-making that is common in homogeneous groups due to group pressures and group members' desire for conformity and consensus.

**harassment**

Any unwelcome conduct that is based on characteristics such as age, race, national origin, disability, gender, or pregnancy status.

**hidden diversity**

Differences in traits that are deep-level and may be concealed or revealed at discretion by individuals who possess them.

**highly structured interviews**

Interviews that are be structured objectively to remove bias from the selection process.

**identity group**

A collective of individuals who share the same demographic characteristics such as race, sex, or age.

**inclusion**

The degree to which employees are accepted and treated fairly by their organization.

**integration-and-learning perspective**

Posits that the different life experiences, skills, and perspectives that members of diverse cultural identity groups possess can be a valuable resource in the context of work groups.

**invisible social identities**

Membership in an identity group based on hidden diversity traits such as sexual orientation or a nonobservable disability that may be concealed or revealed.

**justification-suppression model**

Explains the circumstances in which prejudiced people might act on their prejudices.

**justification-suppression model**

Explains under what conditions individuals act on their prejudices.

**managing diversity**

Ways in which organizations seek to ensure that members of diverse groups are valued and treated fairly within organizations.

**model minority myth**

A stereotype that portrays Asian men and women as obedient and successful and is often used to justify socioeconomic disparities between other racial minority groups.

**national origin discrimination**

Treating someone unfavorably because of their country of origin, accent, ethnicity, or appearance.

**passing**

The decision to not disclose one's invisible social identity.

**pregnancy discrimination**

Treating an employee or applicant unfairly because of pregnancy status, childbirth, or medical conditions related to pregnancy or childbirth.

**Pregnancy Discrimination Act (PDA)**

Prohibits any discrimination as it relates to pregnancy in hiring, firing, compensation, training, job assignment, insurance, or any other employment conditions.

**race/color discrimination**

Treating employees or applicants unfairly because of their race or because of physical characteristics typically associated with race such as skin color, hair color, hair texture, or certain facial features.

**religious discrimination**

When employees or applicants are treated unfairly because of their religious beliefs.



**resource-based view**

Demonstrates how a diverse workforce can create a sustainable competitive advantage for organizations.

**revealing**

The decision to disclose one's invisible social identity.

**reverse discrimination**

Describes a situation in which dominant group members perceive that they are experiencing discrimination based on their race or sex.

**schema theory**

Explains how individuals encode information about others based on their demographic characteristics.

**sex-based discrimination**

When employees or applicants are treated unfairly because of their sex, including unfair treatment due to gender, transgender status, or sexual orientation.

**sexual harassment**

Harassment based on a person's sex; it can (but does not have to) include unwanted sexual advances, requests for sexual favors, or physical and verbal acts of a sexual nature.

**similarity-attraction paradigm**

Individuals' preferences for interacting with others like themselves can result in diversity having a negative effect on group and organizational outcomes.

**social identity theory**

Self-concept based on an individual's physical, social, and mental characteristics.

**stereotypes**

Overgeneralization of characteristics about groups that are the basis for prejudice and discrimination.

**strategic human resources management (SHRM)**

System of activities arranged to engage employees in a manner that assists the organization in achieving a sustainable competitive advantage.

**surface-level diversity**

Diversity in the form of characteristics of individuals that are readily visible, including, but not limited to, age, body size, visible disabilities, race, or sex.

**treatment discrimination**

A situation in which people are employed but are treated differently while employed, mainly by receiving different and unequal job-related opportunities or rewards.

**work visa**

A temporary documented status that authorizes individuals from other countries to permanently or temporarily live and work in the United States.

**workplace discrimination**

Unfair treatment in the job hiring process or at work that is based on the identity group, physical or mental condition, or personal characteristic of an applicant or employee.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Summary of Learning Outcomes

## 18.1 An Introduction to Workplace Diversity

### 1. What is diversity?

Diversity refers to identity-based differences among and between people that affect their lives as applicants, employees, and customers. Surface-level diversity represents characteristics of individuals that are readily visible, including, but not limited to, age, body size, visible disabilities, race, or sex. Deep-level diversity includes traits that are nonobservable such as attitudes, values, and beliefs. Finally, hidden diversity includes traits that are deep-level but may be concealed or revealed at the discretion of individuals who possess them.

## 18.2 Diversity and the Workforce

### 2. How diverse is the workforce?

In analyzing the diversity of the workforce, several measures can be used. Demographic measures such as gender and race can be used to measure group sizes. Measures of such things as discrimination toward specific groups can be analyzed to gauge the diversity of the workforce. Other measures of diversity in the workforce can include examination of differences in age and sexual orientation.

## 18.3 Diversity and Its Impact on Companies

### 3. How does diversity impact companies and the workforce?

The demography of the labor force is changing in many ways as it becomes racially diverse and older and includes more women and individuals with disabilities. Diversity affects how organizations understand that employing people who hold multiple perspectives increases the need to mitigate conflict between workers from different identity groups, enhances creativity and problem solving in teams, and serves as a resource to create a competitive advantage for the organization.

## 18.4 Challenges of Diversity

### 4. What is workplace discrimination, and how does it affect different social identity groups?

Workplace discrimination occurs when an employee or an applicant is treated unfairly at work or in the job-hiring process due to an identity group, condition, or personal characteristic such as age, race, national origin, sex, disability, religion, or pregnancy status. The Equal Employment Opportunity Commission enforces laws and legislation related to individuals with those protected statuses.

Harassment is any unwelcome conduct that is based on the protected characteristics listed above. Sexual harassment

refers specifically to harassment based on a person's sex, and it can (but does not have to) include unwanted sexual advances, requests for sexual favors, or physical and verbal acts of a sexual nature.

## 18.5 Key Diversity Theories

5. What key theories help managers understand the benefits and challenges of managing the diverse workforce?

The cognitive-diversity hypothesis suggests that multiple perspectives stemming from the cultural differences between groups or organizational members result in creative problem solving and innovation. The similarity-attraction paradigm and social identity theory explain how, because individuals prefer to interact with others like themselves, diversity may have a negative effect on group and organizational outcomes. The justification-suppression model explains under what conditions individuals act on their prejudice.

## 18.6 Benefits and Challenges of Workplace Diversity

6. How can managers reap benefits from diversity and mitigate its challenges?

By approaching diversity and diversity issues in a thoughtful, purposeful way, managers can mitigate the challenges posed by a diverse workforce and enhance the benefits a diverse workforce can offer.

Managers can work to make sure that the efforts and initiatives they enact to increase diversity in the workplace come from a perspective that ensures and strives for equity and fairness, not simply one that will benefit the company's bottom line.

Using an integration-and-learning perspective strongly links diversity to the work and success of the firm by viewing cultural identity, different life experiences, skills, and perspectives from members of diverse cultural identity groups as a valuable resource.

## 18.7 Recommendations for Managing Diversity

7. What can organizations do to ensure applicants, employees, and customers from all backgrounds are valued?

Organizations should use objective and fair recruitment and selection tools and policies.

Leadership should make employees feel valued, be open to varied perspectives, and encourage a culture of open dialogue. Women and racial minorities can increase positive employment outcomes by pursuing higher levels of education and seeking employment in larger organizations. All individuals should be willing to listen, empathize with others, and seek to better understand sensitive issues that affect different identity groups.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Chapter Review Questions

1. Define the three types of diversity and compare them using examples for each type.
2. How are demographics of the workforce changing?
3. What are some major challenges that women face in organizations?
4. What is the model minority myth? How does it compare to how Black people and Hispanic people are stereotyped?
5. What are some benefits of hiring older workers?
6. Why would an employee “pass” or “reveal” at work? What are the positive and negative consequences of doing so?
7. Explain the six benefits of workplace diversity described by Cox and Blake’s business case for diversity.
8. Compare how the cognitive diversity hypothesis and the similarity-attraction paradigm relate to diversity outcomes.
9. Based on the justification-suppression model, explain why individuals act on their prejudicial beliefs.
10. Describe challenges that managers must face when managing diversity.
11. How can employees ensure they are compliant with the laws and legislation enforced by the EEOC?
12. What are some recommendations for managing diversity?

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# Management Skills Application Exercises

1. Do you agree that diversity can be a source of greater benefit than harm to organizations? Why or why not?
2. Have you ever worked in a diverse team setting before? If so, did you encounter any attitudes or behaviors that could potentially cause conflict? If not, how would you manage conflict stemming from diversity?
3. List three organizational goals you would implement to create an organizational culture of diversity and inclusion.
4. Have you or has someone you know experienced discrimination? How did that affect you or that person emotionally, physically, or financially?
5. Pick an identity group (e.g., gay, Black, or woman) other than your own. Imagine and list the negative experiences and interactions you believe you might encounter at work. What policies or strategies could an organization implement to prevent those negative experiences from occurring?
6. Provide a concrete example of how different perspectives stemming from diversity can positively impact an organization or work group. You may use a real-life personal example or make one up.

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Managerial Decision Exercises

1. As a manager for a hospital, you oversee a staff of marketing associates. Their job is to find doctors and persuade them to refer their patients to your hospital. Associates have a very flexible work schedule and manage their own time. They report to you weekly concerning their activities in the field. Trusting them is very important, and it is impossible to track and confirm all of their activities. Your assistant, Nancy, manages the support staff for the associates, works very closely with them, and often serves as your eyes and ears to keep you informed as to how well they are performing.

One day, Nancy comes into your office crying and tells you that your top-performing associate, Susan, has for the past few weeks repeatedly asked her out to dinner and she has repeatedly refused. Susan is a lesbian and Nancy is not. Today, when she refused, Susan patted her on the bottom and said, "I know, you are just playing hard to get."

After Nancy calms down, you tell her that you will fill out the paperwork to report a sexual harassment case. Nancy says that she does not want to report it because it would be too embarrassing if word of the incident got out. To impress upon you how strongly she feels, she tells you that she will consider resigning if you report the incident. Nancy is essential to the effective operation of your group, and you dread how difficult it would be to get things done without her assisting you.

What do you do? Do you report the case, lose Nancy's trust, and jeopardize losing a high-performing employee? Or do you not report it, thereby protecting what Nancy believes to be her right to privacy?

2. Recently your company has begun to promote its diversity efforts, including same-sex (and heterosexual) partner benefits and a nonharassment policy that includes sexual orientation, among other things. Your department now has new posters on the walls with photos of employees who represent different aspects of diversity (e.g., Black, Hispanic, gay). One of your employees is upset about the diversity initiative and has begun posting religious scriptures condemning homosexuality on his cubicle in large type for everyone to see. When asked to remove them, your employee tells you that the posters promoting diversity offend some religious employees. What should you do?
3. You are a recently hired supervisor at a paper mill factory. During your second week on the job, you learn about a White employee who has been using a racial slur during lunch breaks when discussing some of her Black coworkers with others. You ask the person who reported it to you about the woman and learn that she is an older woman, around 67 years old, and has worked at the factory for more than 40 years. You talk to your boss about it, and he tells you that she means no harm by it, she is just from another era and that is just her personality. What would you do in this situation?
4. You are a nurse manager who oversees the triage for the emergency room, and today is a slow day with very few patients. During the downtime, one of your subordinates is talking with another coworker about her new boyfriend. You observe her showing her coworkers explicit images of him that he emailed her on her phone. Everyone is joking and laughing about the ordeal. Even though it appears no one is offended, should you address it? What would you say?
5. You work for a company that has primarily Black and Hispanic customers. Although you employ many racial minorities and women, you notice that all of your leaders are White men. This does not necessarily mean that your organization engages in discriminatory practices, but how would you know if your organization was managing diversity well? What information would you need to determine this, and how would you collect it?
6. Your company's founder believes that younger workers are more energetic and serve better in sales positions. Before posting a new job ad for your sales division, he recommends that you list an age requirement of the position for applicants between ages 18 and 25. Is his recommendation a good one? Why or why not?

7. You work for a real estate broker who recently hired two gay realtors, Steven and Shauna, to be a part of the team. During a staff meeting, your boss mentions an article she read about gay clients feeling ostracized in the real estate market. She tells the new employees she hired them to help facilitate the home-buying process for gay buyers and sellers. She specifically instructs them to focus on recruiting gay clients, even telling them that they should pass along any straight customers to one of the straight realtors on the team. A few weeks later, Shauna reports that she has made her first sale to a straight couple that is expecting a baby. During the next staff meeting, your boss congratulates Shauna on her sale, but again reiterates that Shauna and Steven should pass along straight clients to another realtor so they can focus on recruiting gay clients. After the meeting, Shauna tells you that she thinks it is unfair that she should have to focus on gay clients and that she is thinking of filing a discrimination complaint with HR. Do you think that Shauna is correct in her assessment of the situation? Is there merit to your boss's desire to have the gay realtors focus on recruiting gay clients? What might be a better solution to help gay clients feel more comfortable in the home-buying and -selling process?

Source contents: [Principles of Management](#) and [Organizational Behavior](#). Please visit OpenStax for more details: <https://openstax.org/subjects/view-all>

# Critical Thinking Case

## *Uber Pays the Price*

Nine years ago, Uber revolutionized the taxi industry and the way people commute. With the simple mission “to bring transportation—for everyone, everywhere,” today Uber has reached a valuation of around \$70 billion and claimed a market share high of almost 90% in 2015. However, in June 2017 Uber experienced a series of bad press regarding an alleged culture of sexual harassment, which is what most experts believe caused their market share to fall to 75%.

In February of 2017 a former software engineer, Susan Fowler, wrote a lengthy post on her website regarding her experience of being harassed by a manager who was not disciplined by human resources for his behavior. In her post, Fowler wrote that Uber’s HR department and members of upper management told her that because it was the man’s first offense, they would only give him a warning. During her meeting with HR about the incident, Fowler was also advised that she should transfer to another department within the organization. According to Fowler, she was ultimately left no choice but to transfer to another department, despite having specific expertise in the department in which she had originally been working.

As her time at the company went on, she began meeting other women who worked for the company who relayed their own stories of harassment. To her surprise, many of the women reported being harassed by the same person who had harassed her. As she noted in her blog, “It became obvious that both HR and management had been lying about this being his ‘first offense.’” Fowler also reported a number of other instances that she identified as sexist and inappropriate within the organization and claims that she was disciplined severely for continuing to speak out. Fowler eventually left Uber after about two years of working for the company, noting that during her time at Uber the percentage of women working there had dropped to 6% of the workforce, down from 25% when she first started.

Following the fallout from Fowler’s lengthy description of the workplace on her website, Uber’s chief executive Travis Kalanick publicly condemned the behavior described by Fowler, calling it “abhorrent and against everything Uber stands for and believes in.” But later in March, Uber board member Arianna Huffington claimed that she believed “sexual harassment was not a systemic problem at the company.” Amid pressure from bad media attention and the company’s falling market share, Uber made some changes after an independent investigation resulted in 215 complaints. As a result, 20 employees were fired for reasons ranging from sexual harassment to bullying to retaliation to discrimination, and Kalanick announced that he would hire a chief operating officer to help manage the company. In an effort to provide the leadership team with more diversity, two senior female executives were hired to fill the positions of chief brand officer and senior vice president for leadership and strategy.

### Critical Thinking Questions

1. Based on Cox’s business case for diversity, what are some positive outcomes that may result in changes to Uber’s leadership team?
2. Under what form of federal legislation was Fowler protected?
3. What strategies should have been put in place to help prevent sexual harassment incidents like this from happening in the first place?

Sources: Uber corporate Website, <https://www.uber.com/newsroom/company-info/> (February, 2017); Marco della Cava, “Uber has lost market share to Lyft during crisis,” *USA Today*, June 13, 2017, <https://www.usatoday.com/story/tech/news/2017/06/13/uber-market-share-customer-image-hit-string-scandals/102795024/>; Tracey Lien, “Uber fires 20 workers after harassment investigation,” *Los Angeles Times*, Jun 6, 2017, <http://www.latimes.com/business/la-fi-tn-uber-sexual-harassment-20170606-story.html>; Susan Fowler, “Reflecting On One Very, Very Strange Year At Uber,” February 19, 2017, <https://www.susanjfowler.com/blog/2017/2/19/reflecting-on-one-very-strange-year-at-uber>.



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