

management

ninth edition

STEPHEN P. ROBBINS

MARY COULTER

Chapter
1

Introduction to Management and Organizations

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Who Are Managers?

- Explain how managers differ from non-managerial employees.
- Describe how to classify managers in organizations.

What Is Management?

- Define management.
- Explain why efficiency and effectiveness are important to management.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

What Do Managers Do?

- Describe the four functions of management.
- Explain Mintzberg's managerial roles.
- Describe Katz's three essential managerial skills and how the importance of these skills changes depending on managerial level.
- Discuss the changes that are impacting managers' jobs.
- Explain why customer service and innovation are important to the manager's job.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

What Is An Organization?

- Describe the characteristics of an organization.
- Explain how the concept of an organization is changing.

Why Study Management?

- Explain the universality of management concept.
- Discuss why an understanding of management is important.
- Describe the rewards and challenges of being a manager.

Who Are Managers?

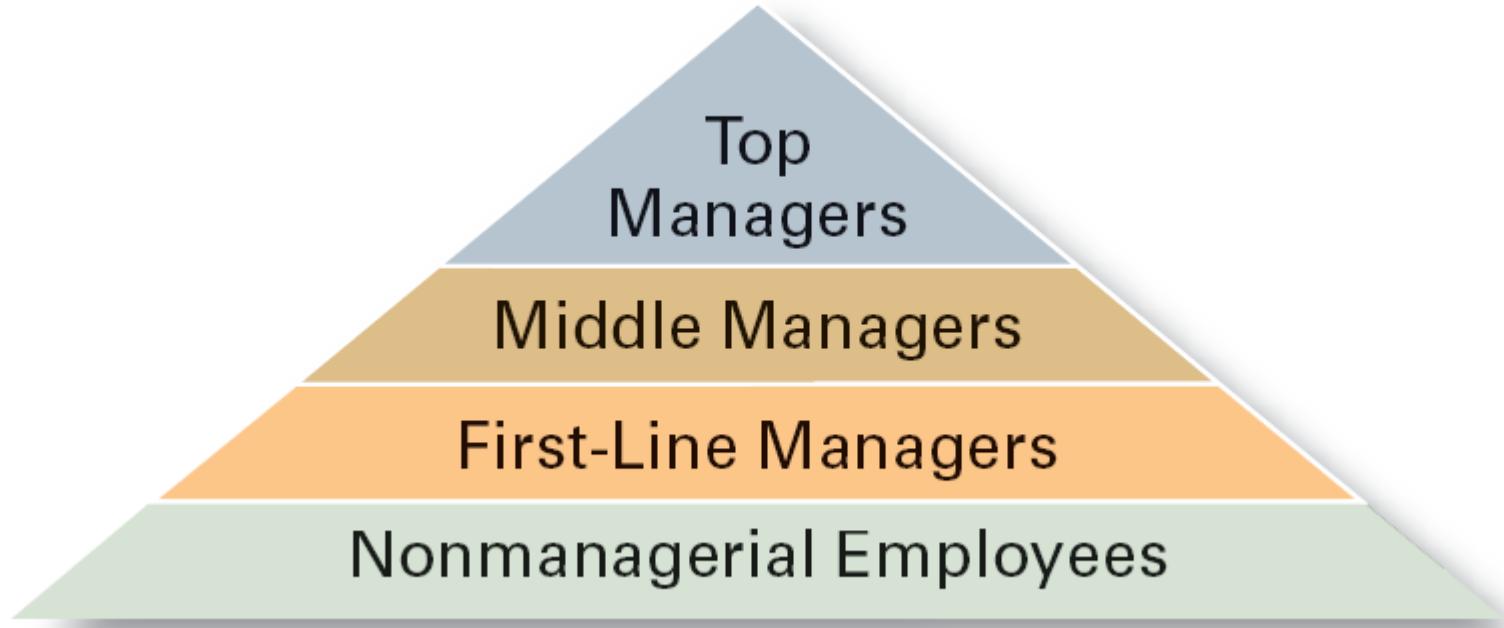
- Manager
 - Someone who coordinates and oversees the work of other people so that organizational goals can be accomplished.



Classifying Managers

- **First-line Managers**
 - Individuals who manage the work of non-managerial employees.
- **Middle Managers**
 - Individuals who manage the work of first-line managers.
- **Top Managers**
 - Individuals who are responsible for making organization-wide decisions and establishing plans and goals that affect the entire organization.

Exhibit 1–1 Managerial Levels



What Is Management?

- Managerial Concerns

- Efficiency

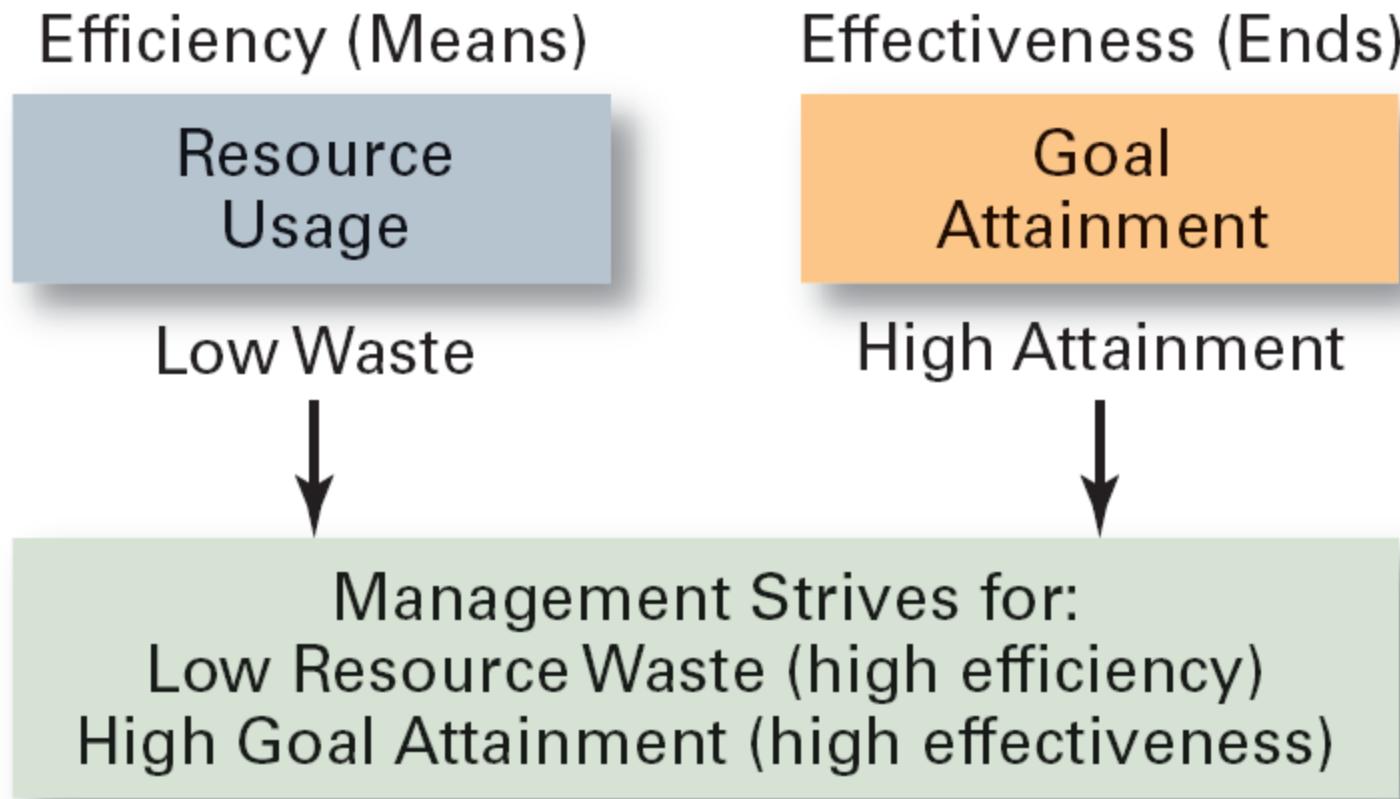
- ❖ “Doing things right”
 - Getting the most output for the least inputs

- Effectiveness

- ❖ “Doing the right things”
 - Attaining organizational goals



Exhibit 1–2 Effectiveness and Efficiency in Management

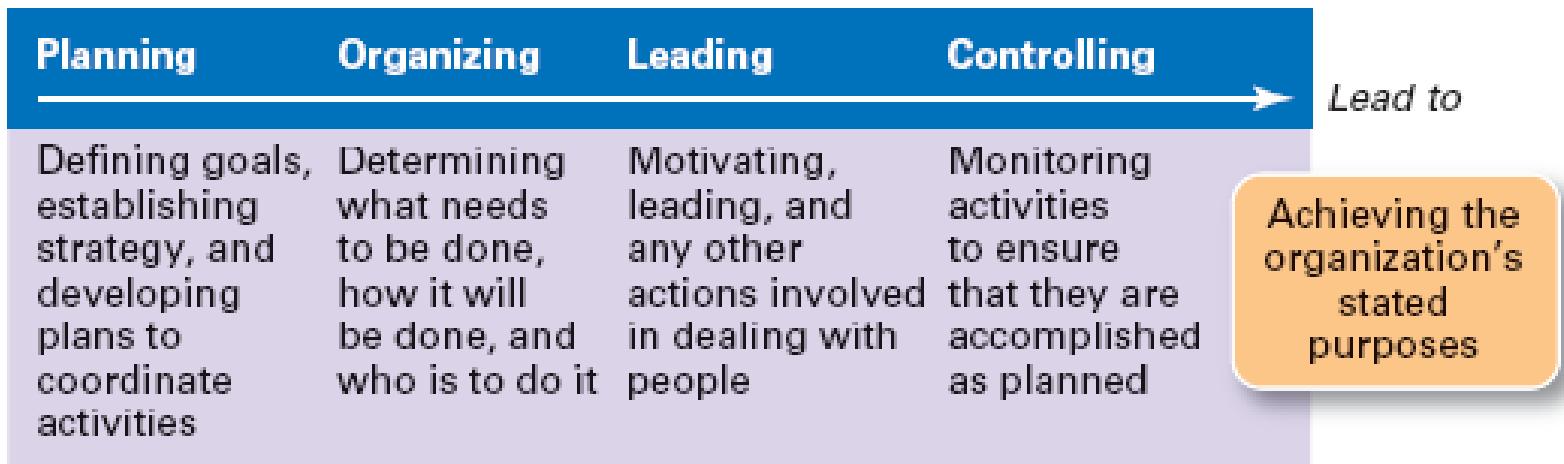


What Do Managers Do?

- **Functional Approach**

- **Planning**
 - ❖ Defining goals, establishing strategies to achieve goals, developing plans to integrate and coordinate activities.
- **Organizing**
 - ❖ Arranging and structuring work to accomplish organizational goals.
- **Leading**
 - ❖ Working with and through people to accomplish goals.
- **Controlling**
 - ❖ Monitoring, comparing, and correcting work.

Exhibit 1–3 Management Functions



What Do Managers Do? (cont'd)

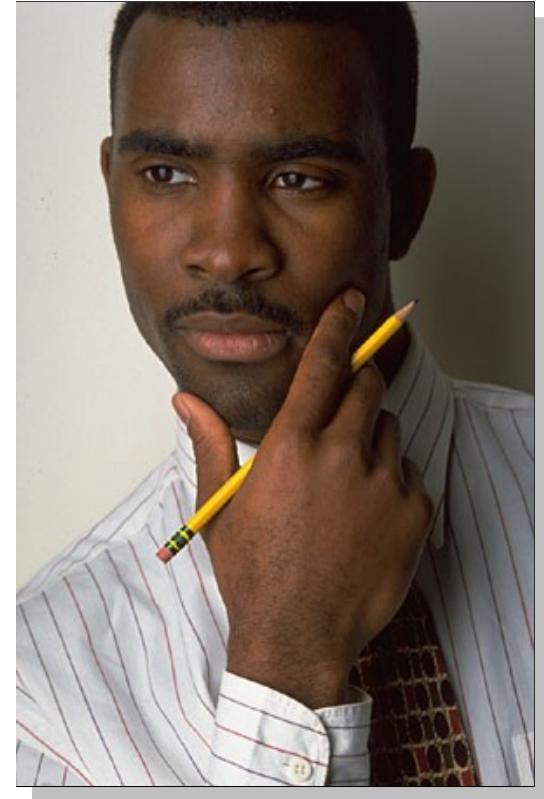
- **Management Roles Approach (Mintzberg)**

- **Interpersonal roles**
 - ❖ Figurehead, leader, liaison
- **Informational roles**
 - ❖ Monitor, disseminator, spokesperson
- **Decisional roles**
 - ❖ Disturbance handler, resource allocator, negotiator



What Managers Actually Do (Mintzberg)

- **Interaction**
 - with others
 - with the organization
 - with the external context of the organization
- **Reflection**
 - thoughtful thinking
- **Action**
 - practical doing



What Do Managers Do? (cont'd)

- **Skills Approach**
 - **Technical skills**
 - ❖ Knowledge and proficiency in a specific field
 - **Human skills**
 - ❖ The ability to work well with other people
 - **Conceptual skills**
 - ❖ The ability to think and conceptualize about abstract and complex situations concerning the organization

Exhibit 1–5 Skills Needed at Different Management Levels

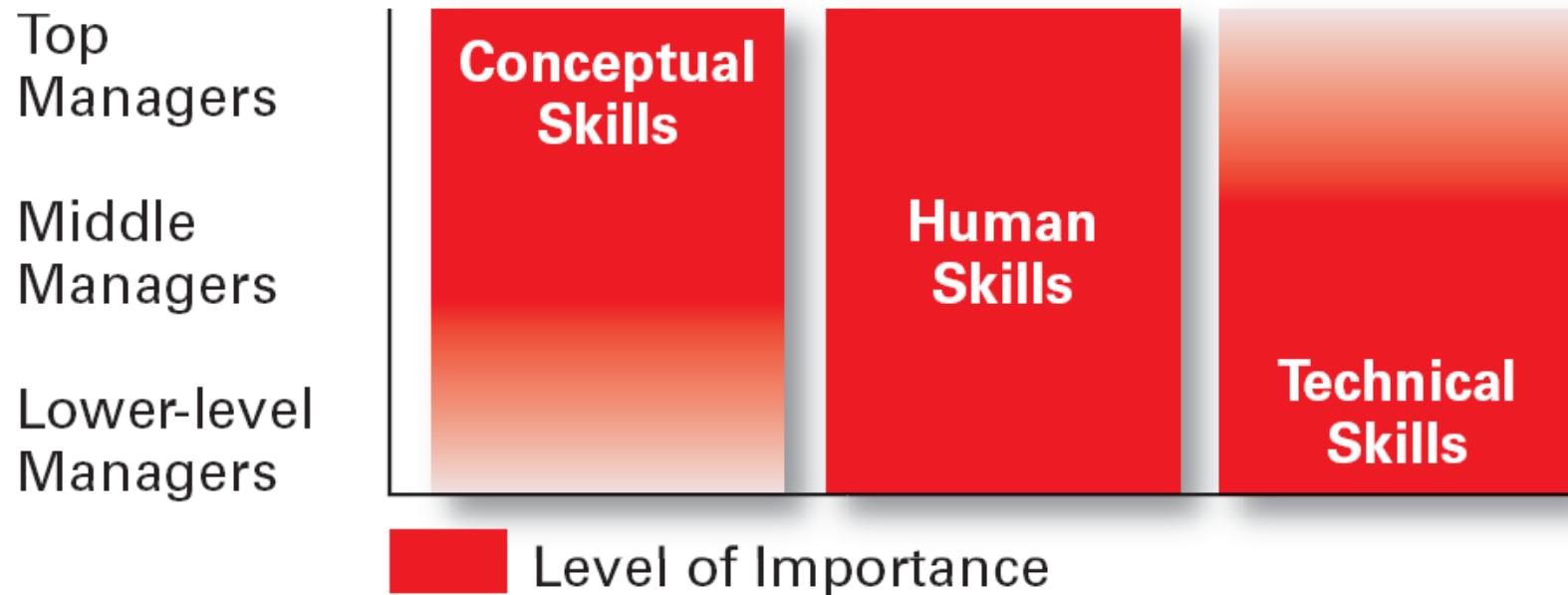


Exhibit 1–6 Conceptual Skills

- **Using information to solve business problems**
- **Identifying opportunities for innovation**
- **Recognizing problem areas and implementing solutions**
- **Selecting critical information from masses of data**
- **Understanding of business uses of technology**
- **Understanding of organization's business model**

Source: Based on American Management Association Survey of Managerial Skills and Competencies, March/April 2000, found on AMA Web site (www.ama.org), October 30, 2002.

Exhibit 1–6 Communication Skills

- Ability to transform ideas into words and actions
- Credibility among colleagues, peers, and subordinates
- Listening and asking questions
- Presentation skills; spoken format
- Presentation skills; written and/or graphic formats

Source: Based on American Management Association Survey of Managerial Skills and Competencies, March/April 2000, found on AMA Web site (www.ama.org), October 30, 2002.

Exhibit 1–6 Effectiveness Skills

- **Contributing to corporate mission/departmental objectives**
- **Customer focus**
- **Multitasking: working at multiple tasks in parallel**
- **Negotiating skills**
- **Project management**
- **Reviewing operations and implementing improvements**

Source: Based on American Management Association Survey of Managerial Skills and Competencies, March/April 2000, found on AMA Web site (www.ama.org), October 30, 2002.

Exhibit 1–6 Effectiveness Skills (cont'd)

- **Setting and maintaining performance standards internally and externally**
- **Setting priorities for attention and activity**
- **Time management**

Source: Based on American Management Association Survey of Managerial Skills and Competencies, March/April 2000, found on AMA Web site (www.ama.org), October 30, 2002.

Exhibit 1–6 Interpersonal Skills (cont'd)

- **Coaching and mentoring skills**
- **Diversity skills: working with diverse people and cultures**
- **Networking within the organization**
- **Networking outside the organization**
- **Working in teams; cooperation and commitment**

Source: Based on American Management Association Survey of Managerial Skills and Competencies, March/April 2000, found on AMA Web site (www.ama.org), October 30, 2002.

Exhibit 1–7 Management Skills and Management Function Matrix

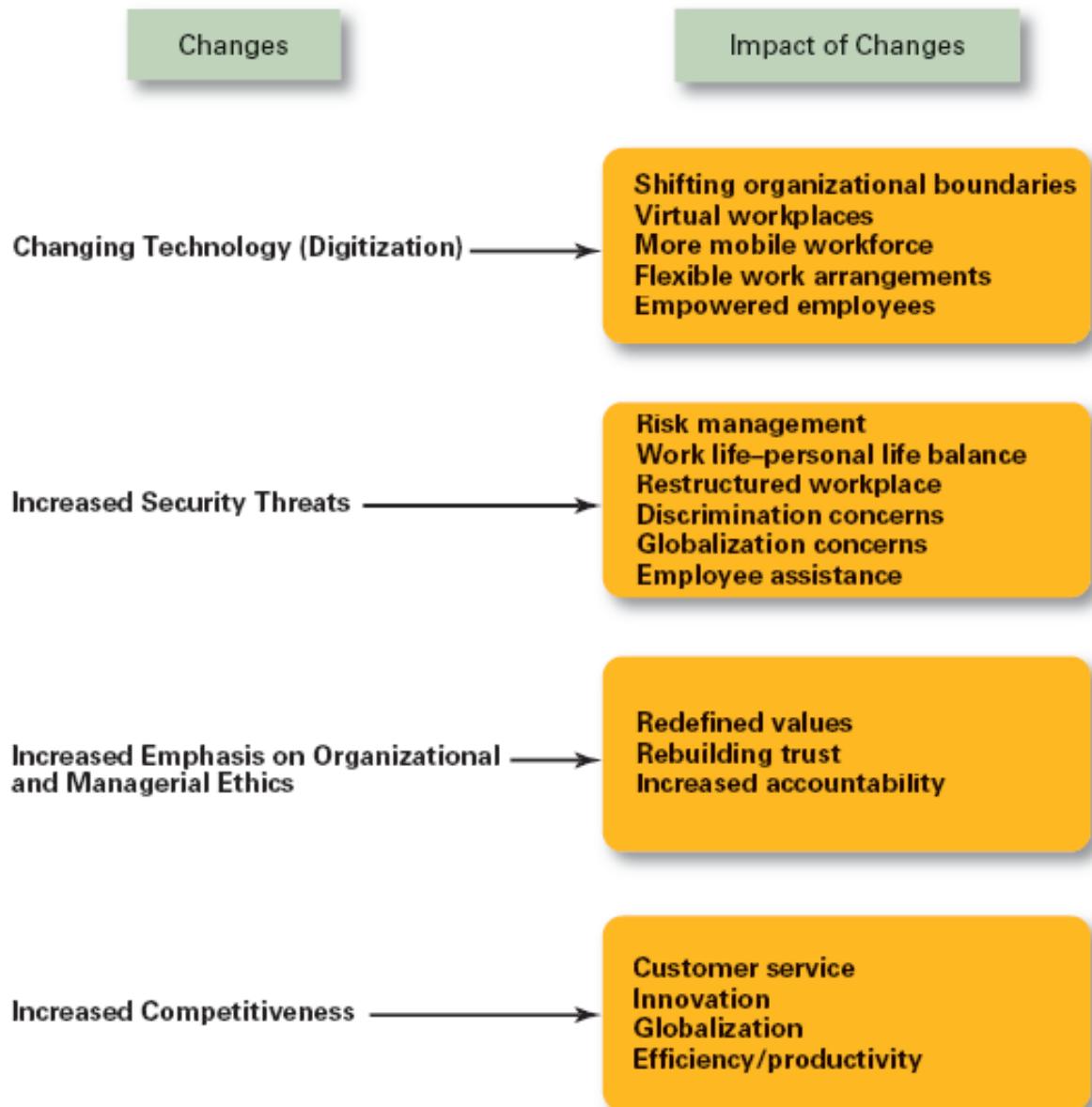
Skill	Function			
	Planning	Organizing	Leading	Controlling
Acquiring power		✓	✓	
Active listening			✓	✓
Budgeting	✓			✓
Choosing an effective leadership style			✓	
Coaching			✓	
Creating effective teams	✓		✓	
Delegating (empowerment)	✓		✓	
Designing motivating jobs	✓		✓	
Developing trust			✓	
Disciplining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

How The Manager's Job Is Changing

- The Increasing Importance of Customers
 - Customers: the reason that organizations exist
 - ❖ Managing customer relationships is the responsibility of all managers and employees.
 - ❖ Consistent high quality customer service is essential for survival.
- Innovation
 - Doing things differently, exploring new territory, and taking risks
 - ❖ Managers should encourage employees to be aware of and act on opportunities for innovation.

Exhibit 1–8

Changes Impacting the Manager's Job



What Is An Organization?

- **An Organization Defined**
 - A deliberate arrangement of people to accomplish some specific purpose (that individuals independently could not accomplish alone).
- **Common Characteristics of Organizations**
 - Have a distinct purpose (goal)
 - Composed of people
 - Have a deliberate structure

Exhibit 1–9 Characteristics of Organizations

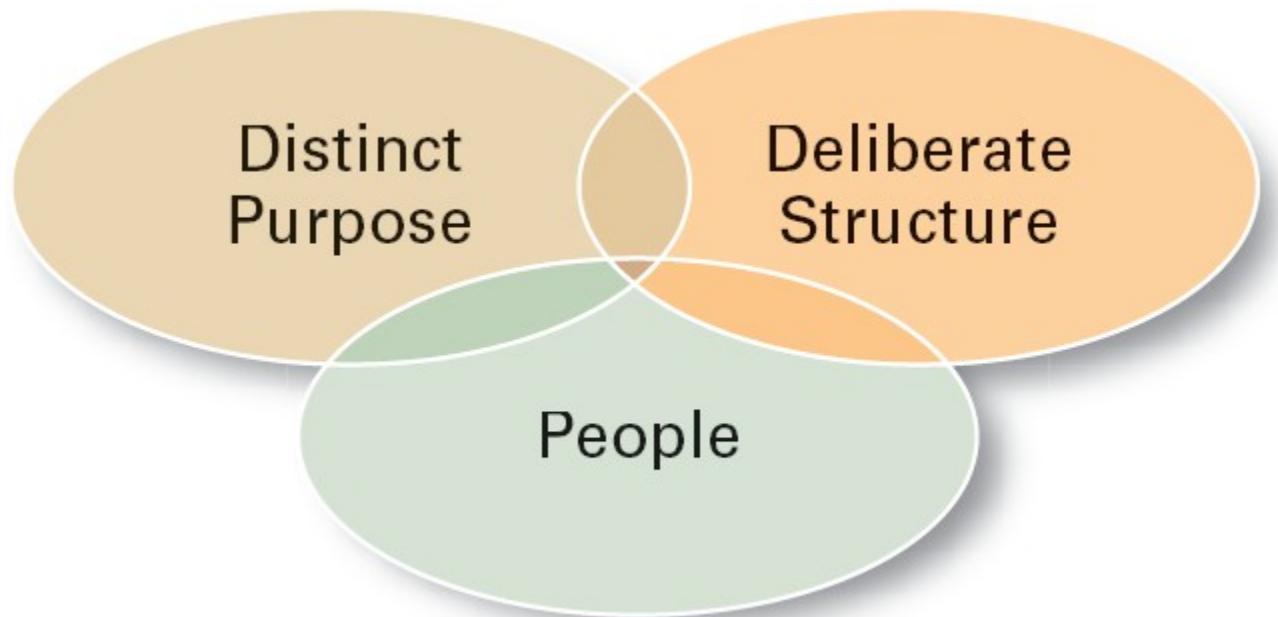


Exhibit 1–10 The Changing Organization

Traditional Organization	Contemporary Organization
<ul style="list-style-type: none">• Stable• Inflexible• Job-focused• Work is defined by job positions• Individual-oriented• Permanent jobs• Command-oriented• Managers always make decisions• Rule-oriented• Relatively homogeneous workforce• Workdays defined as 9 to 5• Hierarchical relationships• Work at organizational facility during specific hours	<ul style="list-style-type: none">• Dynamic• Flexible• Skills-focused• Work is defined in terms of tasks to be done• Team-oriented• Temporary jobs• Involvement-oriented• Employees participate in decision making• Customer-oriented• Diverse workforce• Workdays have no time boundaries• Lateral and networked relationships• Work anywhere, anytime

Why Study Management?

- The Value of Studying Management
 - The universality of management
 - ❖ Good management is needed in all organizations.
 - The reality of work
 - ❖ Employees either manage or are managed.
 - Rewards and challenges of being a manager
 - ❖ Management offers challenging, exciting and creative opportunities for meaningful and fulfilling work.
 - ❖ Successful managers receive significant monetary rewards for their efforts.

Exhibit 1–11 Universal Need for Management



Exhibit 1–12 Rewards and Challenges of Being A Manager

Rewards	Challenges
<ul style="list-style-type: none">• Create a work environment in which organizational members can work to the best of their ability• Have opportunities to think creatively and use imagination• Help others find meaning and fulfillment in work• Support, coach, and nurture others• Work with a variety of people• Receive recognition and status in organization and community• Play a role in influencing organizational outcomes• Receive appropriate compensation in form of salaries, bonuses, and stock options• Good managers are needed by organizations	<ul style="list-style-type: none">• Do hard work• May have duties that are more clerical than managerial• Have to deal with a variety of personalities• Often have to make do with limited resources• Motivate workers in chaotic and uncertain situations• Successfully blend knowledge, skills, ambitions, and experiences of a diverse work group• Success depends on others' work performance

Terms to Know

- manager
- first-line managers
- middle managers
- top managers
- management
- efficiency
- effectiveness
- planning
- organizing
- leading
- controlling
- management roles
- interpersonal roles
- informational roles
- decisional roles
- technical skills
- human skills
- conceptual skills
- organization
- universality of management



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Chapter
2

Management Yesterday and Today

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

- **Historical Background of Management**

- Explain why studying management history is important.
- Describe some early evidences of management practice.

- **Scientific Management**

- Describe the important contributions made by Fredrick W. Taylor and Frank and Lillian Gilbreth.
- Explain how today's managers use scientific management.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

- **General Administrative Theory**

- Discuss Fayol's contributions to management theory.
- Describe Max Weber's contribution to management theory.
- Explain how today's managers use general administrative theory.

- **Quantitative Approach**

- Explain what the quantitative approach has contributed to the field of management.
- Discuss how today's managers use the quantitative approach.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

- **Toward Understanding Organizational Behavior**

- Describe the contributions of the early advocates of OB.
- Explain the contributions of the Hawthorne Studies to the field of management.
- Discuss how today's managers use the behavioral approach.

- **The Systems Approach**

- Describe an organization using the systems approach.
- Discuss how the systems approach helps us management.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

- **The Contingency Approach**

- Explain how the contingency approach differs from the early theories of management.
- Discuss how the contingency approach helps us understand management.

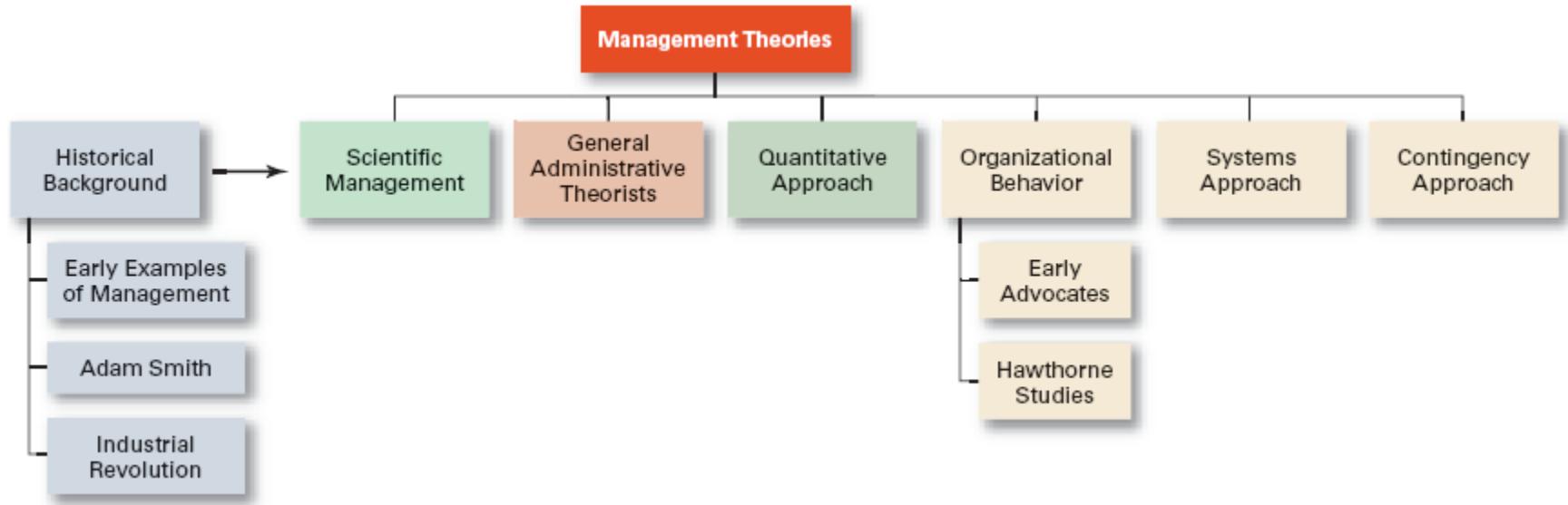
- **Current Issues and Trends**

- Explain why we need to look at the current trends and issues facing managers.
- Describe the current trends and issues facing managers.

Historical Background of Management

- Ancient Management
 - Egypt (pyramids) and China (Great Wall)
 - Venetians (floating warship assembly lines)
- Adam Smith
 - Published “*The Wealth of Nations*” in 1776
 - ❖ Advocated the division of labor (job specialization) to increase the productivity of workers
- Industrial Revolution
 - Substituted machine power for human labor
 - Created large organizations in need of management

Exhibit 2–1 Development of Major Management Theories



Major Approaches to Management

- Scientific Management
- General Administrative Theory
- Quantitative Management
- Organizational Behavior
- Systems Approach
- Contingency Approach



Scientific Management

- **Fredrick Winslow Taylor**
 - The “father” of scientific management
 - Published *Principles of Scientific Management* (1911)
 - ❖ The theory of scientific management
 - Using scientific methods to define the “one best way” for a job to be done:
 - Putting the right person on the job with the correct tools and equipment.
 - Having a standardized method of doing the job.
 - Providing an economic incentive to the worker.

Exhibit 2–2 Taylor's Four Principles of Management

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

Scientific Management (cont'd)

- **Frank and Lillian Gilbreth**
 - Focused on increasing worker productivity through the reduction of wasted motion
 - Developed the microchronometer to time worker motions and optimize work performance
- **How Do Today's Managers Use Scientific Management?**
 - Use time and motion studies to increase productivity
 - Hire the best qualified employees
 - Design incentive systems based on output

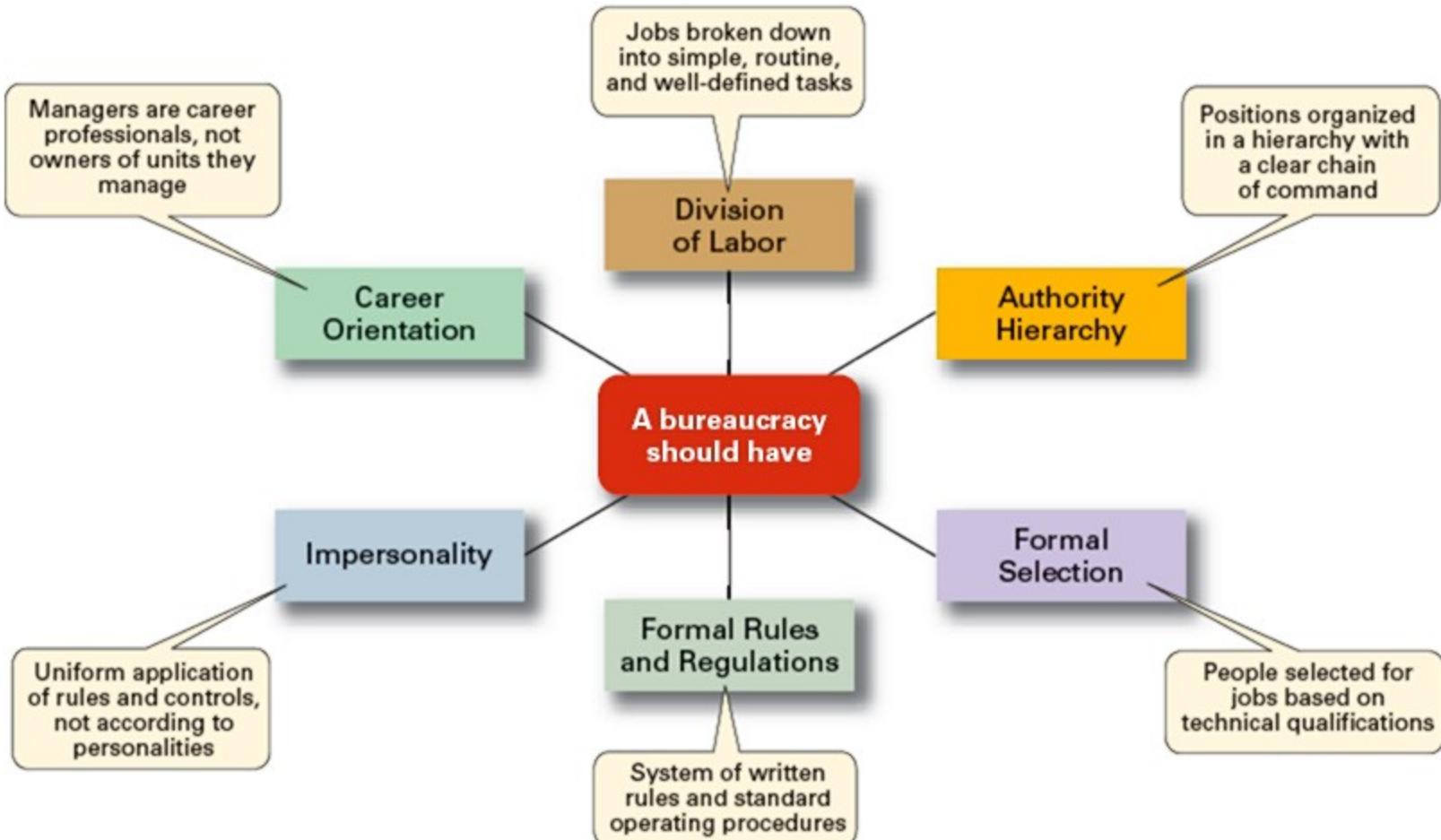
General Administrative Theory

- **Henri Fayol**
 - Believed that the practice of management was distinct from other organizational functions
 - Developed fourteen principles of management that applied to all organizational situations
- **Max Weber**
 - Developed a theory of authority based on an ideal type of organization (bureaucracy)
 - ❖ Emphasized rationality, predictability, impersonality, technical competence, and authoritarianism

Exhibit 2–3 Fayol's 14 Principles of Management

- 1. Division of work.**
- 2. Authority.**
- 3. Discipline.**
- 4. Unity of command.**
- 5. Unity of direction.**
- 6. Subordination of individual interests to the general interest.**
- 7. Remuneration.**
- 8. Centralization.**
- 9. Scalar chain.**
- 10. Order.**
- 11. Equity.**
- 12. Stability of tenure of personnel.**
- 13. Initiative.**
- 14. Esprit de corps.**

Exhibit 2–4 Weber's Ideal Bureaucracy



Quantitative Approach to Management

- Quantitative Approach

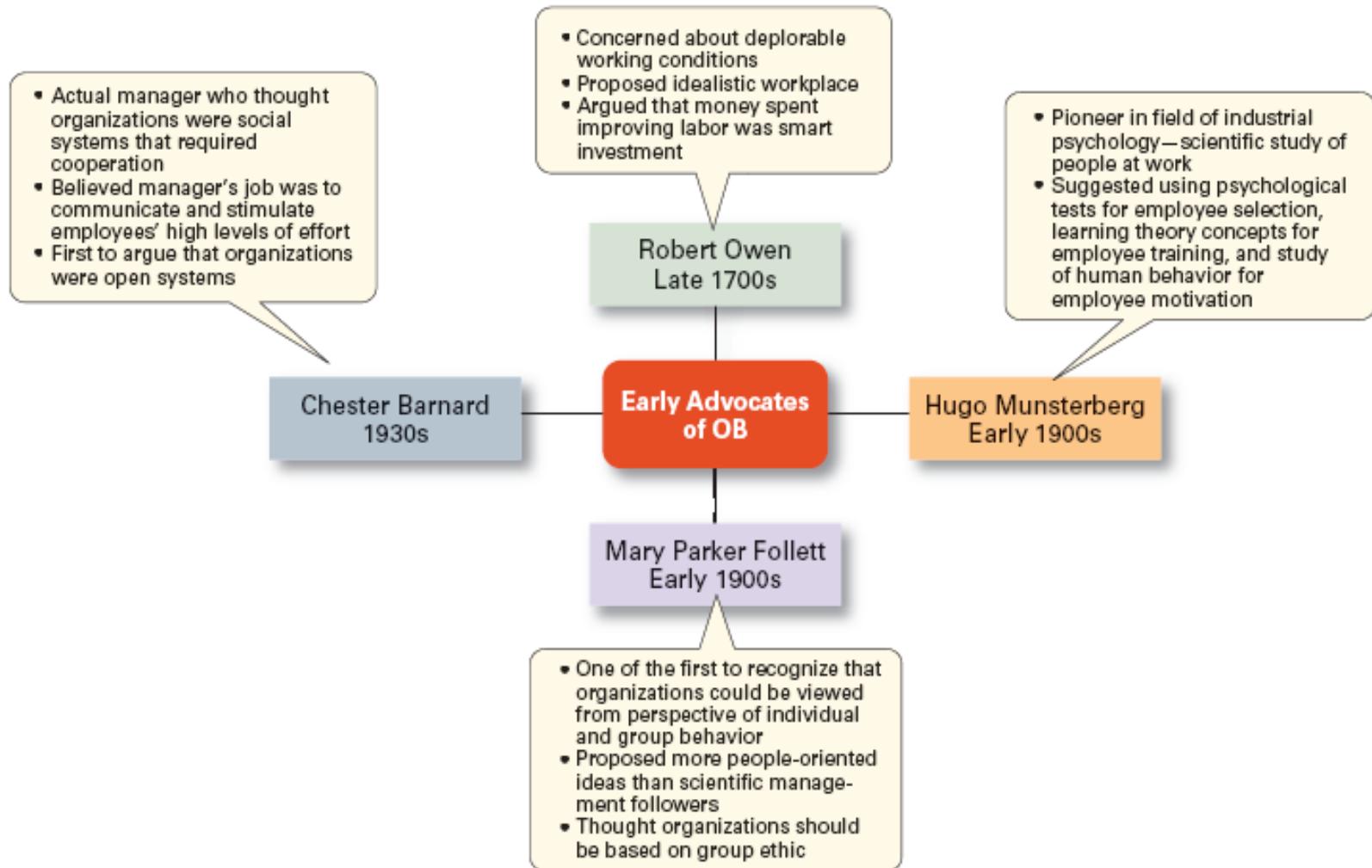
- Also called *operations research* or *management science*
- Evolved from mathematical and statistical methods developed to solve WWII military logistics and quality control problems
- Focuses on improving managerial decision making by applying:
 - ❖ Statistics, optimization models, information models, and computer simulations

Understanding Organizational Behavior

- **Organizational Behavior (OB)**
 - The study of the actions of people at work; people are the most important asset of an organization
- **Early OB Advocates**
 - Robert Owen
 - Hugo Munsterberg
 - Mary Parker Follett
 - Chester Barnard



Exhibit 2–5 Early Advocates of OB



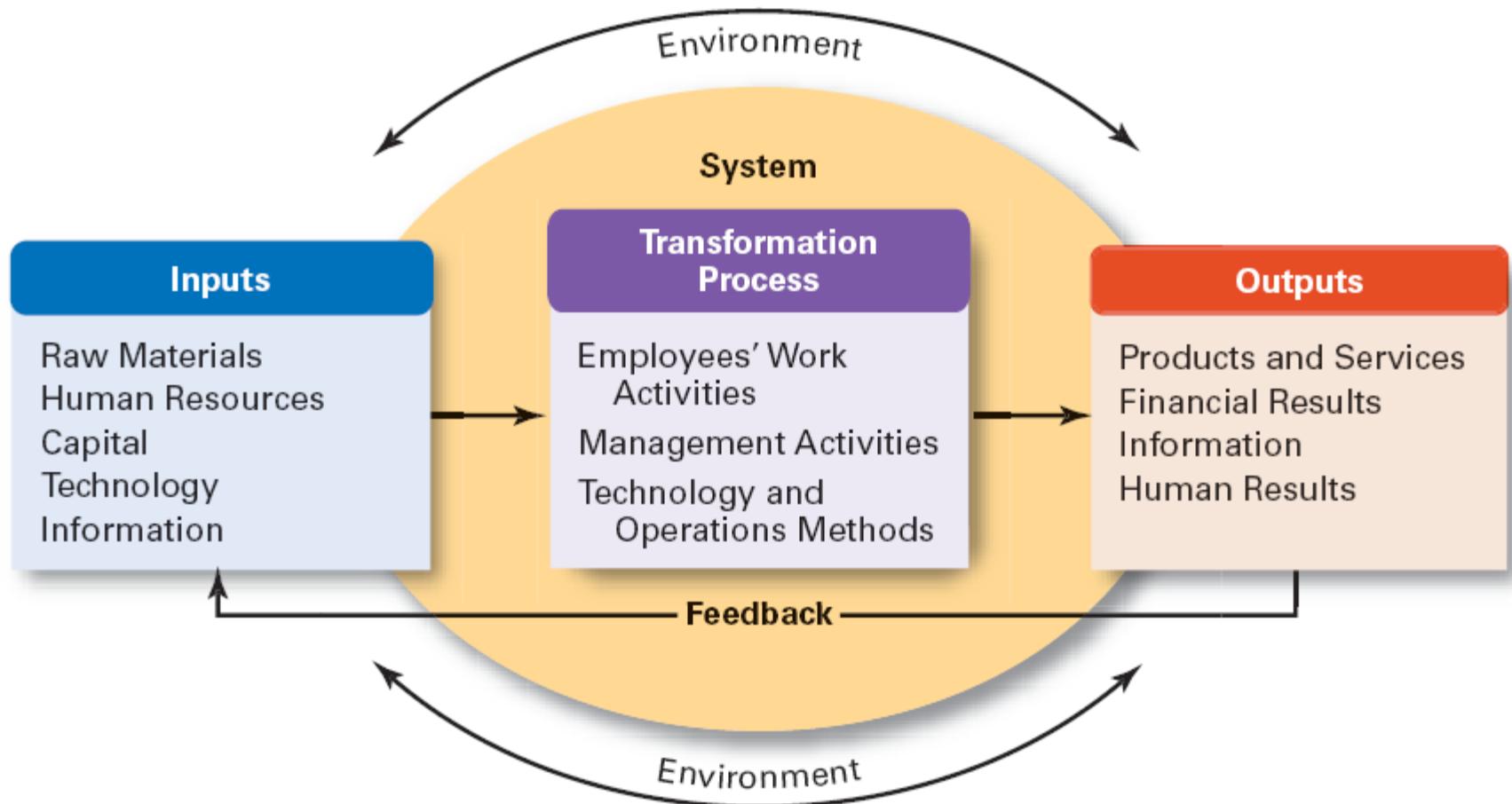
The Hawthorne Studies

- A series of productivity experiments conducted at Western Electric from 1927 to 1932.
- Experimental findings
 - Productivity unexpectedly increased under imposed adverse working conditions.
 - The effect of incentive plans was less than expected.
- Research conclusion
 - Social norms, group standards and attitudes more strongly influence individual output and work behavior than do monetary incentives.

The Systems Approach

- **System Defined**
 - A set of interrelated and interdependent parts arranged in a manner that produces a unified whole.
- **Basic Types of Systems**
 - **Closed systems**
 - ❖ Are not influenced by and do not interact with their environment (all system input and output is internal).
 - **Open systems**
 - ❖ Dynamically interact to their environments by taking in inputs and transforming them into outputs that are distributed into their environments.

Exhibit 2–6 The Organization as an Open System



Implications of the Systems Approach

- Coordination of the organization's parts is essential for proper functioning of the entire organization.
- Decisions and actions taken in one area of the organization will have an effect in other areas of the organization.
- Organizations are not self-contained and, therefore, must adapt to changes in their external environment.

The Contingency Approach

- **Contingency Approach Defined**
 - Also sometimes called the *situational approach*.
 - There is no one universally applicable set of management principles (rules) by which to manage organizations.
 - Organizations are individually different, face different situations (contingency variables), and require different ways of managing.

Exhibit 2–7 Popular Contingency Variables

- **Organization size**
 - As size increases, so do the problems of coordination.
- **Routineness of task technology**
 - Routine technologies require organizational structures, leadership styles, and control systems that differ from those required by customized or nonroutine technologies.
- **Environmental uncertainty**
 - What works best in a stable and predictable environment may be totally inappropriate in a rapidly changing and unpredictable environment.
- **Individual differences**
 - Individuals differ in terms of their desire for growth, autonomy, tolerance of ambiguity, and expectations.

Current Trends and Issues

- Globalization
- Ethics
- Workforce Diversity
- Entrepreneurship
- E-business
- Knowledge Management
- Learning Organizations
- Quality Management



Current Trends and Issues (cont'd)

- **Globalization**
 - Management in international organizations
 - Political and cultural challenges of operating in a global market
 - ❖ Working with people from different cultures
 - ❖ Coping with anticapitalist backlash
 - ❖ Movement of jobs to countries with low-cost labor
- **Ethics**
 - Increased emphasis on ethics education in college curriculums
 - Increased creation and use of codes of ethics by businesses

Exhibit 2–8 A Process for Addressing Ethical Dilemmas

Step 1: What is the **ethical dilemma**?

Step 2: Who are the **affected stakeholders**?

Step 3: What **personal, organizational, and external factors** are important to my decision?

Step 4: What are **possible alternatives**?

Step 5: Make a **decision** and act on it.

Current Trends and Issues (cont'd)

- **Workforce Diversity**

- Increasing heterogeneity in the workforce
 - ❖ More gender, minority, ethnic, and other forms of diversity in employees
- Aging workforce
 - ❖ Older employees who work longer and do not retire
 - ❖ The increased costs of public and private benefits for older workers
 - ❖ An increasing demand for products and services related to aging.

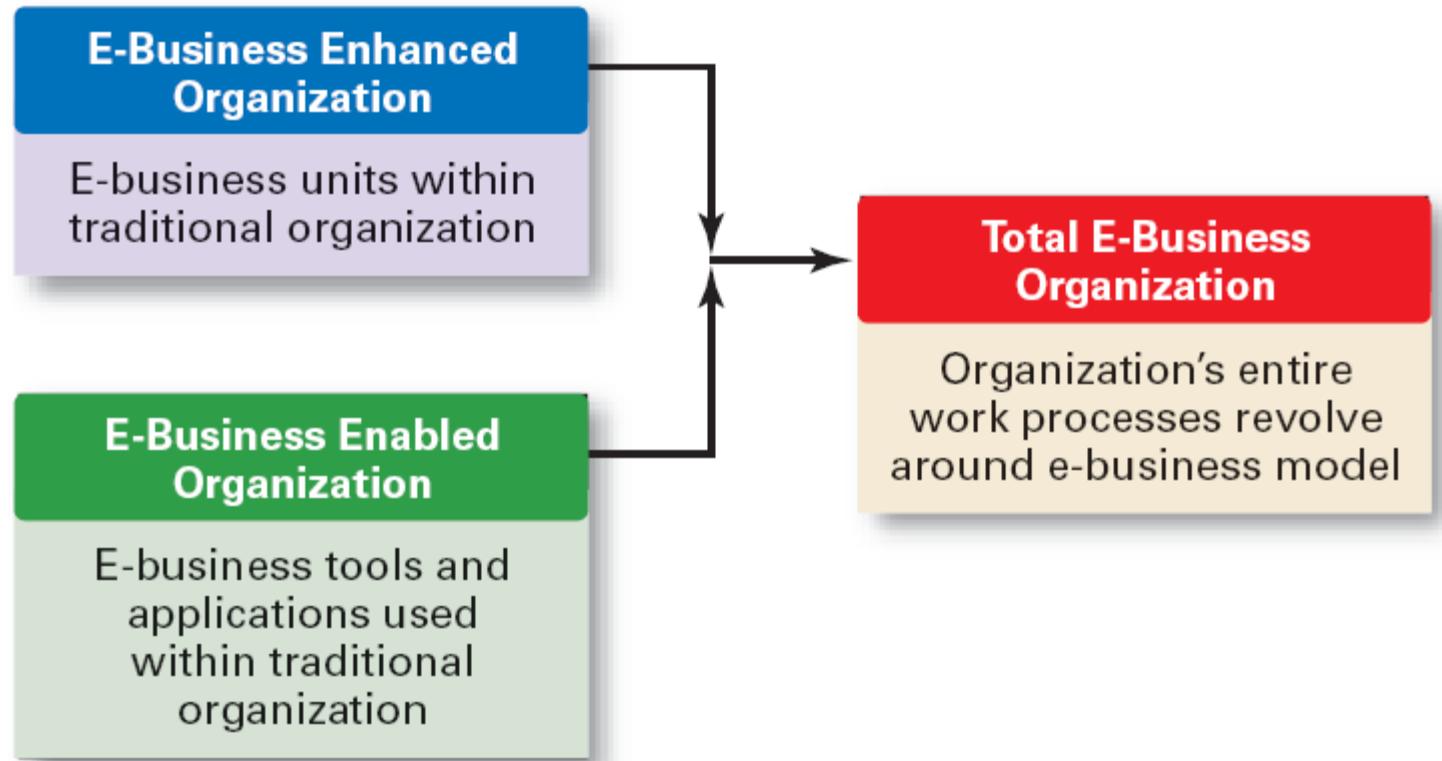
Current Trends and Issues (cont'd)

- **Entrepreneurship Defined**
 - The process of starting new businesses, generally in response to opportunities.
- **Entrepreneurship process**
 - Pursuit of opportunities
 - Innovation in products, services, or business methods
 - Desire for continual growth of the organization

Current Trends and Issues (cont'd)

- **E-Business (Electronic Business)**
 - The work preformed by an organization using electronic linkages to its key constituencies
 - E-commerce: the sales and marketing aspect of an e-business
- **Categories of E-Businesses**
 - E-business enhanced organization
 - E-business enabled organization
 - Total e-business organization

Exhibit 2–9 Categories of E-Business Involvement



Current Trends and Issues (cont'd)

- **Learning Organization**

- An organization that has developed the capacity to continuously learn, adapt, and change.

- **Knowledge Management**

- The cultivation of a learning culture where organizational members systematically gather and share knowledge with others in order to achieve better performance.

Exhibit 2–10 Learning Organization versus Traditional Organization

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

Current Trends and Issues (cont'd)

- **Quality Management**

- A philosophy of management driven by continual improvement in the quality of work processes and responding to customer needs and expectations
- Inspired by the total quality management (TQM) ideas of Deming and Juran
- Quality is not directly related to cost
- Poor quality results in lower productivity

Exhibit 2–11 What is Quality Management?

Intense focus on the *customer*.

Concern for *continual improvement*

Process-focused.

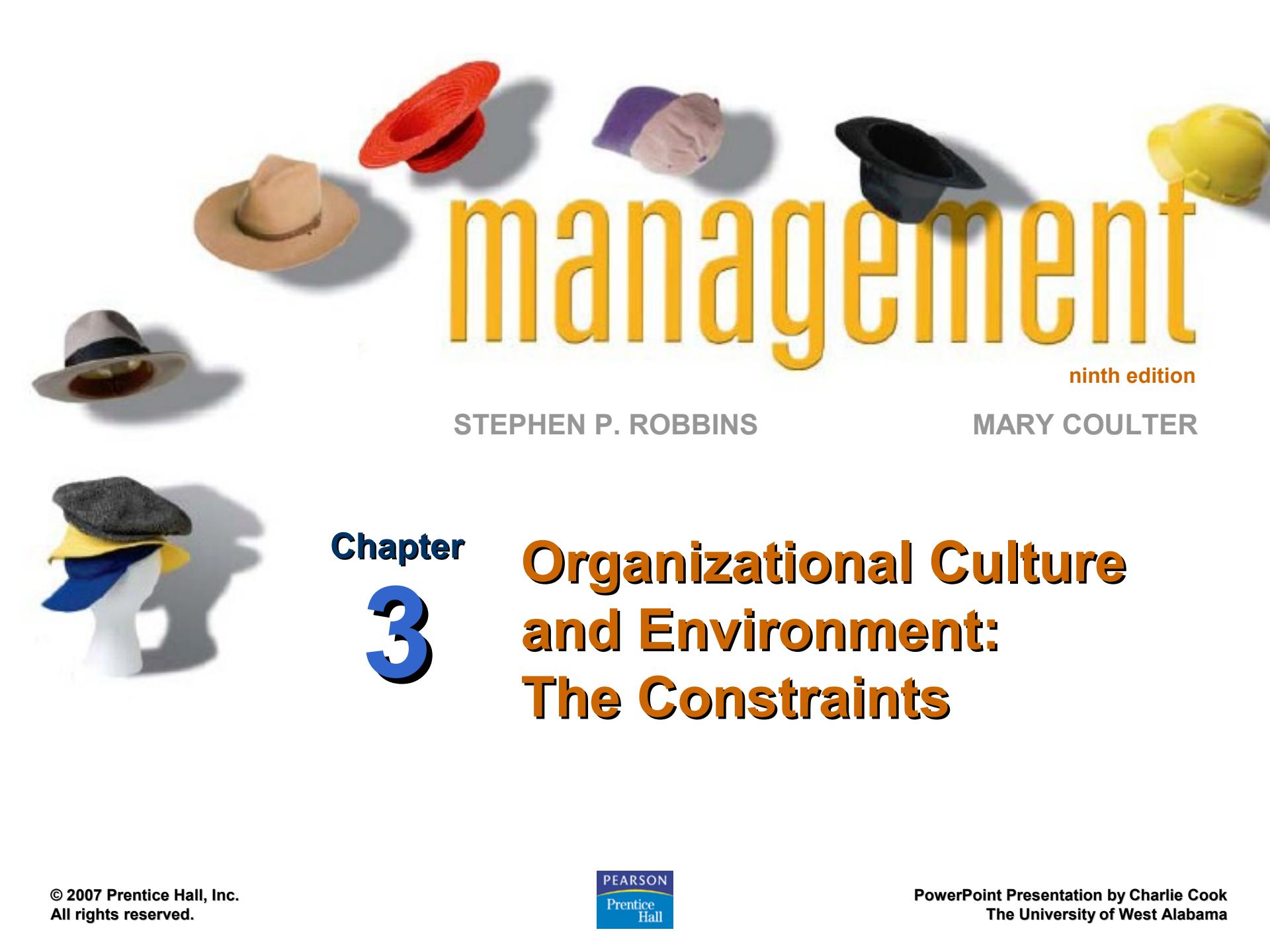
Improvement in the *quality of everything*.

Accurate measurement.

Empowerment of employees.

Terms to Know

- division of labor (or job specialization)
- Industrial Revolution
- scientific management
- therbligs
- general administrative theory
- principles of management
- bureaucracy
- quantitative approach
- organizational behavior (OB)
- Hawthorne Studies
- system
- closed systems
- open systems
- contingency approach
- workforce diversity
- entrepreneurship
- e-business (electronic business)
- e-commerce (electronic commerce)
- intranet
- learning organization
- knowledge management
- quality management



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Chapter
3

Organizational Culture and Environment: The Constraints

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

- **The Manager: Omnipotent or Symbolic**

- Contrast the action of manager according to the omnipotent and symbolic views.
- Explain the parameters of managerial discretion.

- **The Organization's Culture**

- Describe the seven dimensions of organizational culture.
- Discuss the impact of a strong culture on organizations and managers.
- Explain the source of an organization's culture.
- Describe how culture is transmitted to employees.
- Describe how culture affects managers.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

•**Current Organizational Cultural Issues Facing Managers**

- Describe the characteristics of an ethical culture, an innovative culture, and a customer-responsive culture.
- Discuss why workplace spirituality seems to be an important concern.
- Describe the characteristics of a spiritual organization.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

- **The Environment (cont'd)**

- **Describe the components of the specific and general environments.**
- **Discuss the two dimensions of environmental uncertainty.**
- **Identify the most common organizational stakeholders.**
- **Explain the four steps in managing external stakeholder relationships.**

The Manager: Omnipotent or Symbolic?

- **Omnipotent View of Management**

- Managers are directly responsible for an organization's success or failure.
- The quality of the organization is determined by the quality of its managers.
- Managers are held accountable for an organization's performance yet it is difficult to attribute good or poor performance directly to their influence on the organization.



The Manager: Omnipotent or Symbolic?

- **Symbolic View of Management**

- Much of an organization's success or failure is due to external forces outside of managers' control.
- The ability of managers to affect outcomes is influenced and constrained by external factors.
 - ❖ The economy, customers, governmental policies, competitors, industry conditions, technology, and the actions of previous managers
- Managers symbolize control and influence through their action.



Exhibit 3–1 Parameters of Managerial Discretion



The Organization's Culture

- **Organizational Culture**

- A system of shared meanings and common beliefs held by organizational members that determines, in a large degree, how they act towards each other.
- “The way we do things around here.”
 - ❖ Values, symbols, rituals, myths, and practices
- Implications:
 - ❖ Culture is a perception.
 - ❖ Culture is shared.
 - ❖ Culture is descriptive.



Exhibit 3–2 Dimensions of Organizational Culture



Exhibit 3–3 Contrasting Organizational Cultures

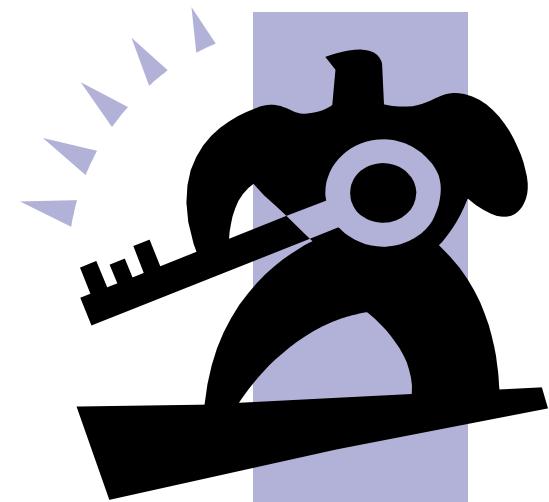
Dimension	Organization A	Organization B
Attention to Detail	High	Low
Outcome Orientation	Low	High
People Orientation	Low	High
Team Orientation	Low	High
Aggressiveness	Low	High
Stability	High	Low
Innovation and Risk Taking	Low	High

Strong versus Weak Cultures

- **Strong Cultures**
 - Are cultures in which key values are deeply held and widely held.
 - Have a strong influence on organizational members.
- **Factors Influencing the Strength of Culture**
 - Size of the organization
 - Age of the organization
 - Rate of employee turnover
 - Strength of the original culture
 - Clarity of cultural values and beliefs

Benefits of a Strong Culture

- Creates a stronger employee commitment to the organization.
- Aids in the recruitment and socialization of new employees.
- Fosters higher organizational performance by instilling and promoting employee initiative.



Organizational Culture

- Sources of Organizational Culture
 - The organization's founder
 - ❖ Vision and mission
 - Past practices of the organization
 - ❖ The way things have been done
 - The behavior of top management
- Continuation of the Organizational Culture
 - Recruitment of like-minded employees who “fit”
 - Socialization of new employees to help them adapt to the culture

Exhibit 3–4 Strong versus Weak Organizational Cultures

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

How Employees Learn Culture

- Stories
 - Narratives of significant events or actions of people that convey the spirit of the organization
- Rituals
 - Repetitive sequences of activities that express and reinforce the values of the organization
- Material Symbols
 - Physical assets distinguishing the organization
- Language
 - Acronyms and jargon of terms, phrases, and word meanings specific to an organization

How Culture Affects Managers

- Cultural Constraints on Managers
 - Whatever managerial actions the organization recognizes as proper or improper on its behalf
 - Whatever organizational activities the organization values and encourages
 - The overall strength or weakness of the organizational culture

Simple rule for getting ahead in an organization:
Find out what the organization rewards and do those things.

Exhibit 3–5 How an Organization’s Culture Is Established and Maintained

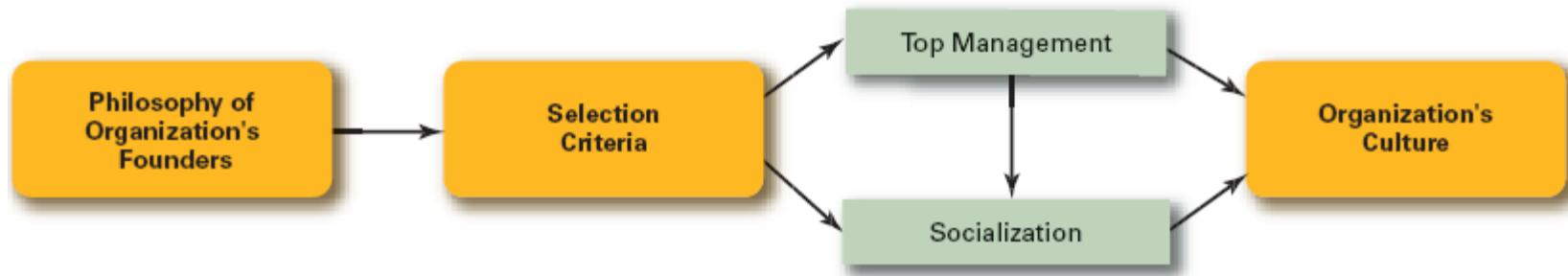


Exhibit 3–6 Managerial Decisions Affected by Culture

- **Planning**

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

- **Organizing**

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

Exhibit 3–6 Managerial Decisions Affected by Culture (cont'd)

- **Leading**

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

- **Controlling**

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

Organization Culture Issues

- **Creating an Ethical Culture**
 - High in risk tolerance
 - Low to moderate aggressiveness
 - Focus on means as well as outcomes
- **Creating an Innovative Culture**
 - Challenge and involvement
 - Freedom
 - Trust and openness
 - Idea time
 - Playfulness/humor
 - Conflict resolution
 - Debates
 - Risk-taking

Exhibit 3–7 Suggestions for Managers: Creating a More Ethical Culture

- Be a *visible role model*.
- Communicate *ethical expectations*.
- Provide *ethics training*.
- Visibly *reward ethical acts and punish unethical ones*.
- Provide *protective mechanisms* so employees can discuss ethical dilemmas and report unethical behavior without fear.

Organization Culture Issues (cont'd)

- **Creating a Customer-Responsive Culture**
 - Hiring the right type of employees (ones with a strong interest in serving customers)
 - Having few rigid rules, procedures, and regulations
 - Using widespread empowerment of employees
 - Having good listening skills in relating to customers' messages
 - Providing role clarity to employees to reduce ambiguity and conflict and increase job satisfaction
 - Having conscientious, caring employees willing to take initiative

Exhibit 3–8 Suggestions for Managers: Creating a More Customer-Responsive Culture

- **Hire service-contact people with the personality and attitudes consistent with customer service—friendliness, enthusiasm, attentiveness, patience, concern about others, and listening skills.**
- **Train customer service people continuously by focusing on improving product knowledge, active listening, showing patience, and displaying emotions.**
- **Socialize new service-contact people to the organization's goals and values.**
- **Design customer-service jobs so that employees have as much control as necessary to satisfy customers.**
- **Empower service-contact employees with the discretion to make day-to-day decisions on job-related activities.**
- **As the leader, convey a customer-focused vision and demonstrate through decisions and actions the commitment to customers.**

Spirituality and Organizational Culture

- **Workplace Spirituality**

- The recognition that people have an inner life that nourishes and is nourished by meaningful work that takes place in the context of community.

- **Characteristics of a Spiritual Organization**

- Strong sense of purpose
- Focus on individual development
- Trust and openness
- Employee empowerment
- Toleration of employees' expression

Benefits of Spirituality

- Improved employee productivity
- Reduction of employee turnover
- Stronger organizational performance
- Increased creativity
- Increased employee satisfaction
- Increased team performance
- Increased organizational performance

Defining the External Environment

- **External Environment**
 - Those factors and forces outside the organization that affect the organization's performance.
- **Components of the External Environment**
 - **Specific environment:** external forces that have a direct and immediate impact on the organization.
 - **General environment:** broad economic, socio-cultural, political/legal, demographic, technological, and global conditions that *may* affect the organization.

Exhibit 3–9 The External Environment



Exhibit 3–10 Selected U.S. Legislation Affecting Business

- Occupational Safety and Health Act of 1970
- Consumer Product Safety Act of 1972
- Equal Employment Opportunity Act of 1972
- Worker Adjustment and Retraining Notification Act of 1988
- Americans with Disabilities Act of 1990
- Civil Rights Act of 1991
- Family and Medical Leave Act of 1993
- Child Safety Protection Act of 1994
- U.S. Economic Espionage Act of 1996
- Electronic Signatures in Global and National Commerce Act of 2000
- Sarbanes-Oxley Act of 2002
- Fair and Accurate Credit Transactions Act of 2003

How the Environment Affects Managers

- **Environmental Uncertainty**

- The extent to which managers have knowledge of and are able to predict change their organization's external environment is affected by:
 - ❖ **Complexity of the environment:** the number of components in an organization's external environment.
 - ❖ **Degree of change in environmental components:** how dynamic or stable the external environment is.

Exhibit 3–11 Environmental Uncertainty Matrix

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

Stakeholder Relationships

- Stakeholders
 - Any constituencies in the organization's environment that are affected by the organization's decisions and actions
- Why Manage Stakeholder Relationships?
 - It can lead to improved organizational performance.
 - It's the "right" thing to do given the interdependence of the organization and its external stakeholders.

Managing Stakeholder Relationships

1. Identify the organization's external stakeholders.
2. Determine the particular interests and concerns of the external stakeholders.
3. Decide how critical each external stakeholder is to the organization.
4. Determine how to manage each individual external stakeholder relationship.

Exhibit 3–12 Organizational Stakeholders



Terms to Know

- omnipotent view of management
- symbolic view of management
- organizational culture
- strong cultures
- socialization
- workplace spirituality
- external environment
- specific environment
- general environment
- environmental uncertainty
- environmental complexity
- stakeholders



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Chapter
4

Managing in a Global Environment

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

What's Your Global Perspective?

- Define parochialism.
- Contrast ethnocentric, polycentric, and geocentric attitudes towards global business.
- Explain why it's important for managers to be sensitive to global differences

Understanding the Global Environment

- Describe the current status of the European Union.
- Discuss the North American Free Trade Agreement and other regional trade alliances in Latin America.
- Tell about the Association of Southeast Asian Nations.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Understanding the Global Environment

- Explain the interdependence that globalization involves.
- Discuss the role of the WTO.

Doing Business Globally

- Contrast multinational, multidomestic, global, transnational, and born global organizations.
- Describe the different ways organizations can go international.
- Define global sourcing, exporting, importing, licensing, and franchising.
- Describe global strategic alliances, joint ventures, and foreign subsidiaries.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Managing in a Global Environment (cont'd)

- Explain how the global legal-political and economic environments affect managers.
- Discuss Hofstede's five dimensions for assessing cultures.
- Explain the nine GLOBE dimensions for assessing cultures.
- Discuss the challenges of doing business globally in today's world.

The Global Marketplace

- Opportunities and Challenges
 - Coping with the sudden appearance of new competitors
 - Acknowledging cultural, political, and economic differences
 - Dealing with increased uncertainty, fear, and anxiety
 - Adapting to changes in the global environment
 - Avoiding parochialism

What's Your Global Perspective?

- Parochialism
 - Is viewing the world solely through its own eyes and perspectives.
 - Is not recognizing that others have different ways of living and working.
 - Is a significant obstacle for managers working in a global business world.
 - Is falling into the trap of ignoring others' values and customs and rigidly applying an attitude of "ours is better than theirs" to foreign cultures.

Exhibit 4–1 Key Information About Three Global Attitudes

	Ethnocentric	Polycentric	Geocentric
Orientation	Home Country	Host Country	World
Advantages	<ul style="list-style-type: none">• Simpler structure• More tightly controlled	<ul style="list-style-type: none">• Extensive knowledge of foreign market and workplace• More support from host government• Committed local managers with high morale	<ul style="list-style-type: none">• Forces understanding of global issues• Balanced local and global objectives• Best people and work approaches used regardless of origin
Drawbacks	<ul style="list-style-type: none">• More ineffective management• Inflexibility• Social and political backlash	<ul style="list-style-type: none">• Duplication of work• Reduced efficiency• Difficult to maintain global objectives because of intense focus on local traditions	<ul style="list-style-type: none">• Difficult to achieve• Managers must have both local and global knowledge

Adopting a Global Perspective

- Ethnocentric Attitude
 - The parochialistic belief that the best work approaches and practices are those of the *home* country.
- Polycentric Attitude
 - The view that the managers in the *host* country know the best work approaches and practices for running their business.
- Geocentric Attitude
 - A *world-oriented* view that focuses on using the best approaches and people from around the globe.

Regional Trading Agreements

- **The European Union (EU)**
 - A unified economic and trade entity
 - ❖ Belgium, Denmark, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, Germany, Austria, Finland, and Sweden
 - Economic and monetary union (Euro)
- **North American Free Trade Agreement (NAFTA)**
 - Eliminated barriers to free trade (tariffs, import licensing requirements, and customs user fees)
 - ❖ United States, Canada, and Mexico

Exhibit 4–3 European Union Countries



Regional Trading Agreements (cont'd)

- U.S.-Central America Free Trade Agreement (CAFTA)
- Free Trade Area of the Americas
- Southern Cone Common Market (Mercosur)
- Association of Southeast Asian Nations (ASEAN)
 - Trading alliance of 10 Southeast Asian nations
- African Union
- South Asian Association for Regional Cooperation (SARRC)

Exhibit 4–4 ASEAN Members



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

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The World Trade Organization (WTO)

- Evolved from the General Agreement on Tariffs and Trade (GATT) in 1995.
- Functions as the only global organization dealing with the rules of trade among nations.
- Has 149 member nations and 32 observer governments.
- Monitors and promotes world trade.

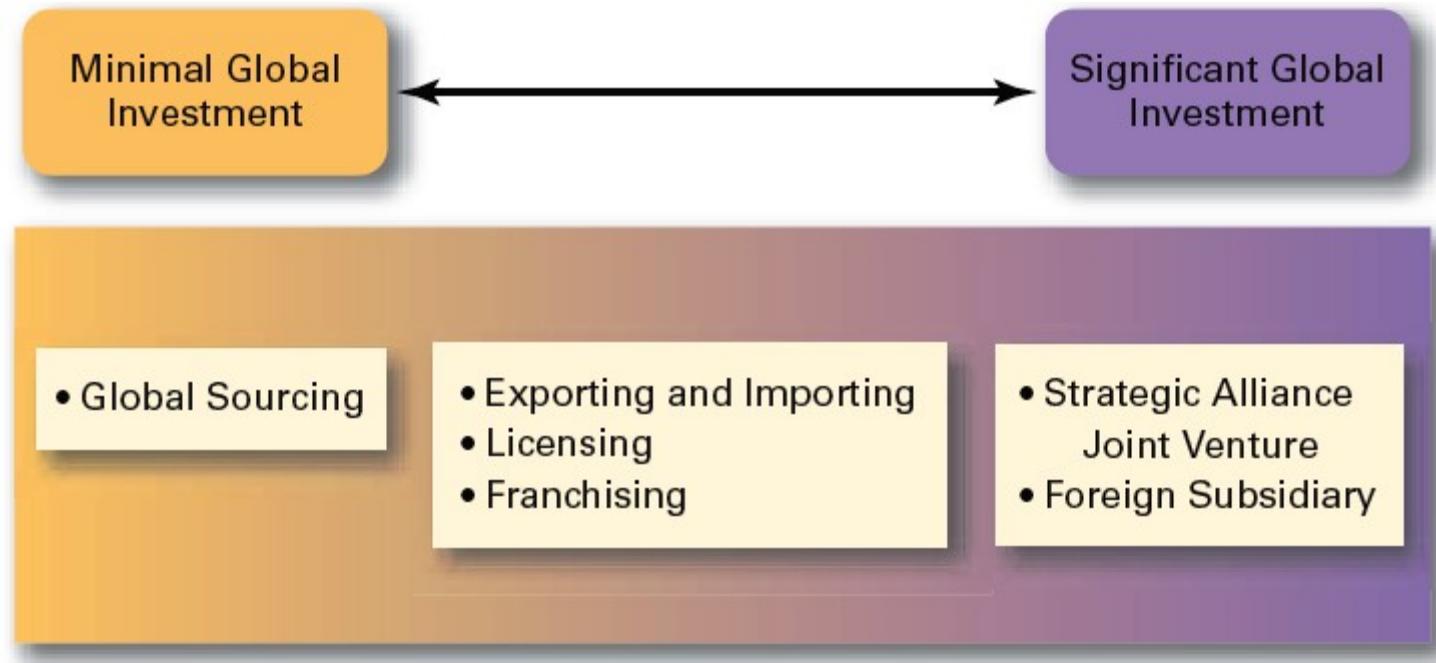
Different Types of International Organizations

- **Multinational Corporation (MNC)**
 - Maintains operations in multiple countries.
- **Multidomestic Corporation**
 - Is an MNC that decentralizes management and other decisions to the local country.
- **Global Company**
 - Is an MNC that centralizes its management and other decisions in the home country.

Different Types of International Organizations (cont'd)

- Transnational Corporation (Borderless Organization)
 - Is an MNC that has eliminated structural divisions that impose artificial geographic barriers and is organized along business lines that reflect a geocentric attitude.
- Born Globals/International New Ventures (INVs)
 - Commit resources upfront (material, people, financing) to doing business in more than one country.

Exhibit 4–5 How Organizations Go Global



Other Forms of Globalization

- **Strategic Alliances**

- Partnerships between an organization and a foreign company in which both share resources and knowledge in developing new products or building new production facilities.

- **Joint Venture**

- A specific type of strategic alliance in which the partners agree to form a separate, independent organization for some business purpose.

- **Foreign Subsidiary**

- Directly investing in a foreign country by setting up a separate and independent production facility or office.

Managing in A Global Environment

- The Legal Environment
 - Stability or instability of legal and political systems
 - ❖ Legal procedures are established and followed
 - ❖ Fair and honest elections held on a regular basis
 - Differences in the laws of various nations
 - ❖ Effects on business activities
 - ❖ Effects on delivery of products and services



The Economic Environment

- **Economic Systems**

- **Market economy**
 - ❖ An economy in which resources are primarily owned and controlled by the private sector.
- **Command economy**
 - ❖ An economy in which all economic decisions are planned by a central government.

- **Monetary and Financial Factors**

- **Currency exchange rates**
- **Inflation rates**
- **Diverse tax policies**

The Cultural Environment

- National Culture

- Is the values and attitudes shared by individuals from a specific country that shape their behavior and their beliefs about what is important.
- May have more influence on an organization than the organization culture.

Exhibit 4–6 What Are Americans Like

Americans are very *informal*.

Americans are *direct*.

Americans are *competitive*.

Americans are *achievers*.

Americans are *independent* and *individualistic*.

Americans are *questioners*.

Americans *dislike silence*.

Americans *value punctuality*.

Americans *value cleanliness*.

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

Hofstede's Framework for Assessing Cultures

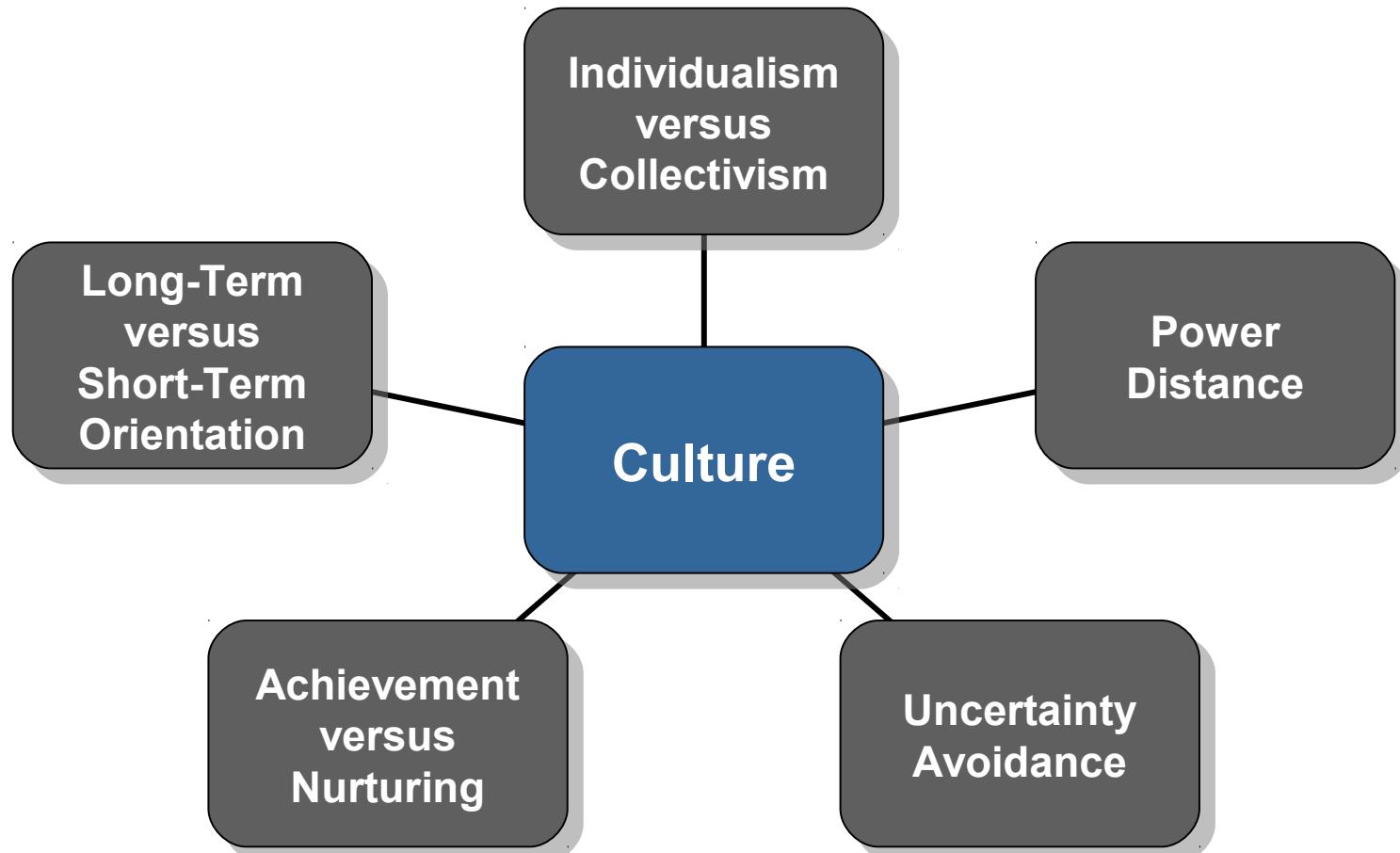


Exhibit 4–7 Examples of Hofstede’s Cultural Dimensions

Country	Individualism/ Collectivism	Power Distance	Uncertainty Avoidance	Achievement/ Nurturing ^a
Australia	Individual	Small	Moderate	Strong
Canada	Individual	Moderate	Low	Moderate
England	Individual	Small	Moderate	Strong
France	Individual	Large	High	Weak
Greece	Collective	Large	High	Moderate
Italy	Individual	Moderate	High	Strong
Japan	Collective	Moderate	High	Strong
Mexico	Collective	Large	High	Strong
Singapore	Collective	Large	Low	Moderate
Sweden	Individual	Small	Low	Weak
United States	Individual	Small	Low	Strong
Venezuela	Collective	Large	High	Strong

^aA weak achievement score is equivalent to high nurturing.

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

Exhibit 4–8 GLOBE Highlights

Dimension	Countries Rating Low	Countries Rating Moderate	Countries Rating High
Assertiveness	Sweden	Egypt	Spain
	New Zealand	Ireland	United States
	Switzerland	Philippines	Greece
Future orientation	Russia	Slovenia	Denmark
	Argentina	Egypt	Canada
	Poland	Ireland	Netherlands
Gender differentiation	Sweden	Italy	South Korea
	Denmark	Brazil	Egypt
	Slovenia	Argentina	Morocco
Uncertainty avoidance	Russia	Israel	Austria
	Hungary	United States	Denmark
	Bolivia	Mexico	Germany
Power distance	Denmark	England	Russia
	Netherlands	France	Spain
	South Africa	Brazil	Thailand
Individualism/collectivism*	Denmark	Hong Kong	Greece
	Singapore	United States	Hungary
	Japan	Egypt	Germany
In-group collectivism	Denmark	Japan	Egypt
	Sweden	Israel	China
	New Zealand	Qatar	Morocco
Performance orientation	Russia	Sweden	United States
	Argentina	Israel	Taiwan
	Greece	Spain	New Zealand
Humane orientation	Germany	Hong Kong	Indonesia
	Spain	Sweden	Egypt
	France	Taiwan	Malaysia

*A low score is synonymous with collectivism.

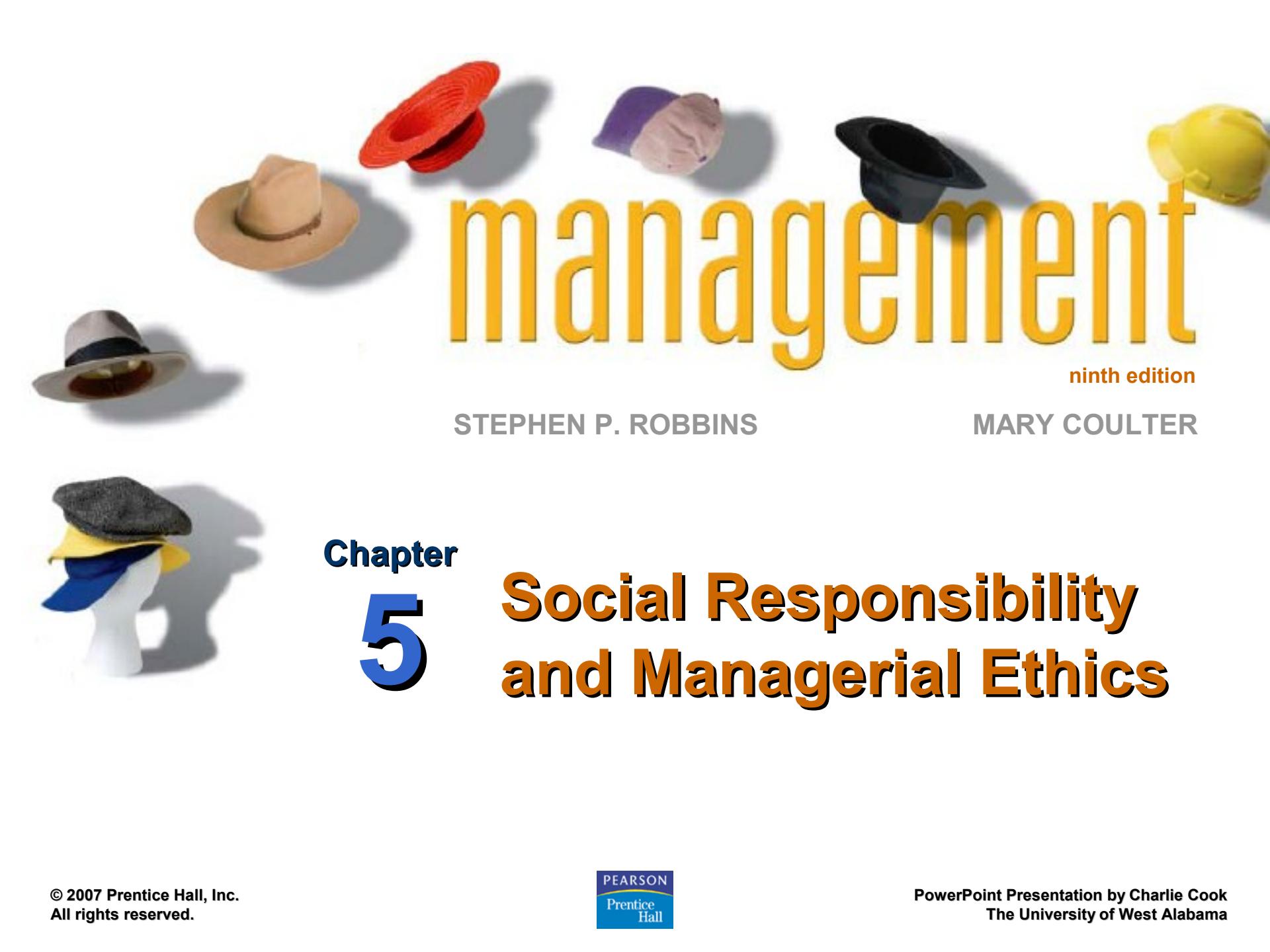
Source: M. Javidan and R. J. House, "Cultural Acumen for the Global Manager: Lessons from Project GLOBE," *Organizational Dynamics*, Spring 2001, pp. 289–305. Copyright © 2001. Reprinted with permission from Elsevier.

Global Management in Today's World

- **Challenges**
 - Openness associated with globalization
 - Significant cultural differences (e.g., Americanization)
 - Adjusting leadership styles and management approaches
- **Risks**
 - Loss of investments in unstable countries
 - Increased terrorism
 - Economic interdependence

Terms to Know

- parochialism
- ethnocentric attitude
- polycentric attitude
- geocentric attitude
- European Union (EU)
- Euro
- North American Free Trade Agreement (NAFTA)
- Association of Southeast Asian Nations (ASEAN)
- World Trade Organization (WTO)
- multinational corporations (MNCs)
- multidomestic corporation
- global company
- transnational or borderless organization
- born globals
- global sourcing
- exporting
- importing
- licensing
- franchising
- strategic alliances
- joint venture
- foreign subsidiary
- market economy
- command economy
- national culture
- GLOBE
- wikis
- blogs



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Chapter
5

Social Responsibility and Managerial Ethics

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

What is Social Responsibility?

- Contrast the classical and socioeconomic views of social responsibility.
- Discuss the role that stakeholders play in the four stages of social responsibility.
- Differentiate between social obligation, social responsiveness, and social responsibility.

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Social Responsibility and Economic Performance

- Explain what research studies have shown about the relationship between an organization's social involvement and its economic performance.
- Define social screening.
- Explain what conclusion can be reached regarding social responsibility and economic performance.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

The Greening of Management

- Describe how organizations can go green.
- Relate the approaches to being green to the concepts of social obligation, social responsiveness, and social responsibility.

Values-Based Management

- Discuss what purposes shared values serve.
- Describe the relationship of values-based management to ethics.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Managerial Ethics

- Discuss the factors that affect ethical and unethical behavior.
- Describe the important roles managers play in encouraging ethical behavior.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Social Responsibility and Ethics in Today's World

- Explain why ethical leadership is important.
- Discuss how managers and organizations can protect employees who raise ethical issues or concerns.
- Explain what role social entrepreneurs play.
- Describe social impact management.

What Is Social Responsibility?

- The Classical View
 - Management's only social responsibility is to maximize profits (create a financial return) by operating the business in the best interests of the stockholders (owners of the corporation).
 - Expenditure of the firm's resources on doing "social good" unjustifiably increases costs that lower profits to the owners and raises prices to consumers.

What Is Social Responsibility? (cont'd)

- **The Socioeconomic View**

- Management's social responsibility goes beyond making profits to include protecting and improving society's welfare.
- Corporations are not independent entities responsible only to stockholders.
- Firms have a moral responsibility to larger society to become involved in social, legal, and political issues.
- “To do the right thing”

Exhibit 5–1 To Whom is Management Responsible?

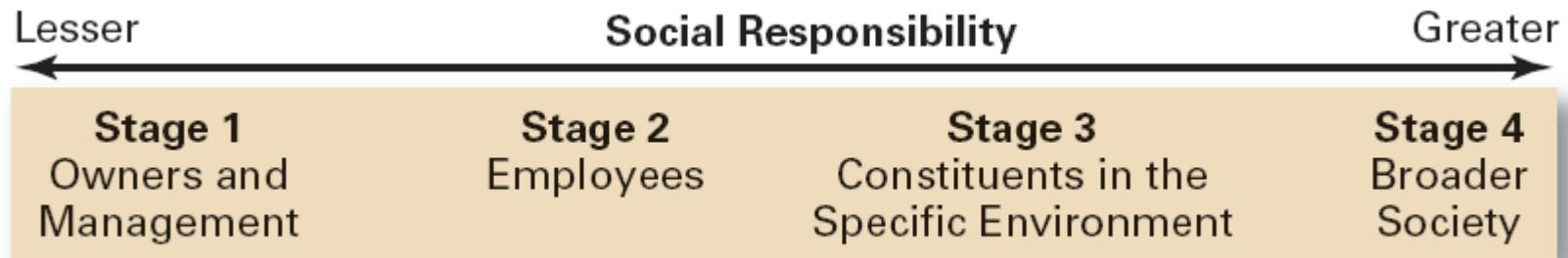


Exhibit 5–2 Arguments For and Against Social Responsibility

- **For**

- Public expectations
- Long-run profits
- Ethical obligation
- Public image
- Better environment
- Discouragement of further governmental regulation
- Balance of responsibility and power
- Stockholder interests
- Possession of resources
- Superiority of prevention over cure

- **Against**

- Violation of profit maximization
- Dilution of purpose
- Costs
- Too much power
- Lack of skills
- Lack of accountability

From Obligation to Responsiveness to Responsibility

- **Social Obligation**
 - The obligation of a business to meet its economic and legal responsibilities and nothing more.
- **Social Responsiveness**
 - When a firm engages in social actions in response to some popular social need.
- **Social Responsibility**
 - A business's intention, beyond its legal and economic obligations, to do the right things and act in ways that are good for society.

Exhibit 5–3 Social Responsibility versus Social Responsiveness

	Social Responsibility	Social Responsiveness
Major consideration	Ethical	Pragmatic
Focus	Ends	Means
Emphasis	Obligation	Responses
Decision framework	Long term	Medium and short term

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

Does Social Responsibility Pay?

- Studies appear to show a positive relationship between social involvement and the economic performance of firms.
 - Difficulties in defining and measuring “social responsibility” and “economic performance raise issues of validity and causation in the studies.
 - Mutual funds using social screening in investment decisions slightly outperformed other mutual funds.
- A general conclusion is that a firm’s social actions do not harm its long-term performance.

Exhibit 5–4 Social Investing

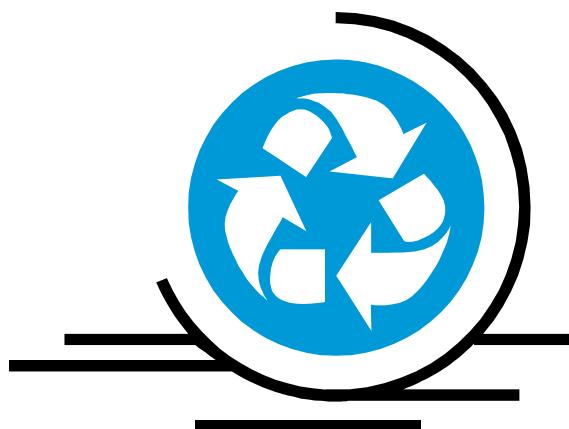
(In Billions)	1995	1997	1999	2001	2003	2005
Social Screening ¹	\$162	\$529	\$1,497	\$2,010	\$2,143	\$1,685
Shareholder Advocacy	\$473	\$736	\$922	\$897	\$448	\$703
Screening and Shareholder ²	N/A	(\$84)	(\$265)	(\$592)	(\$441)	(\$117)
Community Investing	\$4	\$4	\$5	\$8	\$14	\$20
Total	\$639	\$1,185	\$2,159	\$2,323	\$2,164	\$2,290

1. Social Screening includes mutual funds and separate accounts. Since 2003, SRI mutual fund assets have increased (see Section II) while separate account assets have declined (see Section III) as single issue screening has waned and shareholder advocacy increased on the part of institutional investors.

2. Assets involved in Screening and Shareholder Advocacy are subtracted to avoid double counting. Tracking Screening and Shareholder Advocacy only began in 1997, so there is no datum for 1995.

The Greening of Management

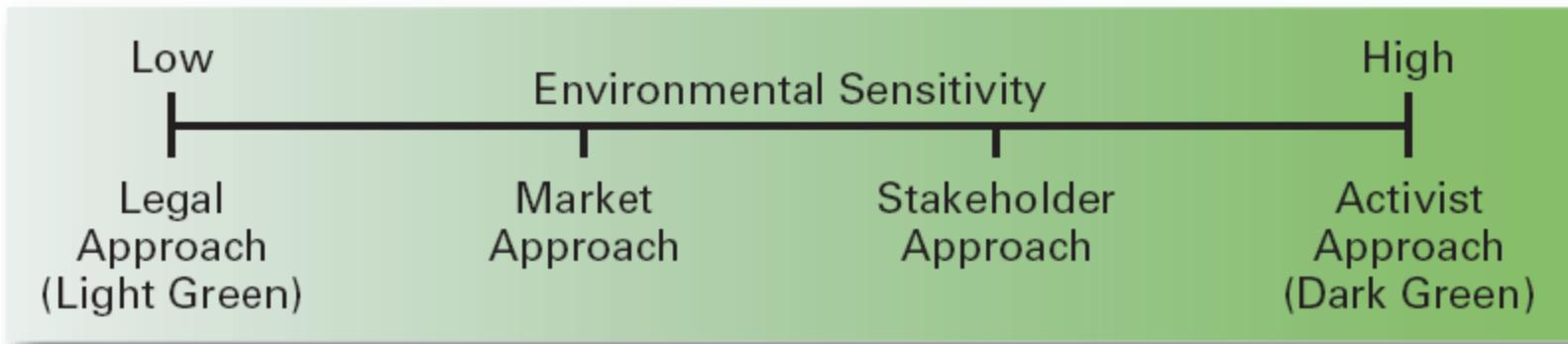
- The recognition of the close link between an organization's decision and activities and its impact on the natural environment.
 - Global environmental problems facing managers:
 - ❖ Air, water, and soil pollution from toxic wastes
 - ❖ Global warming from greenhouse gas emissions
 - ❖ Natural resource depletion



How Organizations Go Green

- Legal (or Light Green) Approach
 - Firms simply do what is legally required by obeying laws, rules, and regulations willingly and without legal challenge.
- Market Approach
 - Firms respond to the preferences of their customers for environmentally friendly products.
- Stakeholder Approach
 - Firms work to meet the environmental demands of multiple stakeholders—employees, suppliers, and the community.
- Activist Approach
 - Firms look for ways to respect and preserve environment and be actively socially responsible.

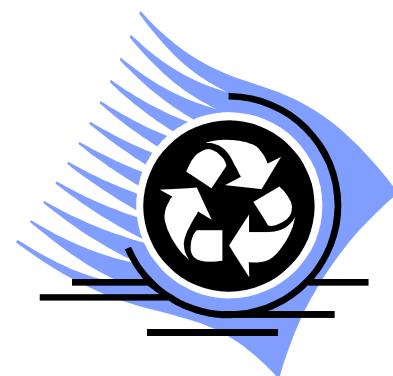
Exhibit 5–5 Approaches to Being Green



Source: Based on R.E. Freeman, J. Pierce, and R. Dodd. *Shades of Green: Business Ethics and the Environment* (New York: Oxford University Press, 1995).

Evaluating the Greening of Management

- Organizations become “greener” by
 - Using the Sustainability Reporting Guidelines to document “green” actions.
 - Adopting ISO 14001 standards for environmental management
 - Being named as one of the 100 Most Sustainable Corporations in the World.



Values-Based Management

- **Values-Based Management**
 - An approach to managing in which managers establish and uphold an organization's shared values.
- **The Purposes of Shared Values**
 - Guiding managerial decisions
 - Shaping employee behavior
 - Influencing the direction of marketing efforts
 - Building team spirit
- **The Bottom Line on Shared Corporate Values**
 - An organization's values are reflected in the decisions and actions of its employees.

Exhibit 5–6 Purposes of Shared Values



Exhibit 5–7 Survey of Stated Values of Organizations

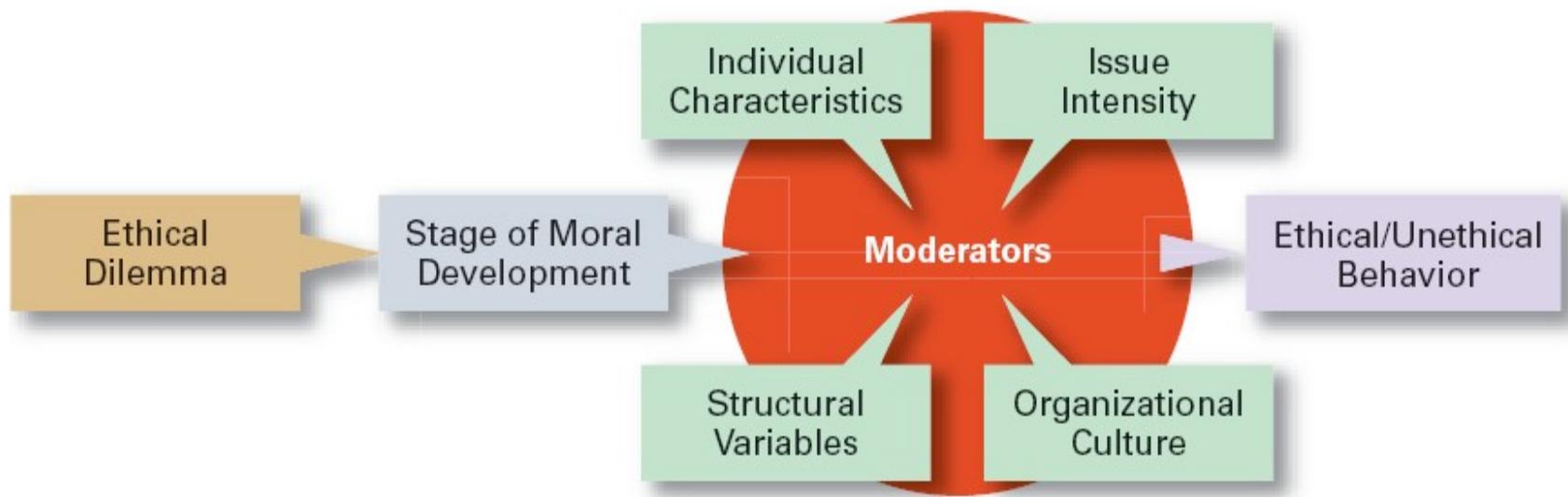
Core Value	Percentage of Respondents
Customer satisfaction	77%
Ethics/integrity	76%
Accountability	61%
Respect for others	59%
Open communication	51%
Profitability	49%
Teamwork	47%
Innovation/change	47%
Continuous learning	43%
Positive work environment	42%
Diversity	41%
Community service	38%
Trust	37%
Social responsibility	33%
Security/safety	33%
Empowerment	32%
Employee job satisfaction	31%
Have fun	24%

Source: "AMA Corporate Values Survey," (www.amanet.org), October 30, 2002.

Managerial Ethics

- **Ethics Defined**
 - Principles, values, and beliefs that define what is right and wrong behavior.

Exhibit 5–8 Factors That Affect Ethical and Unethical Behavior



Factors That Affect Employee Ethics

- Moral Development
 - A measure of independence from outside influences
 - ❖ Levels of Individual Moral Development
 - Preconventional level
 - Conventional level
 - Principled level
 - Stage of moral development interacts with:
 - ❖ Individual characteristics
 - ❖ The organization's structural design
 - ❖ The organization's culture
 - ❖ The intensity of the ethical issue

Exhibit 5–9 Stages of Moral Development

Level	Description of Stage
Principled	6. Following self-chosen ethical principles even if they violate the law 5. Valuing rights of others and upholding absolute values and rights regardless of the majority's opinion
Conventional	4. Maintaining conventional order by fulfilling obligations to which you have agreed 3. Living up to what is expected by people close to you
Preconventional	2. Following rules only when doing so is in your immediate interest 1. Sticking to rules to avoid physical punishment

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

Factors That Affect Employee Ethics (cont'd)

- Moral Development
 - Research Conclusions:
 - ❖ People proceed through the stages of moral development sequentially.
 - ❖ There is no guarantee of continued moral development.
 - ❖ Most adults are in Stage 4 (“good corporate citizen”).

Individual Characteristics Affecting Ethical Behaviors

- **Values**
 - Basic convictions about what is right or wrong on a broad range of issues

Individual Characteristics

- **Personality Variables**

- **Ego strength**

- ❖ A personality measure of the strength of a person's convictions

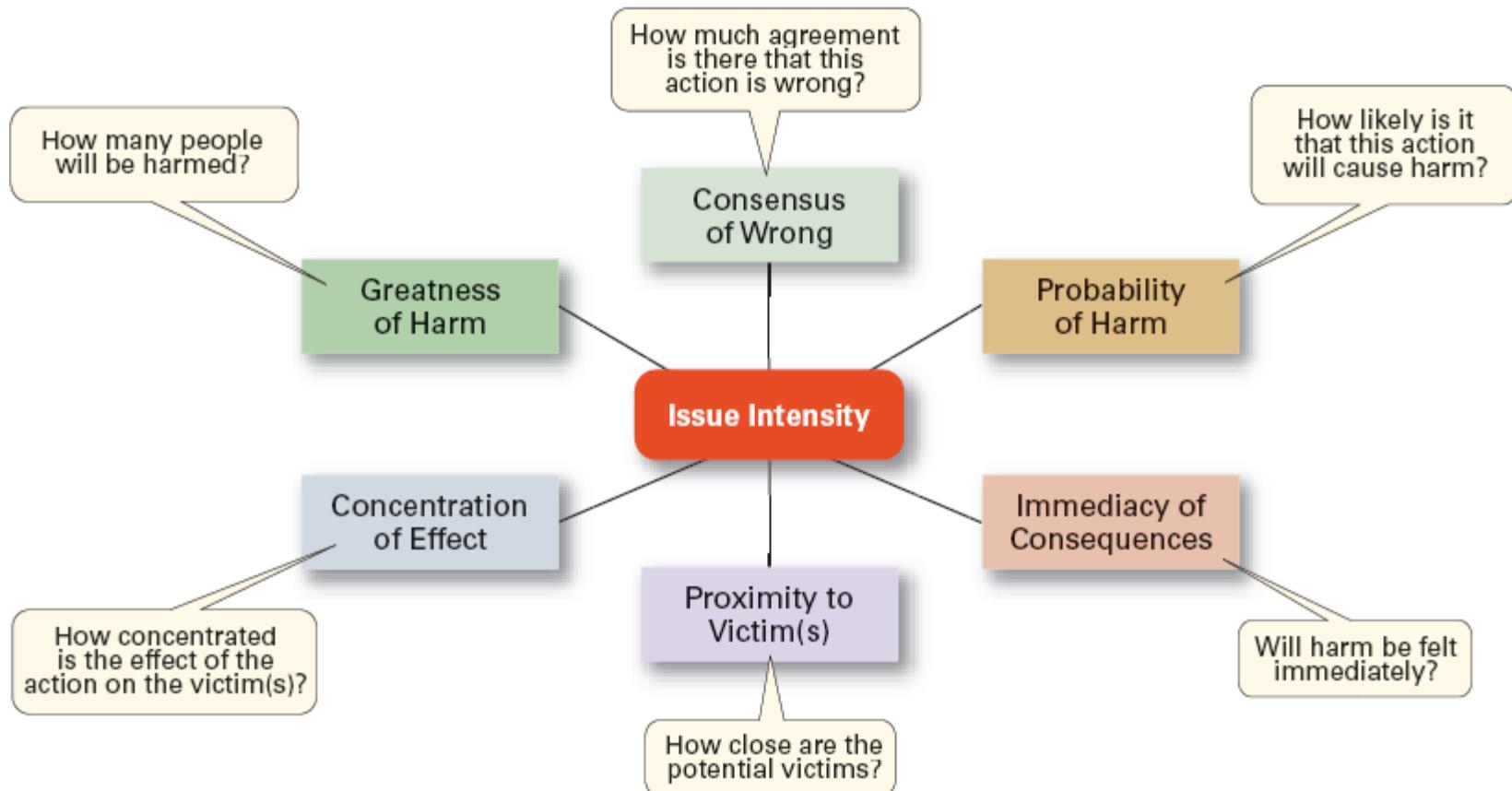
- **Locus of Control**

- ❖ A personality attribute that measures the degree to which people believe they control their own life.
 - ❖ **Internal locus:** the belief that you control your destiny.
 - ❖ **External locus:** the belief that what happens to you is due to luck or chance.

Other Variables

- Structural Variables
 - Organizational characteristics and mechanisms that guide and influence individual ethics:
 - ❖ Performance appraisal systems
 - ❖ Reward allocation systems
 - ❖ Behaviors (ethical) of managers
- An Organization's Culture
- Intensity of the Ethical Issue

Exhibit 5–10 Determinants of Issue Intensity



Ethics in an International Context

- Ethical standards are not universal.
 - Social and cultural differences determine acceptable behaviors.
- Foreign Corrupt Practices Act
 - Makes it illegal to corrupt a foreign official yet “token” payments to officials are permissible when doing so is an accepted practice in that country.
- The Global Compact

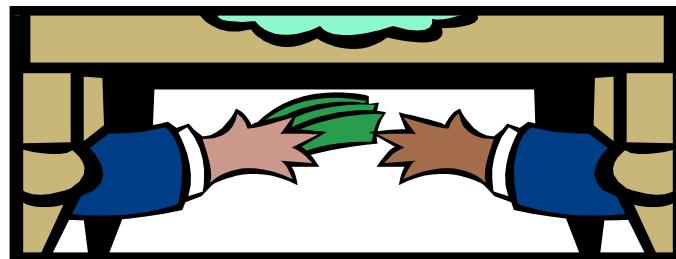


Exhibit 5–11 The Global Compact

Human Rights

Principle 1: Support and respect the protection of international human rights within their sphere of influence.

Principle 2: Make sure business corporations are not complicit in human rights abuses.

Labor Standards

Principle 3: Freedom of association and the effective recognition of the right to collective bargaining.

Principle 4: The elimination of all forms of forced and compulsory labor.

Principle 5: The effective abolition of child labor.

Principle 6: The elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Support a precautionary approach to environmental challenges.

Principle 8: Undertake initiatives to promote greater environmental responsibility.

Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

How Managers Can Improve Ethical Behavior in An Organization

- 1. Hire individuals with high ethical standards.**
- 2. Establish codes of ethics and decision rules.**
- 3. Lead by example.**
- 4. Set realistic job goals and include ethics in performance appraisals.**
- 5. Provide ethics training.**
- 6. Conduct independent social audits.**
- 7. Provide support for individuals facing ethical dilemmas.**

The Value of Ethics Training

- Can make a difference in ethical behaviors.
- Increases employee awareness of ethical issues in business decisions.
- Clarifies and reinforces the organization's standards of conduct.
- Helps employees become more confident that they will have the organization's support when taking unpopular but ethically correct stances.

Exhibit 5–12 Clusters of Variables Found in 83 Corporate Codes of Business Ethics

Cluster 1. Be a Dependable Organizational Citizen

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

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

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

Cluster 3. Be Good to Customers

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

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

Exhibit 5–13 Twelve Questions for Examining the Ethics of a Business Decision

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

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

Effective Use of a Code of Ethics

- Develop a code of ethics as a guide in handling ethical dilemmas in decision making.
- Communicate the code regularly to all employees.
- Have all levels of management continually reaffirm the importance of the ethics code and the organization's commitment to the code.
- Publicly reprimand and consistently discipline those who break the code.

Ethical Leadership

- Managers must provide a *good role model* by:
 - Being ethical and honest at all times.
 - Telling the truth; don't hide or manipulate information.
 - Admitting failure and not trying to cover it up.
 - Communicating shared ethical values to employees through symbols, stories, and slogans.
 - Rewarding employees who behave ethically and punish those who do not.
 - Protecting employees (**whistleblowers**) who bring to light unethical behaviors or raise ethical issues.

Managing Ethical Lapses and Social Irresponsibility

- Provide ethical leadership
- Protect employees who raise ethical issues (whistle-blowers)

Awareness of Social Issues

- **Social Entrepreneurs**

- Are individuals or organizations who seek out opportunities to improve society by using practical, innovative, and sustainable approaches.
- Want to make the world a better place and have a driving passion to make that happen.



Awareness of Social Issues (cont'd)

- **Social Impact Management**

- Is the field of inquiry at the intersection of business practice and wider societal concerns that reflects and respects the complex interdependency of those two realities.
- Seeks to answer the question of how to go about increasing managers' awareness within their decision-making processes of how society is impacted by the conduct and activities of their firms.

Terms to Know

- classical view
- socioeconomic view
- social obligation
- social responsiveness
- social responsibility
- social screening
- greening of management
- values-based management
- ethics
- values
- ego strength
- locus of control
- code of ethics
- whistle-blower
- social entrepreneur
- social impact management



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Chapter
6

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

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

The Decision-Making Process

- Define decision and decision-making process.
- Describe the eight steps in the decision-making process.

The Manager as Decision Maker

- Discuss the assumptions of rational decision making.
- Describe the concepts of bounded rationality, satisficing, and escalation of commitment.
- Explain intuitive decision making.
- Contrast programmed and nonprogrammed decisions.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

The Manager as Decision Maker (cont'd)

- Contrast the three decision-making conditions.
- Explain maximax, maximin, and minimax decision choice approaches.
- Describe the four decision making styles.
- Discuss the twelve decision-making biases managers may exhibit.
- Describe how manager can deal with the negative effects of decision errors and biases.
- Explain the managerial decision-making model.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Decision Making for Today's World

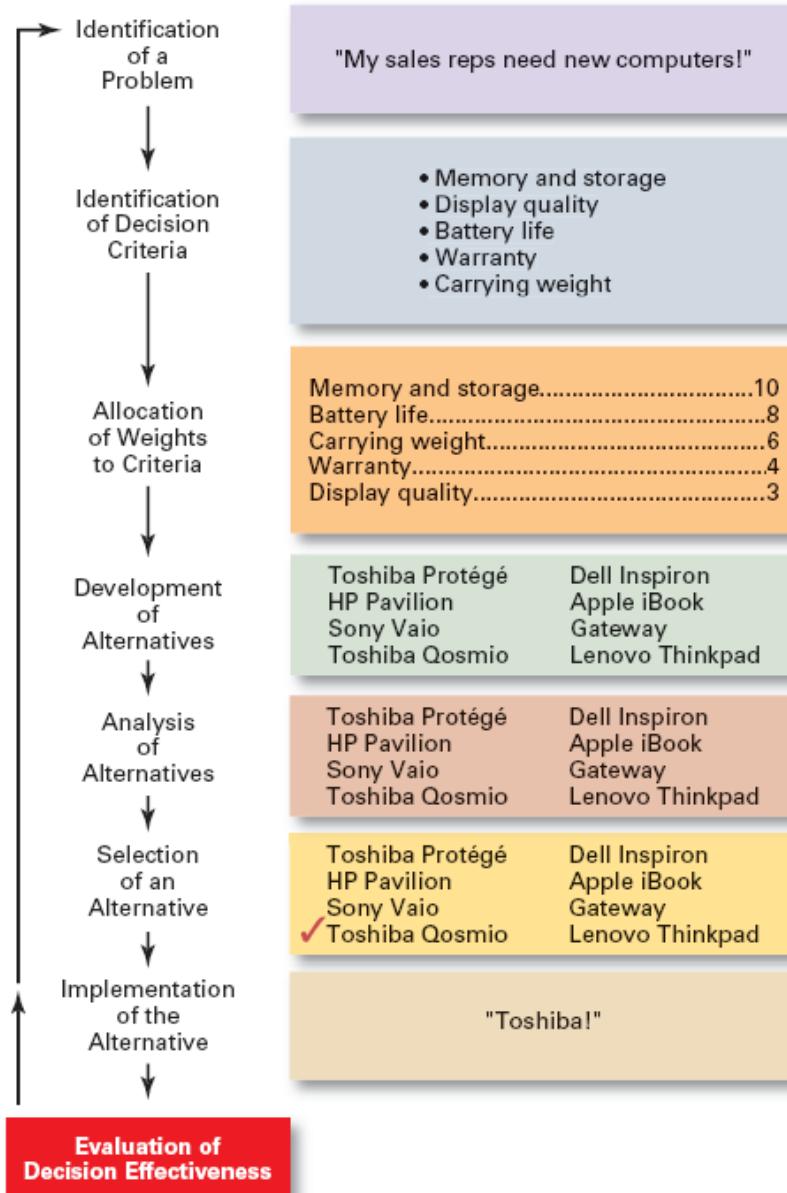
- Explain how managers can make effective decisions in today's world.
- List six characteristics of an effective decision-making process.
- Describe the five habits of highly reliable organizations.

Decision Making

- **Decision**
 - Making a choice from two or more alternatives.
- **The Decision-Making Process**
 - Identifying a problem and decision criteria and allocating weights to the criteria.
 - Developing, analyzing, and selecting an alternative that can resolve the problem.
 - Implementing the selected alternative.
 - Evaluating the decision's effectiveness.

Exhibit 6-1

The Decision-Making Process



Step 1: Identifying the Problem

- **Problem**
 - A discrepancy between an existing and desired state of affairs.
- **Characteristics of Problems**
 - A problem becomes a problem when a manager becomes aware of it.
 - There is pressure to solve the problem.
 - The manager must have the authority, information, or resources needed to solve the problem.

Step 2: Identifying Decision Criteria

- **Decision criteria are factors that are important (relevant) to resolving the problem.**
 - Costs that will be incurred (investments required)
 - Risks likely to be encountered (chance of failure)
 - Outcomes that are desired (growth of the firm)

Step 3: Allocating Weights to the Criteria

- **Decision criteria are not of equal importance:**
 - Assigning a weight to each item places the items in the correct priority order of their importance in the decision making process.

Exhibit 6–2 Criteria and Weights for Computer Replacement Decision

Criterion	Weight
Memory and Storage	10
Battery life	8
Carrying Weight	6
Warranty	4
Display Quality	3

Step 4: Developing Alternatives

- **Identifying viable alternatives**
 - Alternatives are listed (without evaluation) that can resolve the problem.

Step 5: Analyzing Alternatives

- **Appraising each alternative's strengths and weaknesses**
 - An alternative's appraisal is based on its ability to resolve the issues identified in steps 2 and 3.

Exhibit 6–3 Assessed Values of Laptop Computers Using Decision Criteria

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality
Toshiba Protégé S100	10	3	10	8	5
Dell Inspiron 700m	8	7	7	8	7
HP Pavilion zd8000	8	5	7	10	10
Apple iBook	8	7	7	8	7
Sony Vaio VGN-FS790	7	8	7	8	7
Gateway NX850X	8	3	6	10	8
Toshiba QosmioG15-AV501	10	7	8	6	7
Lenovo Thinkpad R52	4	10	4	8	10

Step 6: Selecting an Alternative

- Choosing the best alternative
 - The alternative with the highest total weight is chosen.

Step 7: Implementing the Alternative

- Putting the chosen alternative into action.
 - Conveying the decision to and gaining commitment from those who will carry out the decision.

Exhibit 6–4 Evaluation of Laptop Alternatives Against Weighted Criteria

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality	Total
Toshiba Protégé S100	100	24	60	32	15	231
Dell Inspiron 700m	80	56	42	32	21	231
HP Pavilion zd8000	80	40	42	40	30	232
Apple iBook	80	56	42	32	21	231
Sony Vaio VGN-FS790	70	64	42	32	21	229
Gateway NX850X	80	24	36	40	24	204
Toshiba QosmioG15-AV501	100	56	48	24	21	249
Lenovo Thinkpad R52	40	80	24	32	30	206

Step 8: Evaluating the Decision's Effectiveness

- The soundness of the decision is judged by its outcomes.
 - How effectively was the problem resolved by outcomes resulting from the chosen alternatives?
 - If the problem was not resolved, what went wrong?

Exhibit 6–5 Decisions in the Management Functions

Planning

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

Leading

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

Organizing

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

Controlling

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

Making Decisions

- Rationality
 - Managers make consistent, value-maximizing choices with specified constraints.
 - Assumptions are that decision makers:
 - ❖ Are perfectly rational, fully objective, and logical.
 - ❖ Have carefully defined the problem and identified all viable alternatives.
 - ❖ Have a clear and specific goal
 - ❖ Will select the alternative that maximizes outcomes in the organization's interests rather than in their personal interests.

Exhibit 6–6 Assumptions of Rationality

- The problem is clear and unambiguous.
- A single, well-defined goal is to be achieved.
- All alternatives and consequences are known.
- Preferences are clear.
- Preferences are constant and stable.
- No time or cost constraints exist.
- Final choice will maximize payoff.



Lead to

**Rational
Decision
Making**

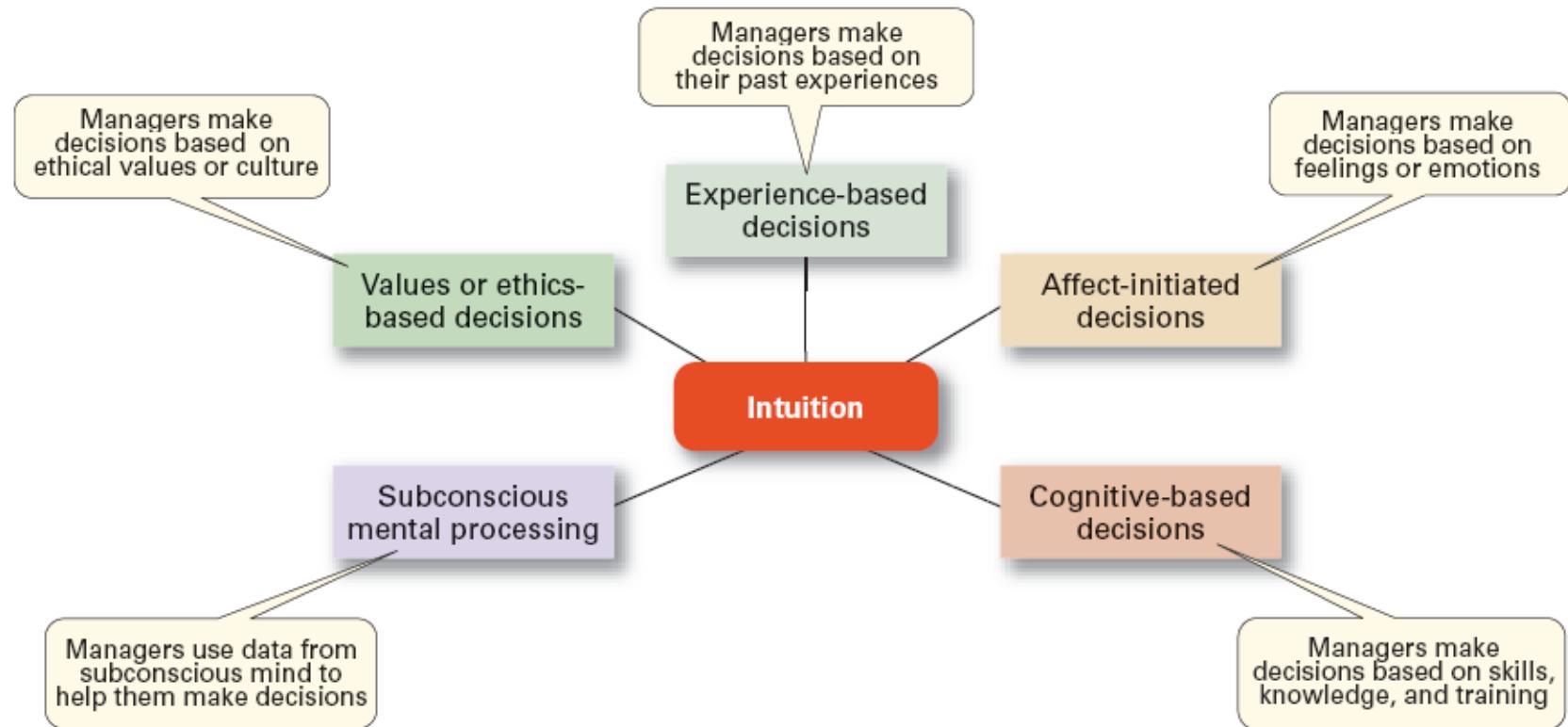
Making Decisions (cont'd)

- **Bounded Rationality**
 - Managers make decisions rationally, but are limited (bounded) by their ability to process information.
 - Assumptions are that decision makers:
 - ❖ Will not seek out or have knowledge of all alternatives
 - ❖ Will **satisfice**—choose the first alternative encountered that satisfactorily solves the problem—rather than maximize the outcome of their decision by considering all alternatives and choosing the best.
 - Influence on decision making
 - ❖ Escalation of commitment: an increased commitment to a previous decision despite evidence that it may have been wrong.

The Role of Intuition

- **Intuitive decision making**
 - Making decisions on the basis of experience, feelings, and accumulated judgment.

Exhibit 6–7 What is Intuition?



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

Types of Problems and Decisions

- Structured Problems
 - Involve goals that clear.
 - Are familiar (have occurred before).
 - Are easily and completely defined—information about the problem is available and complete.
- Programmed Decision
 - A repetitive decision that can be handled by a routine approach.

Types of Programmed Decisions

- **Policy**
 - A general guideline for making a decision about a structured problem.
- **Procedure**
 - A series of interrelated steps that a manager can use to respond (applying a policy) to a structured problem.
- **Rule**
 - An explicit statement that limits what a manager or employee can or cannot do.

Policy, Procedure, and Rule Examples

- **Policy**
 - Accept all customer-returned merchandise.
- **Procedure**
 - Follow all steps for completing merchandise return documentation.
- **Rules**
 - Managers must approve all refunds over \$50.00.
 - No credit purchases are refunded for cash.

Problems and Decisions (cont'd)

- **Unstructured Problems**

- Problems that are new or unusual and for which information is ambiguous or incomplete.
- Problems that will require custom-made solutions.

- **Nonprogrammed Decisions**

- Decisions that are unique and nonrecurring.
- Decisions that generate unique responses.

Exhibit 6–8 Programmed versus Nonprogrammed Decisions

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

Decision-Making Conditions

- Certainty
 - A situation in which a manager can make an accurate decision because the outcome of every alternative choice is known.
- Risk
 - A situation in which the manager is able to estimate the likelihood (probability) of outcomes that result from the choice of particular alternatives.

Exhibit 6–9 Expected Value for Revenues from the Addition of One Ski Lift

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

Decision-Making Conditions

- **Uncertainty**
 - Limited information prevents estimation of outcome probabilities for alternatives associated with the problem and may force managers to rely on intuition, hunches, and “gut feelings”.
 - ❖ **Maximax:** the optimistic manager’s choice to maximize the maximum payoff
 - ❖ **Maximin:** the pessimistic manager’s choice to maximize the minimum payoff
 - ❖ **Minimax:** the manager’s choice to minimize maximum regret.

Exhibit 6–10 Payoff Matrix

(in millions of dollars)

Visa Marketing Strategy

MasterCard's Response

	CA ₁	CA ₂	CA ₃
S ₁	13	14	11
S ₂	9	15	18
S ₃	24	21	15
S ₄	18	14	28

Exhibit 6–11 Regret Matrix

(in millions of dollars)

Visa Marketing Strategy

MasterCard's Response

	CA ₁	CA ₂	CA ₃
S ₁	11	7	17
S ₂	15	6	10
S ₃	0	0	13
S ₄	6	7	0

Decision-Making Styles

- Dimensions of Decision-Making Styles

- Ways of thinking

- ❖ Rational, orderly, and consistent
 - ❖ Intuitive, creative, and unique

- Tolerance for ambiguity

- ❖ Low tolerance: require consistency and order
 - ❖ High tolerance: multiple thoughts simultaneously

Decision-Making Styles (cont'd)

- **Types of Decision Makers**
 - **Directive**
 - ❖ Use minimal information and consider few alternatives.
 - **Analytic**
 - ❖ Make careful decisions in unique situations.
 - **Conceptual**
 - ❖ Maintain a broad outlook and consider many alternatives in making decisions.
 - **Behavioral**
 - ❖ Avoid conflict by working well with others and being receptive to suggestions.

Exhibit 6–12 Decision-Making Matrix

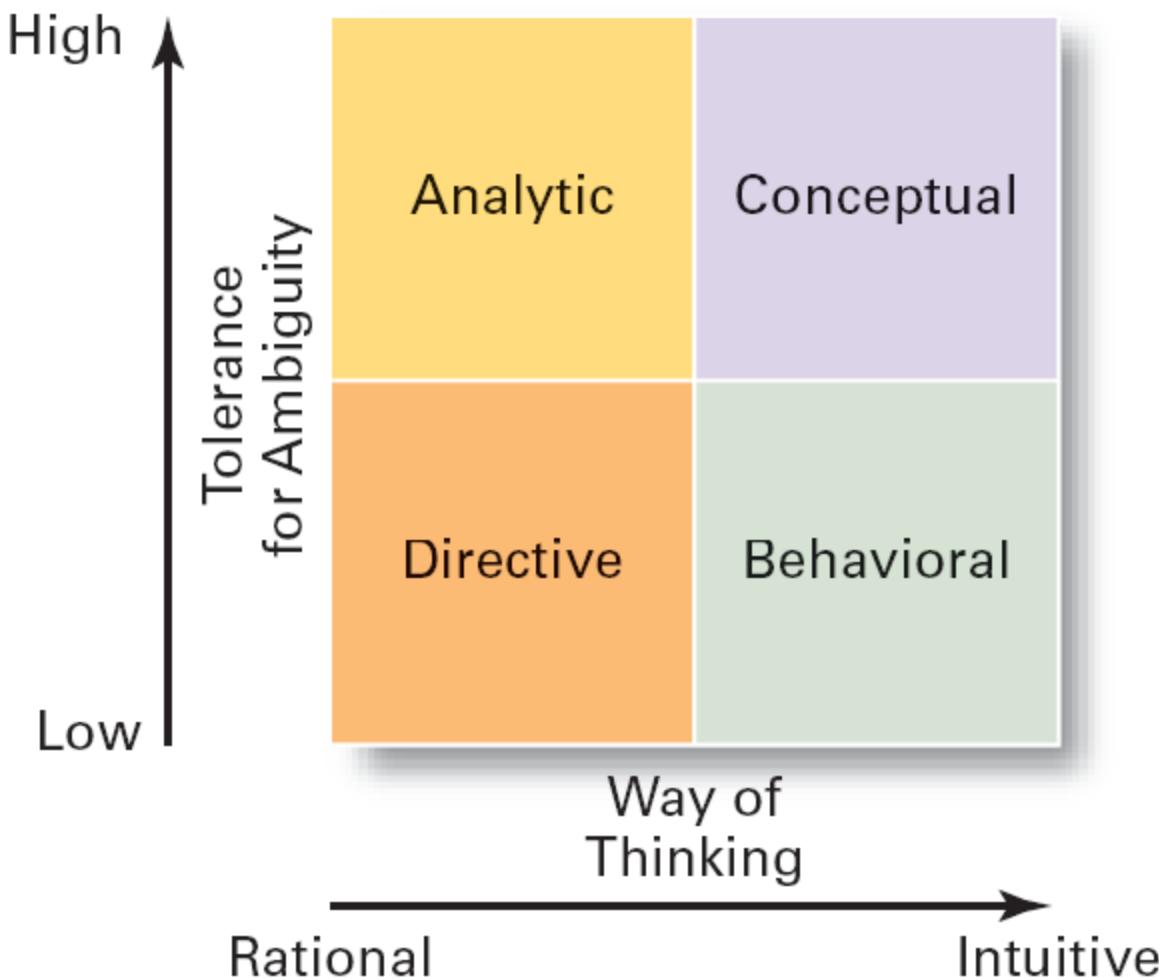


Exhibit 6–13 Common Decision-Making Errors and Biases



Decision-Making Biases and Errors

- **Heuristics**
 - Using “rules of thumb” to simplify decision making.
- **Overconfidence Bias**
 - Holding unrealistically positive views of one’s self and one’s performance.
- **Immediate Gratification Bias**
 - Choosing alternatives that offer immediate rewards and that to avoid immediate costs.

Decision-Making Biases and Errors (cont'd)

- **Anchoring Effect**
 - Fixating on initial information and ignoring subsequent information.
- **Selective Perception Bias**
 - Selecting organizing and interpreting events based on the decision maker's biased perceptions.
- **Confirmation Bias**
 - Seeking out information that reaffirms past choices and discounting contradictory information.

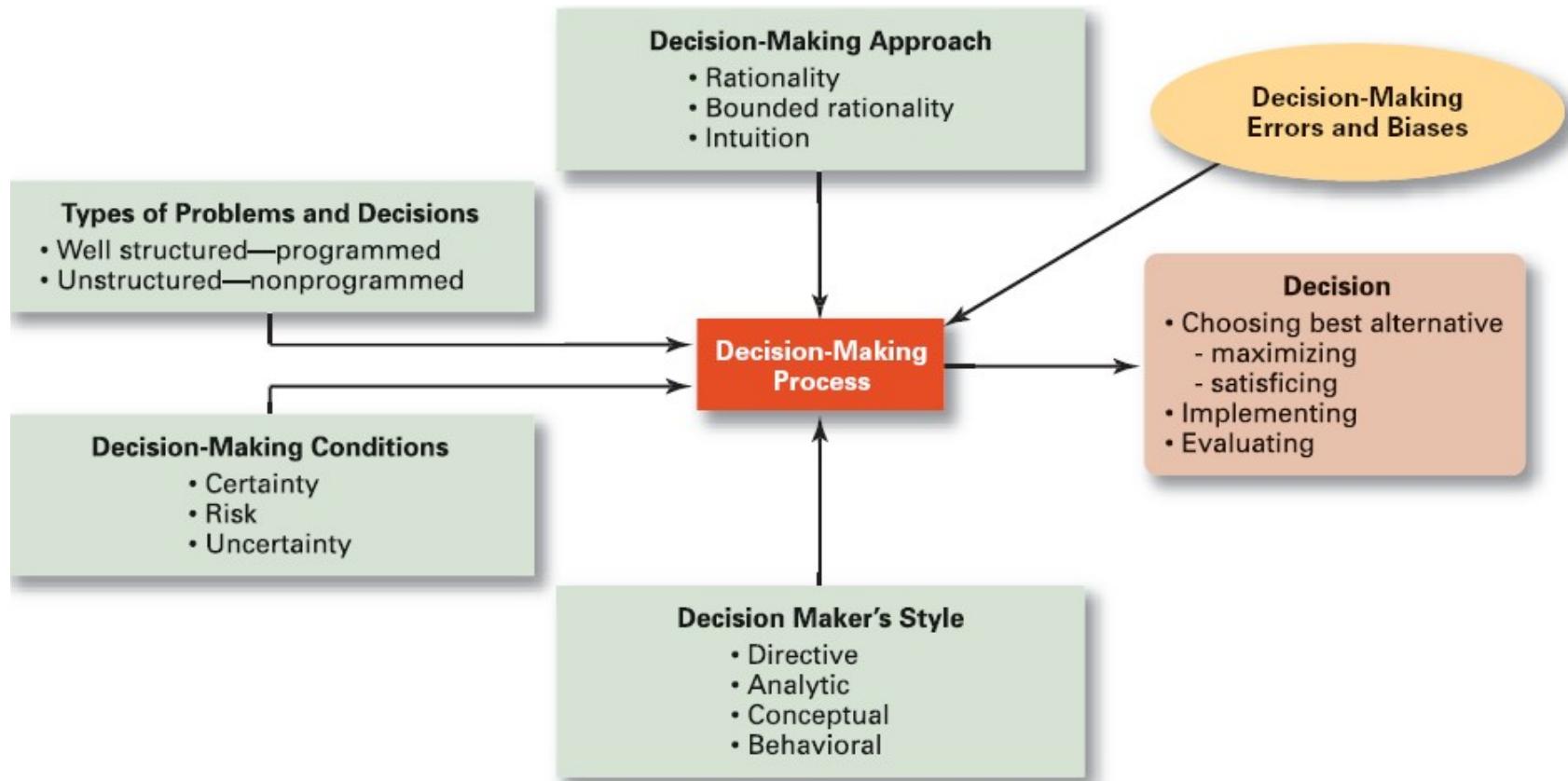
Decision-Making Biases and Errors (cont'd)

- **Framing Bias**
 - Selecting and highlighting certain aspects of a situation while ignoring other aspects.
- **Availability Bias**
 - Losing decision-making objectivity by focusing on the most recent events.
- **Representation Bias**
 - Drawing analogies and seeing identical situations when none exist.
- **Randomness Bias**
 - Creating unfounded meaning out of random events.

Decision-Making Biases and Errors (cont'd)

- **Sunk Costs Errors**
 - Forgetting that current actions cannot influence past events and relate only to future consequences.
- **Self-Serving Bias**
 - Taking quick credit for successes and blaming outside factors for failures.
- **Hindsight Bias**
 - Mistakenly believing that an event could have been predicted once the actual outcome is known (after-the-fact).

Exhibit 6–14 Overview of Managerial Decision Making



Decision Making for Today's World

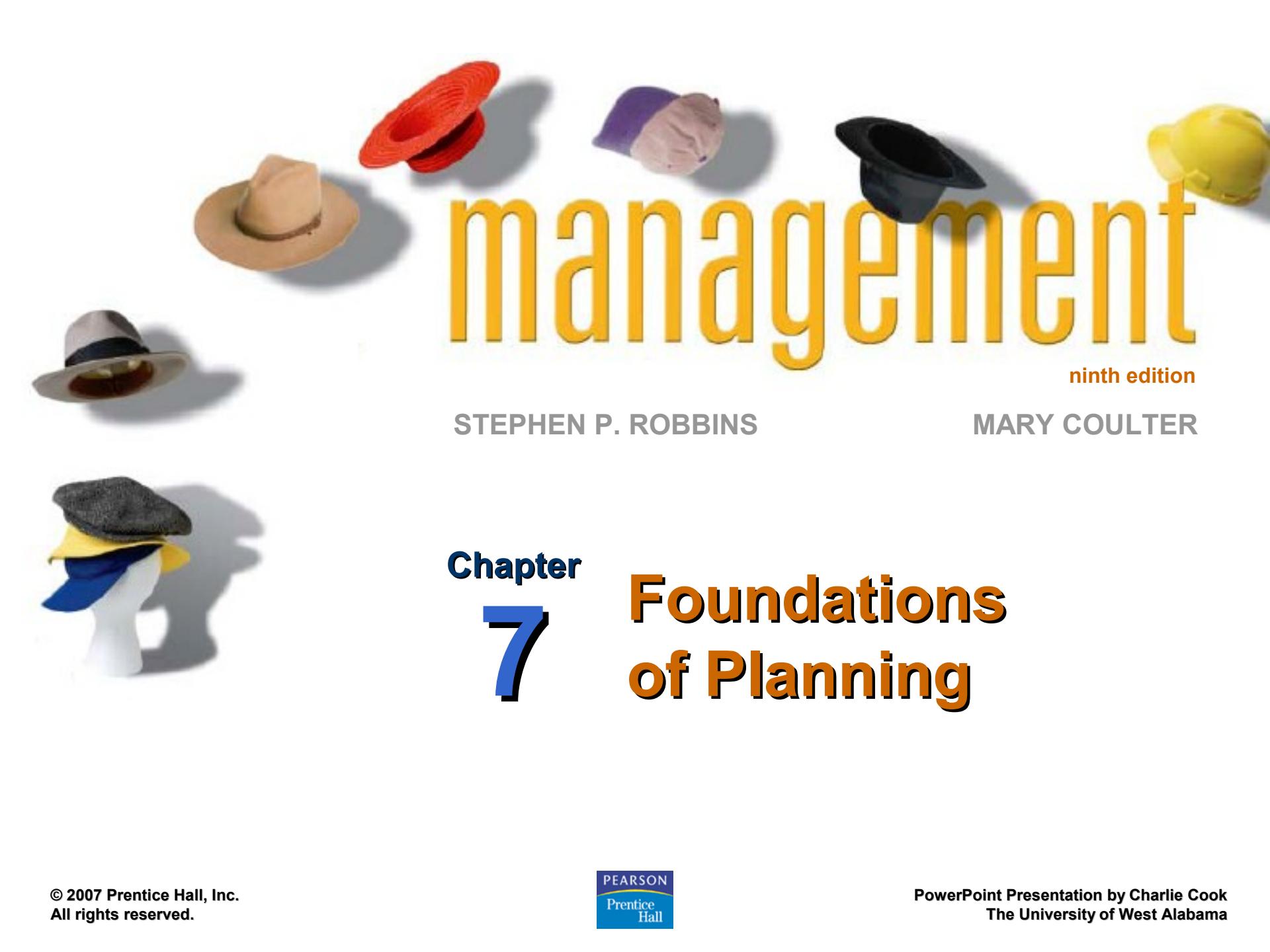
- **Guidelines for making effective decisions:**
 - Understand cultural differences.
 - Know when it's time to call it quits.
 - Use an effective decision-making process.
- **Habits of highly reliable organizations (HROs)**
 - Are not tricked by their success.
 - Defer to the experts on the front line.
 - Let unexpected circumstances provide the solution.
 - Embrace complexity.
 - Anticipate, but also anticipate their limits.

Characteristics of an Effective Decision-Making Process

- It focuses on what is important.
- It is logical and consistent.
- It acknowledges both subjective and objective thinking and blends analytical with intuitive thinking.
- It requires only as much information and analysis as is necessary to resolve a particular dilemma.
- It encourages and guides the gathering of relevant information and informed opinion.
- It is straightforward, reliable, easy to use, and flexible.

Terms to Know

- decision
- decision-making process
- problem
- decision criteria
- rational decision making
- bounded rationality
- satisficing
- escalation of commitment
- intuitive decision making
- structured problems
- programmed decision
- procedure
- rule
- policy
- unstructured problems
- nonprogrammed decisions
- certainty
- risk
- uncertainty
- directive style
- analytic style
- conceptual style
- behavioral style
- heuristics
- business performance management (BPM) software



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Chapter
7

Foundations of Planning

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

What Is Planning?

- Define planning.
- Differentiate between formal and informal planning.
- Describe the purposes of planning.
- Discuss the conclusions from studies of the relationship between planning and performance.

How Do Managers Plan?

- Define goals and plans.
- Describe the types of goals organizations might have.
- Explain why it's important to know an organization's stated and real goals.
- Describe each of the different types of plans.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Establishing Goals and Developing Plans

- Discuss how traditional goal setting works.
- Explain the concept of the means–end chain.
- Describe the management by objective (MBO) approach.
- Describe the characteristics of well-designed goals.
- Explain the steps in setting goals.
- Discuss the contingency factors that affect planning.
- Describe the approaches to planning.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Contemporary Issues in Planning

- Explain the criticisms of planning and whether they're valid.
- Describe how managers can effectively plan in today's dynamic environment.

What Is Planning?

- **Planning**
 - A primary managerial activity that involves:
 - ❖ Defining the organization's goals
 - ❖ Establishing an overall strategy for achieving those goals
 - ❖ Developing plans for organizational work activities.
 - Types of planning
 - ❖ **Informal:** not written down, short-term focus; specific to an organizational unit.
 - ❖ **Formal:** written, specific, and long-term focus, involves shared goals for the organization.

Why Do Managers Plan?

- **Purposes of Planning**

- Provides direction
- Reduces uncertainty
- Minimizes waste and redundancy
- Sets the standards for controlling



Planning and Performance

- The Relationship Between Planning And Performance
 - Formal planning is associated with:
 - ❖ Higher profits and returns on assets.
 - ❖ Positive financial results.
 - The quality of planning and implementation affects performance more than the extent of planning.
 - The external environment can reduce the impact of planning on performance,
 - Formal planning must be used for several years before planning begins to affect performance.

How Do Managers Plan?

- **Elements of Planning**

- **Goals (also Objectives)**

- ❖ Desired outcomes for individuals, groups, or entire organizations
 - ❖ Provide direction and evaluation performance criteria

- **Plans**

- ❖ Documents that outline how goals are to be accomplished
 - ❖ Describe how resources are to be allocated and establish activity schedules

Types of Goals

- **Financial Goals**
 - Are related to the expected internal financial performance of the organization.
- **Strategic Goals**
 - Are related to the performance of the firm relative to factors in its external environment (e.g., competitors).
- **Stated Goals versus Real Goals**
 - Broadly-worded official statements of the organization (intended for public consumption) that may be irrelevant to its real goals (what actually goes on in the organization).

Exhibit 7–1 Stated Goals of Large Global Companies

Execute strategic roadmap—“Plan to Win.”
Grow the business profitably.
Identify and develop diverse talent.
Promote balanced, active lifestyles.
(McDonald’s Corporation)

Continue to win market share globally.
Focus on higher-value products.
Reduce production costs.
Lower purchasing costs.
Integrate diversity.
Gain ISO 14001 certification for all factories.
(L’Oreal)

Respect the environment.
Respect and support family unity and national traditions.
Promote community welfare.
Continue implementing quality systems.
Continue to be a strong cash generator.
(Grupo Bimbo)

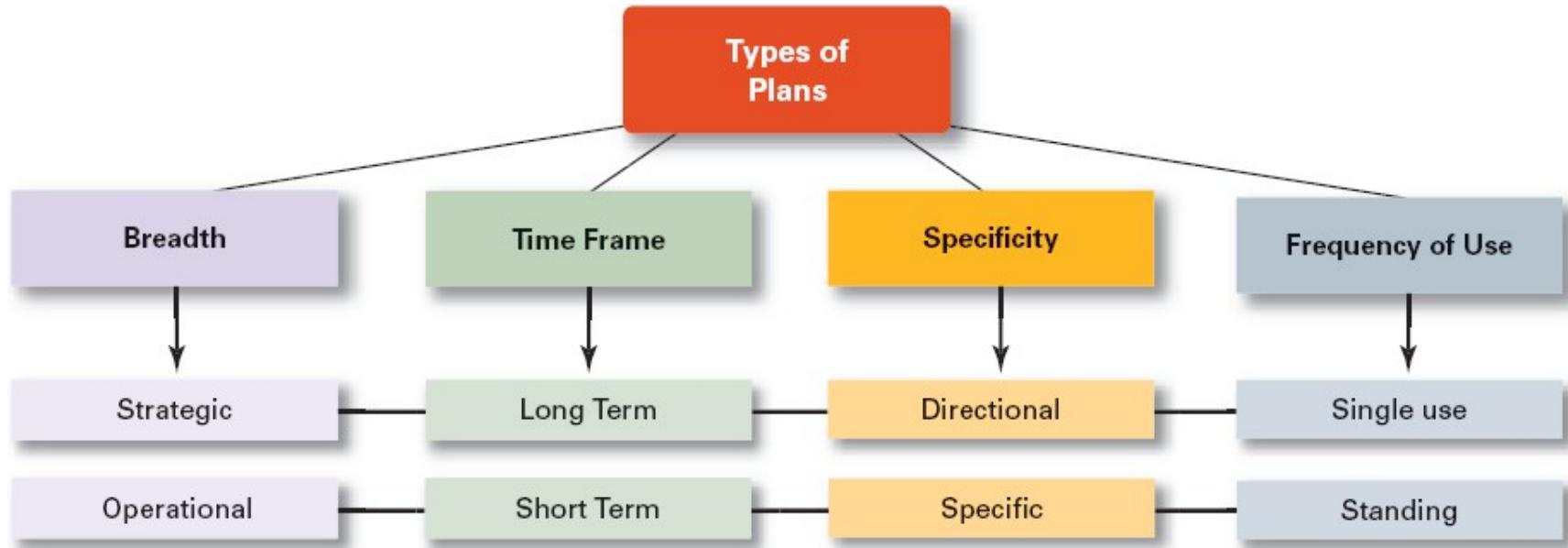
Control inventory.
Maintain industry’s lowest inventory shrinkage rate.
Open 25–30 new locations in fiscal 2006.
Live by the code of ethics every day.
(Costco)

Expand selection of competitively priced products.
Manage inventory carefully.
Continue to improve store format every few years.
Operate 2,000 stores by the end of the decade.
Continue gaining market share.
(Target)

Roll out newly-designed environmentally friendly cup in 2006.
Open approximately 1,800 new stores globally in 2006.
Attain net revenue growth of approximately 20 percent in 2006.
Attain annual EPS growth of between 20 percent to 25 percent for the next 3 to 5 years.
(Starbucks)

Source: Information from company’s *Annual Reports*, 2004–2005.

Exhibit 7–2 Types of Plans



Types of Plans

- **Strategic Plans**
 - Apply to the entire organization.
 - Establish the organization's overall goals.
 - Seek to position the organization in terms of its environment.
 - Cover extended periods of time.
- **Operational Plans**
 - Specify the details of how the overall goals are to be achieved.
 - Cover short time period.

Types of Plans (cont'd)

- **Long-Term Plans**
 - Plans with time frames extending beyond three years
- **Short-Term Plans**
 - Plans with time frames on one year or less
- **Specific Plans**
 - Plans that are clearly defined and leave no room for interpretation
- **Directional Plans**
 - Flexible plans that set out general guidelines, provide focus, yet allow discretion in implementation.

Exhibit 7–3 Specific Versus Directional Plans



Types of Plans (cont'd)

- **Single-Use Plan**
 - A one-time plan specifically designed to meet the need of a unique situation.
- **Standing Plans**
 - Ongoing plans that provide guidance for activities performed repeatedly.

Establishing Goals and Developing Plans

- **Traditional Goal Setting**
 - Broad goals are set at the top of the organization.
 - Goals are then broken into subgoals for each organizational level.
 - Assumes that top management knows best because they can see the “big picture.”
 - Goals are intended to direct, guide, and constrain from above.
 - Goals lose clarity and focus as lower-level managers attempt to interpret and define the goals for their areas of responsibility.

Exhibit 7–4 The Downside of Traditional Goal Setting



Establishing Goals and Developing Plans (cont'd)

- **Maintaining the Hierarchy of Goals**
 - Means–Ends Chain
 - ❖ The integrated network of goals that results from establishing a clearly-defined hierarchy of organizational goals.
 - ❖ Achievement of lower-level goals is the means by which to reach higher-level goals (ends).

Establishing Goals and Developing Plans (cont'd)

- **Management By Objectives (MBO)**
 - Specific performance goals are jointly determined by employees and managers.
 - Progress toward accomplishing goals is periodically reviewed.
 - Rewards are allocated on the basis of progress towards the goals.
 - Key elements of MBO:
 - ❖ Goal specificity, participative decision making, an explicit performance/evaluation period, feedback

Exhibit 7–5 Steps in a Typical MBO Program

1. The organization's *overall objectives and strategies* are formulated.
2. Major objectives are allocated among *divisional and departmental units*.
3. Unit managers *collaboratively set specific objectives* for their units with their managers.
4. Specific objectives are collaboratively set with *all department members*.
5. *Action plans*, defining how objectives are to be achieved, are specified and agreed upon by managers and employees.
6. The action plans are *implemented*.
7. Progress toward objectives is *periodically reviewed*, and feedback is provided.
8. Successful achievement of objectives is reinforced by *performance-based rewards*.

Does MBO Work?

- Reason for MBO Success
 - Top management commitment and involvement
- Potential Problems with MBO Programs
 - Not as effective in dynamic environments that require constant resetting of goals.
 - Overemphasis on individual accomplishment may create problems with teamwork.
 - Allowing the MBO program to become an annual paperwork shuffle.

Exhibit 7–6 Characteristics of Well-Designed Goals

- **Written in terms of outcomes, not actions**
 - Focuses on the ends, not the means.
- **Measurable and quantifiable**
 - Specifically defines how the outcome is to be measured and how much is expected.
- **Clear as to time frame**
 - How long before measuring accomplishment.
- **Challenging yet attainable**
 - Low goals do not motivate.
 - High goals motivate if they can be achieved.
- **Written down**
 - Focuses, defines, and makes goals visible.
- **Communicated to all necessary organizational members**
 - Puts everybody “on the same page.”

Steps in Goal Setting

1. Review the organization's mission statement.

Do goals reflect the mission?

1. Evaluate available resources.

Are resources sufficient to accomplish the mission?

1. Determine goals individually or with others.

Are goals specific, measurable, and timely?

1. Write down the goals and communicate them.

Is everybody on the same page?

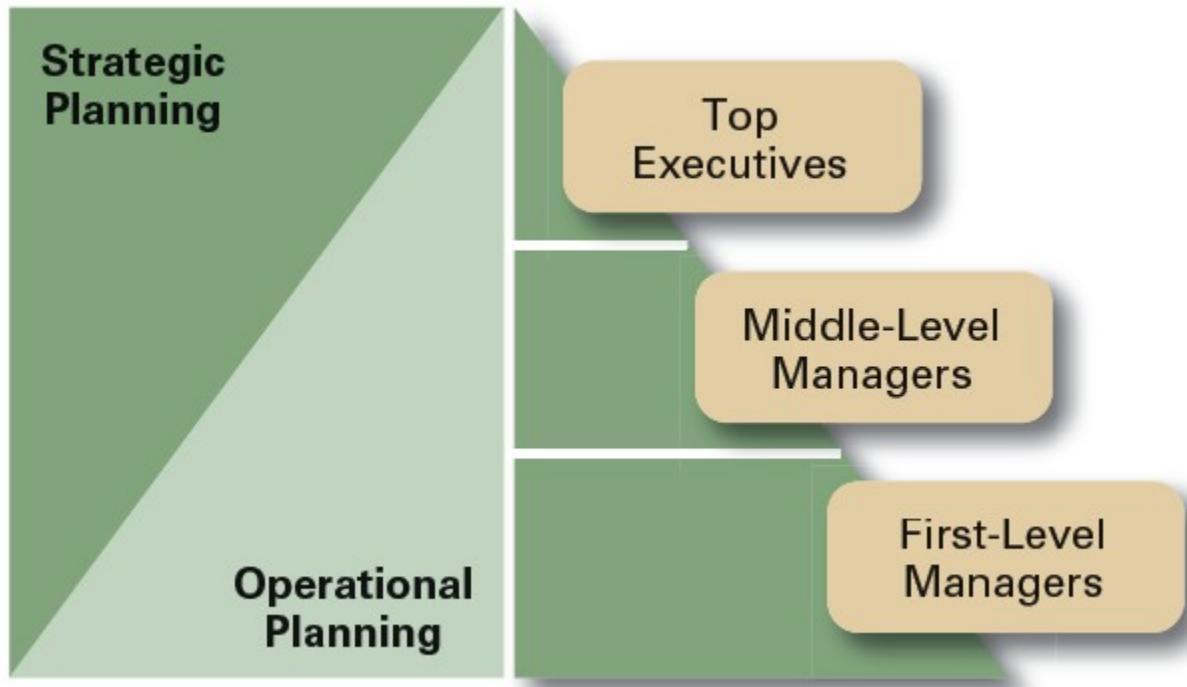
1. Review results and whether goals are being met.

What changes are needed in mission, resources, or goals?

Developing Plans

- Contingency Factors in A Manager's Planning
 - Manager's level in the organization
 - ❖ Strategic plans at higher levels
 - ❖ Operational plans at lower levels
 - Degree of environmental uncertainty
 - ❖ Stable environment: specific plans
 - ❖ Dynamic environment: specific but flexible plans
 - Length of future commitments
 - ❖ **Commitment Concept:** current plans affecting future commitments must be sufficiently long-term to meet those commitments.

Exhibit 7–7 Planning in the Hierarchy of Organizations



Approaches to Planning

- Establishing a formal planning department
 - A group of planning specialists who *help* managers write organizational plans.
 - Planning is a function of management; it should never become the sole responsibility of planners.
- Involving organizational members in the process
 - Plans are developed by members of organizational units at various levels and then coordinated with other units across the organization.

Contemporary Issues in Planning

- **Criticisms of Planning**

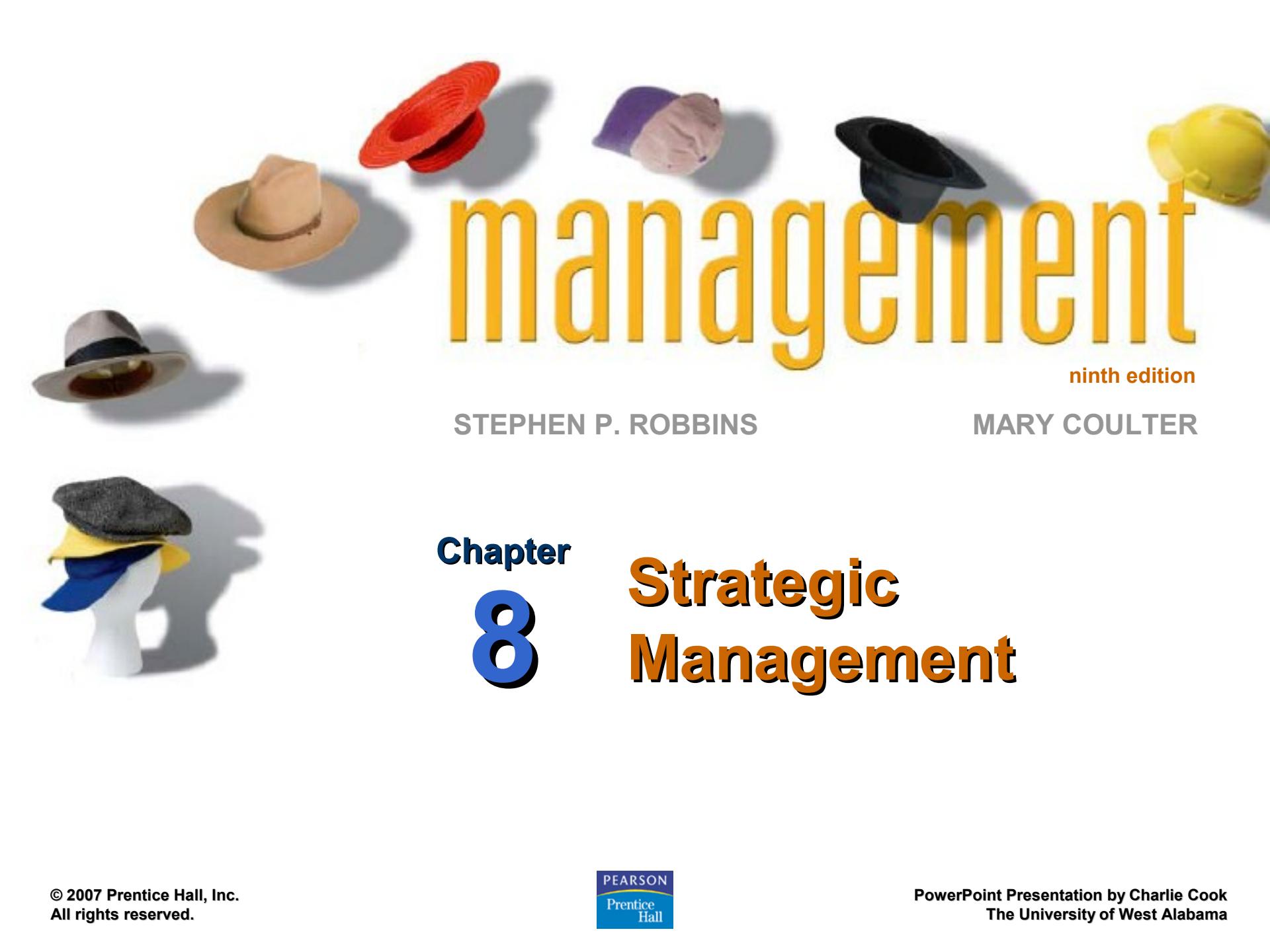
- Planning may create rigidity.
- Plans cannot be developed for dynamic environments.
- Formal plans cannot replace intuition and creativity.
- Planning focuses managers' attention on today's competition not tomorrow's survival.
- Formal planning reinforces today's success, which may lead to tomorrow's failure.

Contemporary Issues in Planning (cont'd)

- **Effective Planning in Dynamic Environments**
 - Develop plans that are specific but flexible.
 - Understand that planning is an ongoing process.
 - Change plans when conditions warrant.
 - Persistence in planning eventually pay off.
 - Flatten the organizational hierarchy to foster the development of planning skills at all organizational levels.

Terms to Know

- planning
- goals
- plans
- stated goals
- real goals
- framing
- strategic plans
- operational plans
- long-term plans
- short-term plans
- specific plans
- directional plans
- single-use plan
- standing plans
- traditional goal setting
- means-ends chain
- management by objectives (MBO)
- mission
- commitment concept
- formal planning department



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Chapter 8

Strategic Management

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

The Importance of Strategic Management

- Define strategic management, strategy, and business model.
- Explain why strategic management is important.

The Strategic Management Process

- List the six steps in the strategic management process.
- Describe what managers do during external and internal analyses.
- Explain the role of resources, capabilities, and core competencies.
- Define strengths, weaknesses, opportunities, and threats.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Types of Organizational Strategies

- Describe the three major types of corporate strategies.
- Discuss the BCG matrix and how it's used.
- Describe the role of competitive advantage in business-level strategies.
- Explain Porter's five forces model.
- Describe Porter's three generic competitive strategies and the rule of three.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Strategic Management in Today's Environment

- Explain why strategic flexibility is important.
- Describe strategies applying e-business techniques.
- Explain what strategies organizations might use to become more customer oriented and to be more innovative.

Strategic Management

- **What managers do to develop the organization's strategies.**

Strategies

- **The decisions and actions that determine the long-run performance of an organization.**

Strategic Management (cont'd)

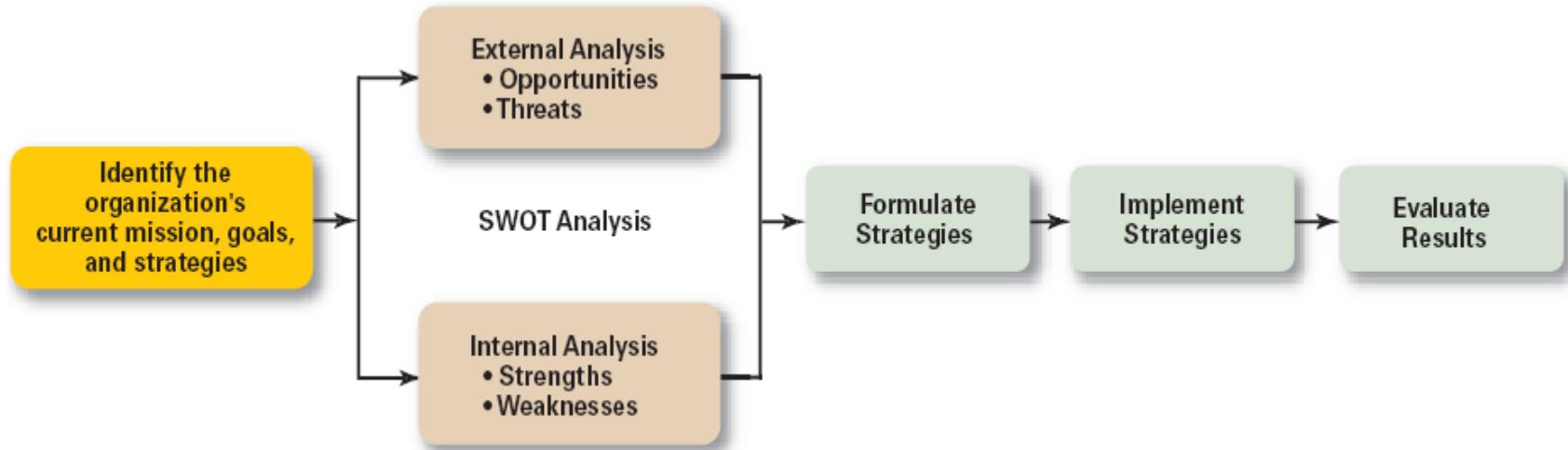
- **Business Model**

- Is a strategic design for how a company intends to profit from its strategies, work processes, and work activities.
- Focuses on two things:
 - ❖ Whether customers will value what the company is providing.
 - ❖ Whether the company can make any money doing that.

Why is Strategic Management Important

1. It results in higher organizational performance.
2. It requires that managers examine and adapt to business environment changes.
3. It coordinates diverse organizational units, helping them focus on organizational goals.
4. It is very much involved in the managerial decision-making process.

Exhibit 8–1 The Strategic Management Process



Strategic Management Process

- **Step 1: Identifying the organization's current mission, goals, and strategies**
 - **Mission:** the firm's reason for being
 - ❖ The scope of its products and services
 - **Goals:** the foundation for further planning
 - ❖ Measurable performance targets
- **Step 2: Doing an external analysis**
 - The environmental scanning of specific and general environments
 - ❖ Focuses on identifying opportunities and threats

Exhibit 8–2 Components of a Mission Statement

Customers: Who are the firm's customers?

Markets: Where does the firm compete geographically?

Concern for survival, growth, and profitability: Is the firm committed to growth and financial stability?

Philosophy: What are the firm's basic beliefs, values, and ethical priorities?

Concern for public Image: How responsive is the firm to societal and environmental concerns?

Products or services: What are the firm's major products or services?

Technology: Is the firm technologically current?

Self-concept: What are the firm's major competitive advantage and core competencies?

Concern for employees: Are employees a valuable asset of the firm?

Source: Based on F. David, *Strategic Management*, 11 ed. (Upper Saddle River, NJ: Prentice Hall, 2007), p. 70.

Strategic Management Process (cont'd)

- **Step 3: Doing an internal analysis**
 - Assessing organizational resources, capabilities, and activities:
 - ❖ Strengths create value for the customer and strengthen the competitive position of the firm.
 - ❖ Weaknesses can place the firm at a competitive disadvantage.
 - Analyzing financial and physical assets is fairly easy, but assessing intangible assets (employee's skills, culture, corporate reputation, and so forth) isn't as easy.
- **Steps 2 and 3 combined are called a SWOT analysis.
(Strengths, Weaknesses, Opportunities, and Threats)**

Exhibit 8–3 Corporate Rankings (partial lists)

**Interbrand/BusinessWeek
100 Top Global Brands (2005)**

1. Coca-Cola
2. Microsoft
3. IBM
4. General Electric
5. Intel

**Harris Interactive/Wall Street Journal
National Corporate Reputation (2005)**

1. Johnson & Johnson
2. Coca-Cola
3. Google
4. United Parcel Service
5. 3M Company

**Hay Group/Fortune
America's Most Admired Companies (2006)**

1. General Electric
2. FedEx
3. Southwest Airlines
4. Procter & Gamble
5. Starbucks

**Great Place to Work Institute/Fortune
100 Best Companies to Work For (2006)**

1. Genentech
2. Wegman's Food Markets
3. Valero Energy
4. Griffin Hospital
5. W. L. Gore & Associates

Sources: "America's Most Admired Companies," *Fortune*, February 22, 2006, p. 65; "The 100 Best Companies to Work For," *Fortune*, January 11, 2006, p. 89; R. Alsop, "Ranking Corporate Reputations," *Wall Street Journal*, December 6, 2005, p. B1; and "The 100 Top Brands," *BusinessWeek*, August 1, 2005, p. 90.

Strategic Management Process (cont'd)

- **Step 4: Formulating strategies**
 - Develop and evaluate strategic alternatives
 - Select appropriate strategies for all levels in the organization that provide relative advantage over competitors
 - Match organizational strengths to environmental opportunities
 - Correct weaknesses and guard against threats

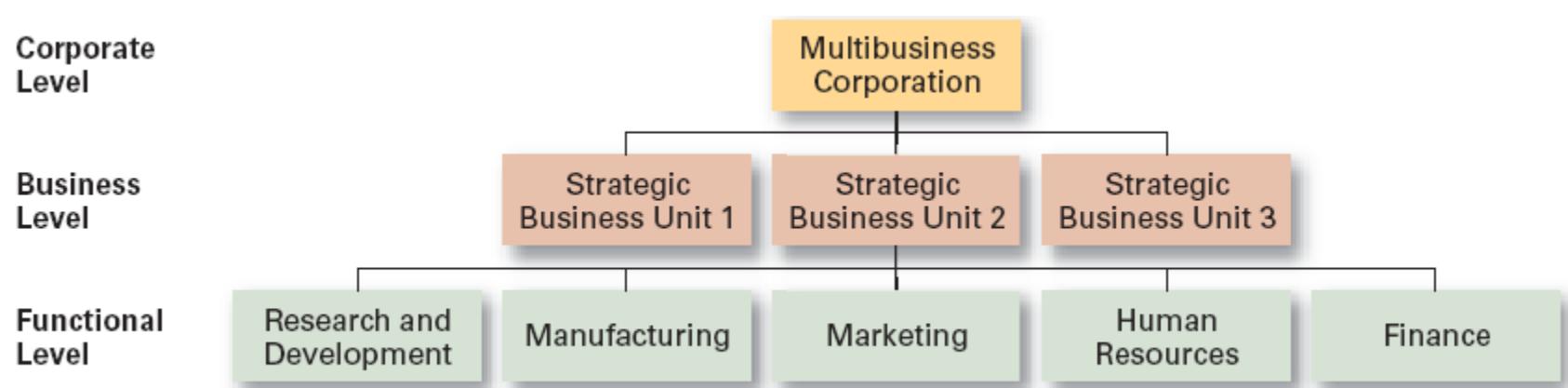
Strategic Management Process (cont'd)

- **Step 5: Implementing strategies**
 - **Implementation:** effectively fitting organizational structure and activities to the environment.
 - The environment dictates the chosen strategy; effective strategy implementation requires an organizational structure matched to its requirements.
- **Step 6: Evaluating results**
 - How effective have strategies been?
 - What adjustments, if any, are necessary?

Types of Organizational Strategies

- **Corporate Strategies**
 - Top management's overall plan for the entire organization and its strategic business units
- **Types of Corporate Strategies**
 - Growth: expansion into new products and markets
 - Stability: maintenance of the status quo
 - Renewal: redirection of the firm into new markets

Exhibit 8–4 Levels of Organizational Strategy



Corporate Strategies

- **Growth Strategy**
 - Seeking to increase the organization's business by expansion into new products and markets.
- **Types of Growth Strategies**
 - Concentration
 - Vertical integration
 - Horizontal integration
 - Diversification

Growth Strategies

- Concentration
 - Focusing on a primary line of business and increasing the number of products offered or markets served.
- Vertical Integration
 - Backward vertical integration: attempting to gain control of inputs (become a self-supplier).
 - Forward vertical integration: attempting to gain control of output through control of the distribution channel or provide customer service activities (eliminating intermediaries).

Growth Strategies (cont'd)

- **Horizontal Integration**
 - Combining operations with another competitor in the same industry to increase competitive strengths and lower competition among industry rivals.
- **Related Diversification**
 - Expanding by combining with firms in different, but related industries that are “strategic fits.”
- **Unrelated Diversification**
 - Growing by combining with firms in unrelated industries where higher financial returns are possible.

Growth Strategies (cont'd)

- **Stability Strategy**
 - A strategy that seeks to maintain the status quo to deal with the uncertainty of a dynamic environment, when the industry is experiencing slow- or no-growth conditions, or if the owners of the firm elect not to grow for personal reasons.

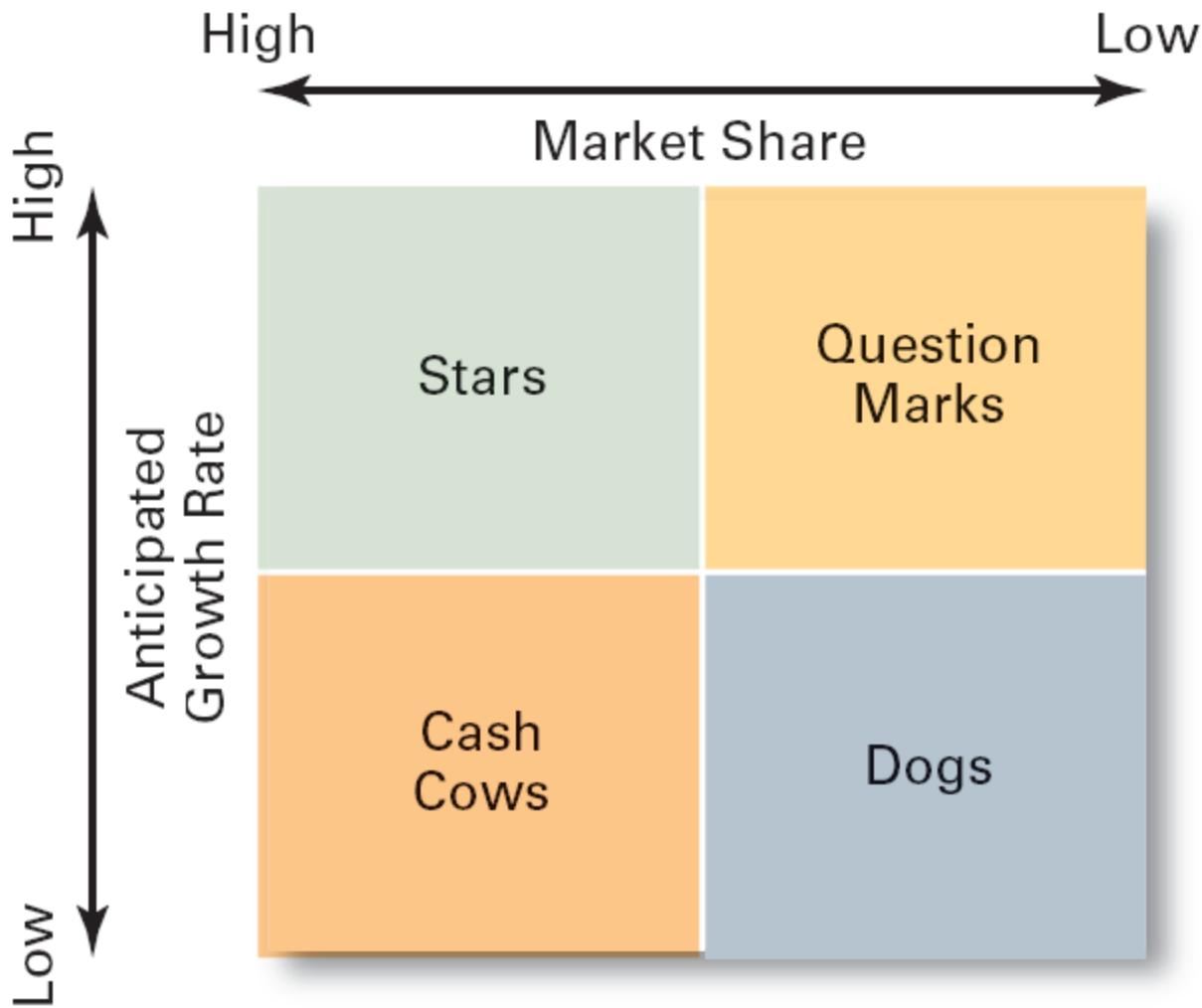
Growth Strategies (cont'd)

- **Renewal Strategies**
 - Developing strategies to counter organization weaknesses that are leading to performance declines.
 - ❖ **Retrenchment:** focusing on eliminating non-critical weaknesses and restoring strengths to overcome current performance problems.
 - ❖ **Turnaround:** addressing critical long-term performance problems through the use of strong cost elimination measures and large-scale organizational restructuring solutions.

Corporate Portfolio Analysis

- Managers manage portfolio (or collection) of businesses using a corporate portfolio matrix such as the BCG Matrix.
- BCG Matrix
 - Developed by the Boston Consulting Group
 - Considers market share and industry growth rate
 - Classifies firms as:
 - ❖ Cash cows: low growth rate, high market share
 - ❖ Stars: high growth rate, high market share
 - ❖ Question marks: high growth rate, low market share
 - ❖ Dogs: low growth rate, low market share

Exhibit 8–5 The BCG Matrix



Business or Competitive Strategy

- **Business (or Competitive) Strategy**
 - A strategy focused on how an organization should compete in each of its SBUs (strategic business units).



The Role of Competitive Advantage

- **Competitive Advantage**
 - An organization's distinctive competitive edge.
- **Quality as a Competitive Advantage**
 - Differentiates the firm from its competitors.
 - Can create a sustainable competitive advantage.
 - Represents the company's focus on quality management to achieve continuous improvement and meet customers' demand for quality.

The Role of Competitive Advantage (cont'd)

- Sustainable Competitive Advantage
 - Continuing over time to effectively exploit resources and develop core competencies that enable an organization to keep its edge over its industry competitors.



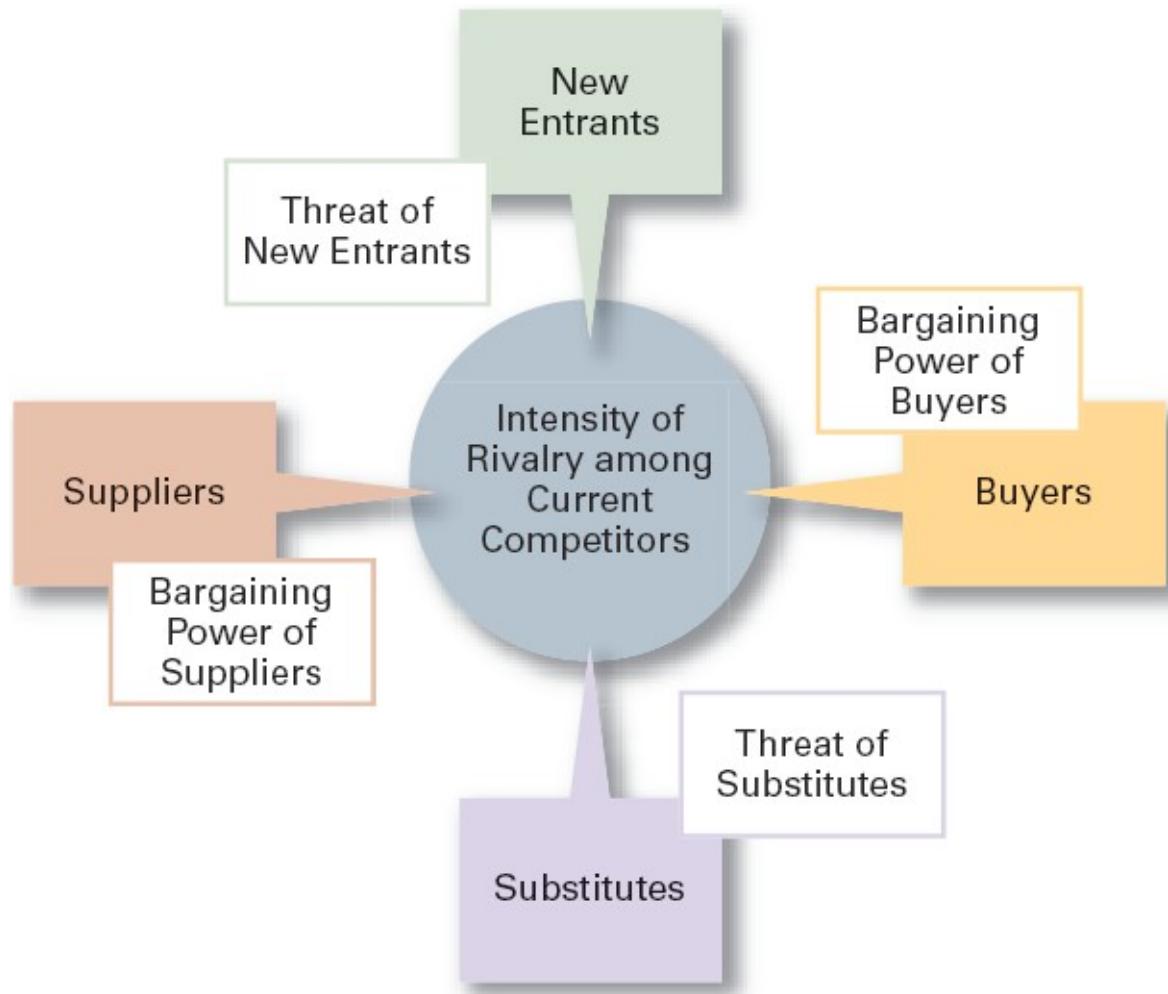
Five Competitive Forces

- Threat of New Entrants
 - The ease or difficulty with which new competitors can enter an industry.
- Threat of Substitutes
 - The extent to which switching costs and brand loyalty affect the likelihood of customers adopting substitutes products and services.
- Bargaining Power of Buyers
 - The degree to which buyers have the market strength to hold sway over and influence competitors in an industry.

Five Competitive Forces

- **Bargaining Power of Suppliers**
 - The relative number of buyers to suppliers and threats from substitutes and new entrants affect the buyer-supplier relationship.
- **Current Rivalry**
 - Intensity among rivals increases when industry growth rates slow, demand falls, and product prices descend.

Exhibit 8–6 Forces in the Industry Analysis



Source: Based on M.E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York: The Free Press, 1980).

Types of Competitive Strategies

- **Cost Leadership Strategy**
 - Seeking to attain the lowest total overall costs relative to other industry competitors.
- **Differentiation Strategy**
 - Attempting to create a unique and distinctive product or service for which customers will pay a premium.
- **Focus Strategy**
 - Using a cost or differentiation advantage to exploit a particular market segment rather a larger market.

The Rule of Three

- Similar to Porter's generic competitive strategies
 - The competitive forces in an industry will create a situation where three companies (full-line generalists) will dominate a market.
 - Some firms in the market become “super niche players” and while others end up as “ditch dwellers.”
 - Firms unable to develop either a cost or differentiation advantage become “stuck in the middle” and lack prospects for long-term success.
 - A few firms successfully pursue both differentiation and cost advantages.

Strategic Management Today

- **Strategic Flexibility**
- **New Directions in Organizational Strategies**
 - e-business
 - customer service
 - innovation

Exhibit 8–7 Creating Strategic Flexibility

- Know what's happening with strategies currently being used by *monitoring and measuring results*.
- Encourage employees to *be open about disclosing and sharing negative information*.
- *Get new ideas and perspectives from outside the organization.*
- Have *multiple alternatives* when making strategic decisions.
- *Learn from mistakes.*

Source: Based on K. Shimizu and M. A. Hitt, "Strategic Flexibility: Organizational Preparedness to Reverse Ineffective Strategic Decisions," *Academy of Management Executive*, November 2004, pp. 44–59.

How the Internet Has Changed Business

- **The Internet allows businesses to:**
 - Create knowledge bases that employees can tap into anytime, anywhere.
 - Turn customers into collaborative partners who help design, test, and launch new products.
 - Become virtually paperless in specific tasks such as purchasing and filing expense reports.
 - Manage logistics in real time
 - Change the nature of work tasks throughout the organization.

Strategies for Applying e-Business Techniques

- **Cost Leadership**
 - On-line activities: bidding, order processing, inventory control, recruitment and hiring
- **Differentiation**
 - Internet-based knowledge systems, on-line ordering and customer support
- **Focus**
 - Chat rooms and discussion boards, targeted web sites

Customer Service Strategies

- Giving the customers what they want.
- Communicating effectively with them.
- Providing employees with customer service training.



Innovation Strategies

- Possible Events
 - Radical breakthroughs in products.
 - Application of existing technology to new uses.
- Strategic Decisions about Innovation
 - Basic research
 - Product development
 - Process innovation
- First Mover
 - An organization that brings a product innovation to market or use a new process innovations

Exhibit 8–8 First-Mover Advantages–Disadvantages

- **Advantages**

- Reputation for being innovative and industry leader
- Cost and learning benefits
- Control over scarce resources and keeping competitors from having access to them
- Opportunity to begin building customer relationships and customer loyalty

- **Disadvantages**

- Uncertainty over exact direction technology and market will go
- Risk of competitors imitating innovations
- Financial and strategic risks
- High development costs

Terms to Know

- strategic management
- strategies
- business model
- strategic management process
- mission
- opportunities
- threats
- resources
- capabilities
- core competencies
- strengths
- weaknesses
- SWOT analysis
- corporate strategy
- growth strategy
- related diversification
- unrelated diversification
- stability strategy
- renewal strategy
- retrenchment strategy
- turnaround strategy
- BCG matrix
- business or competitive strategy
- strategic business units
- competitive advantage

Terms to Know (cont'd)

- **cost leadership strategy**
- **differentiation strategy**
- **focus strategy**
- **stuck in the middle**
- **functional strategies**
- **strategic flexibility**
- **first mover**



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Chapter
9

Planning Tools and Techniques

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Techniques for Assessing the Environment

- List the different approaches to assess the environment.
- Explain what competitor intelligence is and ways that managers can do it legally and ethically.
- Describe how managers can improve the effectiveness of forecasting.
- List the steps in the benchmarking process.

Techniques for Allocating Resources

- List the four techniques for allocating resources.
- Describe the different types of budgets.
- Explain what a Gantt chart and a load chart do.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Techniques for Allocating Resources (cont'd)

- Describe how PERT network analysis works.
- Understand how to compute a breakeven point.
- Describe how managers can use linear programming.

Contemporary Planning Techniques

- Explain why flexibility is so important to today's planning techniques.
- Describe project management.
- List the steps in the project planning process.
- Discuss why scenario planning is an important planning tool.

Assessing the Environment

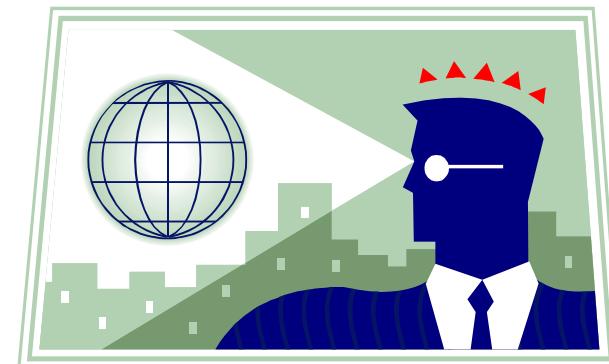
- Environmental Scanning
 - The screening of large amounts of information to anticipate and interpret change in the environment.
 - Competitor Intelligence
 - ❖ The process of gathering information about competitors— who they are; what they are doing
 - Is not spying but rather careful attention to readily accessible information from employees, customers, suppliers, the Internet, and competitors themselves.
 - ❖ May involve *reverse engineering* of competing products to discover technical innovations.

Assessing the Environment (cont'd)

- Environmental Scanning (cont'd)

- Global Scanning

- ❖ Screening a broad scope of information on global forces that might affect the organization.
 - ❖ Has value to firms with significant global interests.
 - ❖ Draws information from sources that provide global perspectives on world-wide issues and opportunities.



Assessing the Environment (cont'd)

- **Forecasting**

➤ The part of organizational planning that involves creating predictions of outcomes based on information gathered by environmental scanning.

- ❖ Facilitates managerial decision making.
- ❖ Is most accurate in stable environments.



Assessing the Environment (cont'd)

- Forecasting Techniques
 - Quantitative forecasting
 - ❖ Applying a set of mathematical rules to a series of hard data to predict outcomes (e.g., units to be produced).
 - Qualitative forecasting
 - ❖ Using expert judgments and opinions to predict less than precise outcomes (e.g., direction of the economy).
- Collaborative Planning, Forecasting, and Replenishment (CPFR) Software
 - A standardized way for organizations to use the Internet to exchange data.



Exhibit 9–1 Forecasting Techniques

- **Quantitative**
 - Time series analysis
 - Regression models
 - Econometric models
 - Economic indicators
 - Substitution effect
- **Qualitative**
 - Jury of opinion
 - Sales force composition
 - Customer evaluation



Making Forecasting More Effective

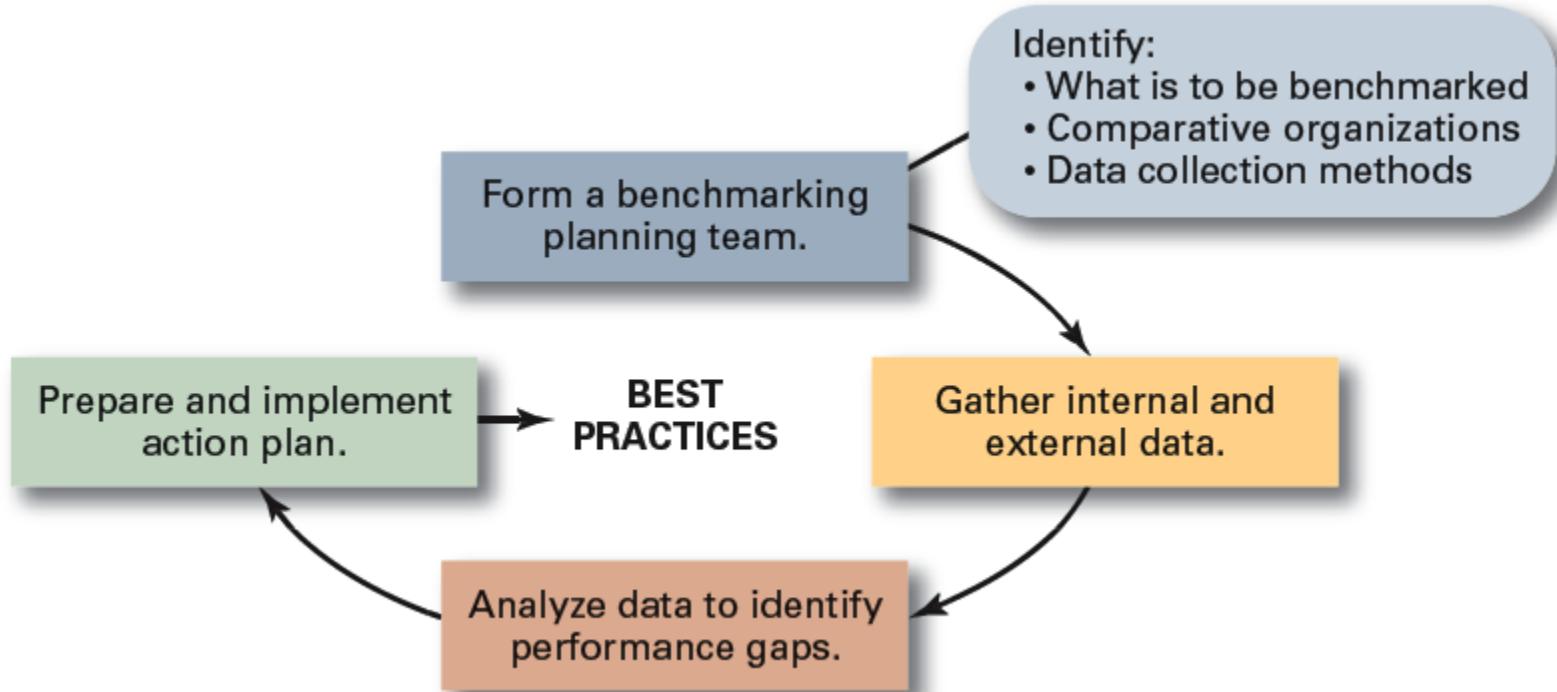
1. Use simple forecasting methods.
2. Compare each forecast with its corresponding “no change” forecast.
3. Don’t rely on a single forecasting method.
4. Don’t assume that the turning points in a trend can be accurately identified.
5. Shorten the time period covered by a forecast.
6. Remember that forecasting is a developed managerial skill that supports decision making.

Benchmarking

- The search for the best practices among competitors and noncompetitors that lead to their superior performance.
- By analyzing and copying these practices, firms can improve their performance.



Exhibit 9–2 Steps in Benchmarking



Source: Based on Y.K. Shetty, "Aiming High: Competitive Benchmarking for Superior Performance," *Long Range Planning*, February 1993, p. 42.

Allocating Resources

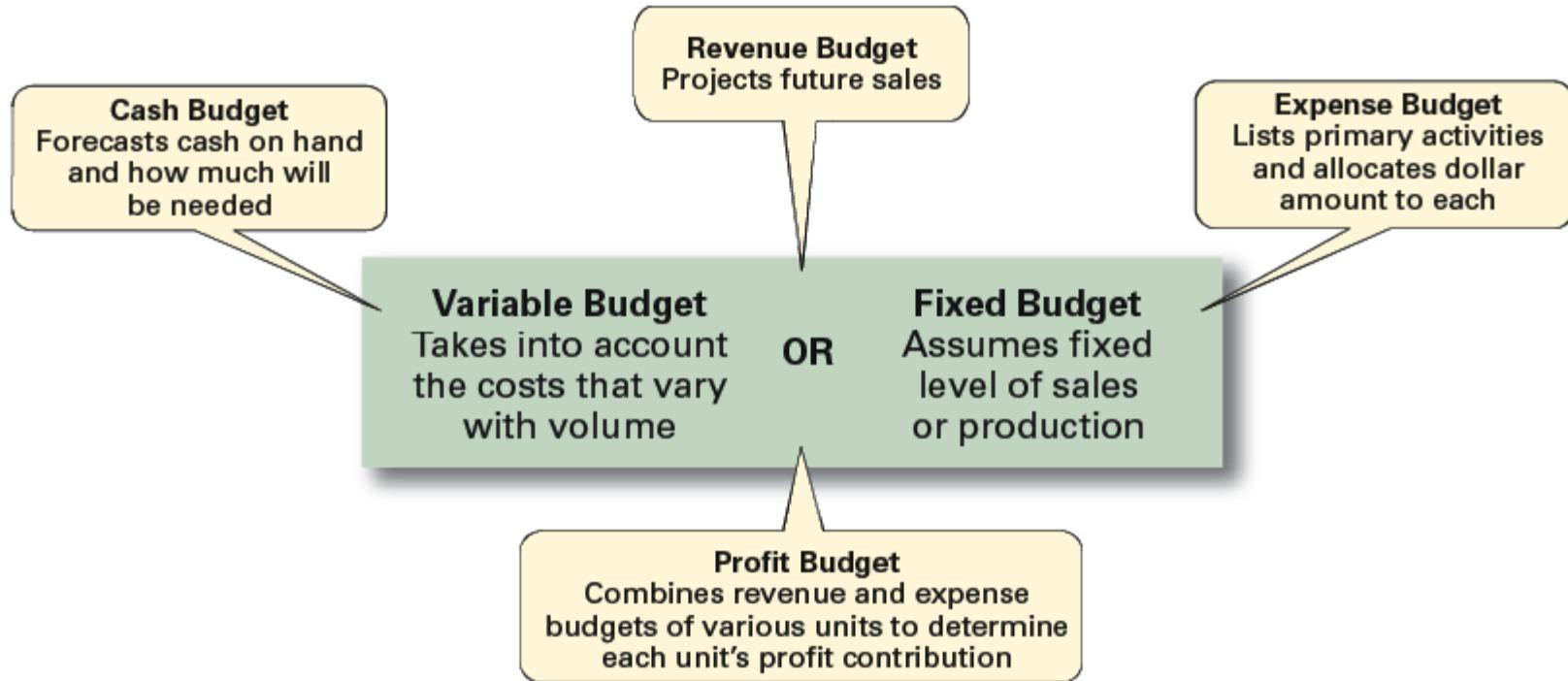
- **Types of Resources**
 - The assets of the organization
 - ❖ **Financial:** debt, equity, and retained earnings
 - ❖ **Physical:** buildings, equipment, and raw materials
 - ❖ **Human:** experiences, skills, knowledge, and competencies
 - ❖ **Intangible:** brand names, patents, reputation, trademarks, copyrights, and databases

Allocating Resources: Budgeting

- **Budgets**
 - Are numerical plans for allocating resources (e.g., revenues, expenses, and capital expenditures).
 - Are used to improve time, space, and use of material resources.
 - Are the most commonly used and most widely applicable planning technique for organizations.



Exhibit 9–3 Types of Budgets



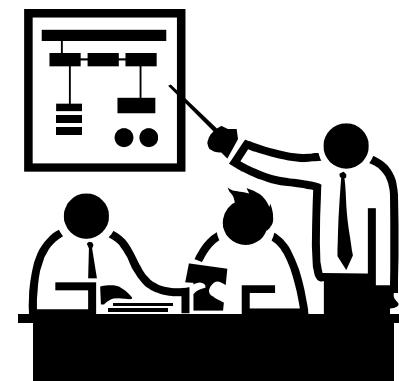
Source: Based on R.S. Russell and B.W. Taylor III. *Production and Operations Management* (Upper Saddle River, NJ: Prentice Hall, 1995), p. 287.

Exhibit 9–4 Suggestions for Improving Budgeting

- **Collaborate and communicate.**
- **Be flexible.**
- **Goals should drive budgets—budgets should not determine goals.**
- **Coordinate budgeting throughout the organization.**
- **Use budgeting/planning software when appropriate.**
- **Remember that budgets are tools.**
- **Remember that profits result from smart management, not because you budgeted for them.**

Allocating Resources: Scheduling

- **Schedules**
 - Plans that allocate resources by detailing what activities have to be done, the order in which they are to be completed, who is to do each, and when they are to be completed.
 - Represent the coordination of various activities.



Allocating Resources: Charting

- **Gantt Chart**
 - A bar graph with time on the horizontal axis and activities to be accomplished on the vertical axis.
 - Shows the expected and actual progress of various tasks.
- **Load Chart**
 - A modified Gantt chart that lists entire departments or specific resources on the vertical axis.
 - Allows managers to plan and control capacity utilization.

Exhibit 9–5 A Gantt Chart

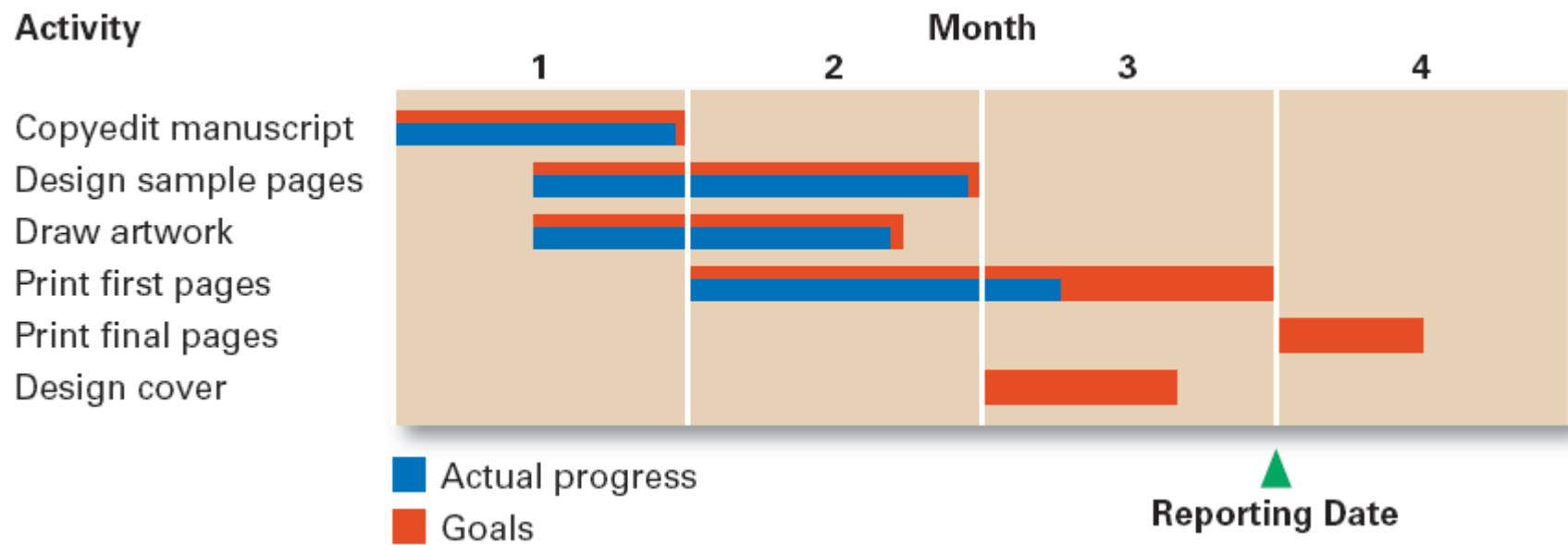
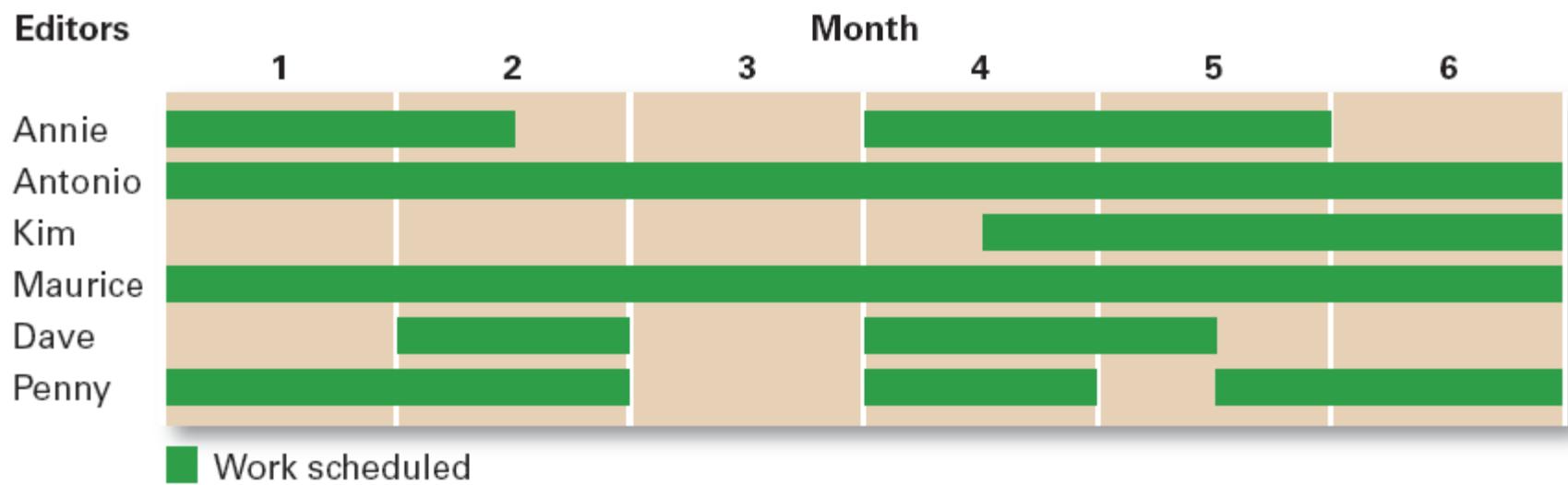


Exhibit 9–6 A Load Chart



Allocating Resources: Analysis

- Program Evaluation and Review Technique (PERT)
 - A flow chart diagram that depicts the sequence of activities needed to complete a project and the time or costs associated with each activity.
 - ❖ Events: endpoints for completion.
 - ❖ Activities: time required for each activity.
 - ❖ Slack time: the time that a completed activity waits for another activity to finish so that the next activity, which depends on the completion of both activities, can start.
 - ❖ Critical path: the path (ordering) of activities that allows all tasks to be completed with the least slack time.

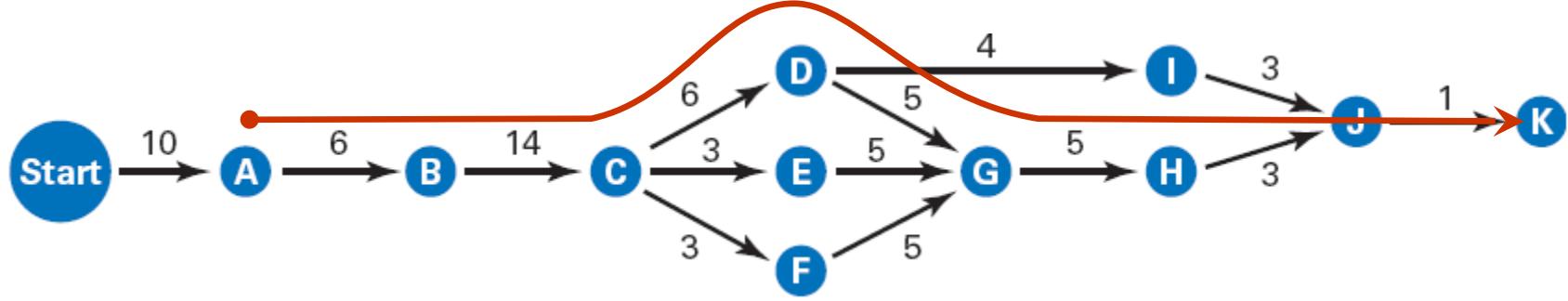
Exhibit 9–7 Steps in Developing a PERT Network

- 1. Identify every significant activity that must be achieved for a project to be completed.**
- 2. Determine the order in which these events must be completed.**
- 3. Diagram the flow of activities from start to finish, identifying each activity and its relationship to all other activities.**
- 4. Compute a time estimate for completing each activity.**
- 5. Using the network diagram that contains time estimates for each activity, determine a schedule for the start and finish dates of each activity and for the entire project.**

Exhibit 9–8 Events and Activities in Constructing an Office Building

Event	Description	Expected Time (in weeks)	Preceding Event
A	Approve design and get permits.	10	None
B	Dig subterranean garage.	6	A
C	Erect frame and siding.	14	B
D	Construct floor.	6	C
E	Install windows.	3	C
F	Put on roof	3	C
G	Install internal wiring	5	D.E.F.
H	Install elevator	5	G
I	Put in floor covering and paneling.	4	D
J	Put in doors and interior decorative trim.	3	I.H
K	Turn over to building management group.	1	J

Exhibit 9–9 A Visual PERT Network for Constructing an Office Building



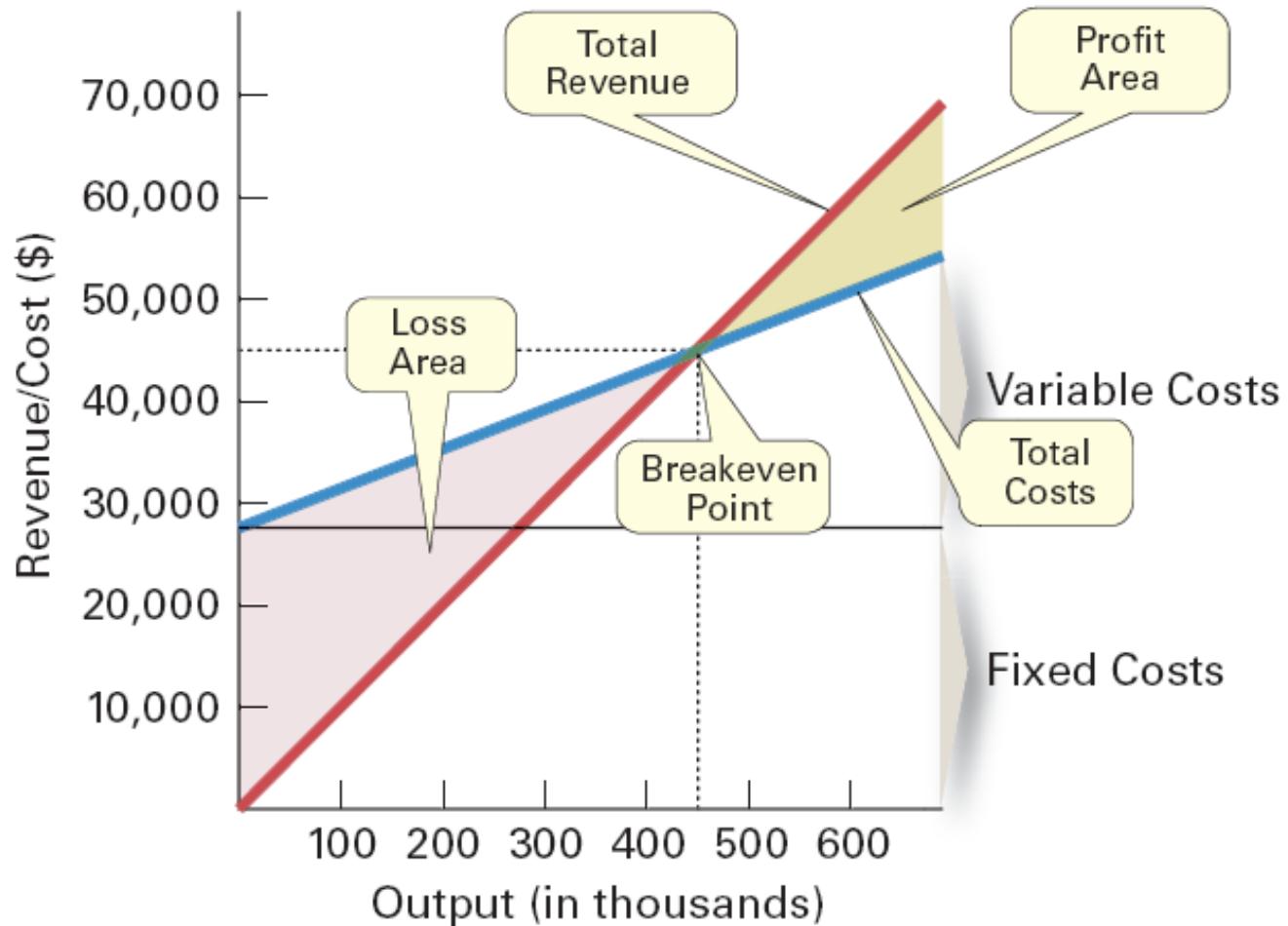
Critical Path: A - B - C - D - G - H - J - K

Allocating Resources: Analysis (cont'd)

- **Breakeven Analysis**
 - Is used to determine the point at which all fixed costs have been recovered and profitability begins.
 - ❖ Fixed cost (FC)
 - ❖ Variable costs (VC)
 - ❖ Total Fixed Costs (TFC)
 - ❖ Price (P)
- **The Break-even Formula:**

$$\text{Breakeven : } \frac{\text{Total Fixed Costs}}{\text{Unit Price} - \text{Unit Variable Costs}}$$

Exhibit 9–10 Breakeven Analysis



Allocating Resources: Analysis (cont'd)

- **Linear Programming**

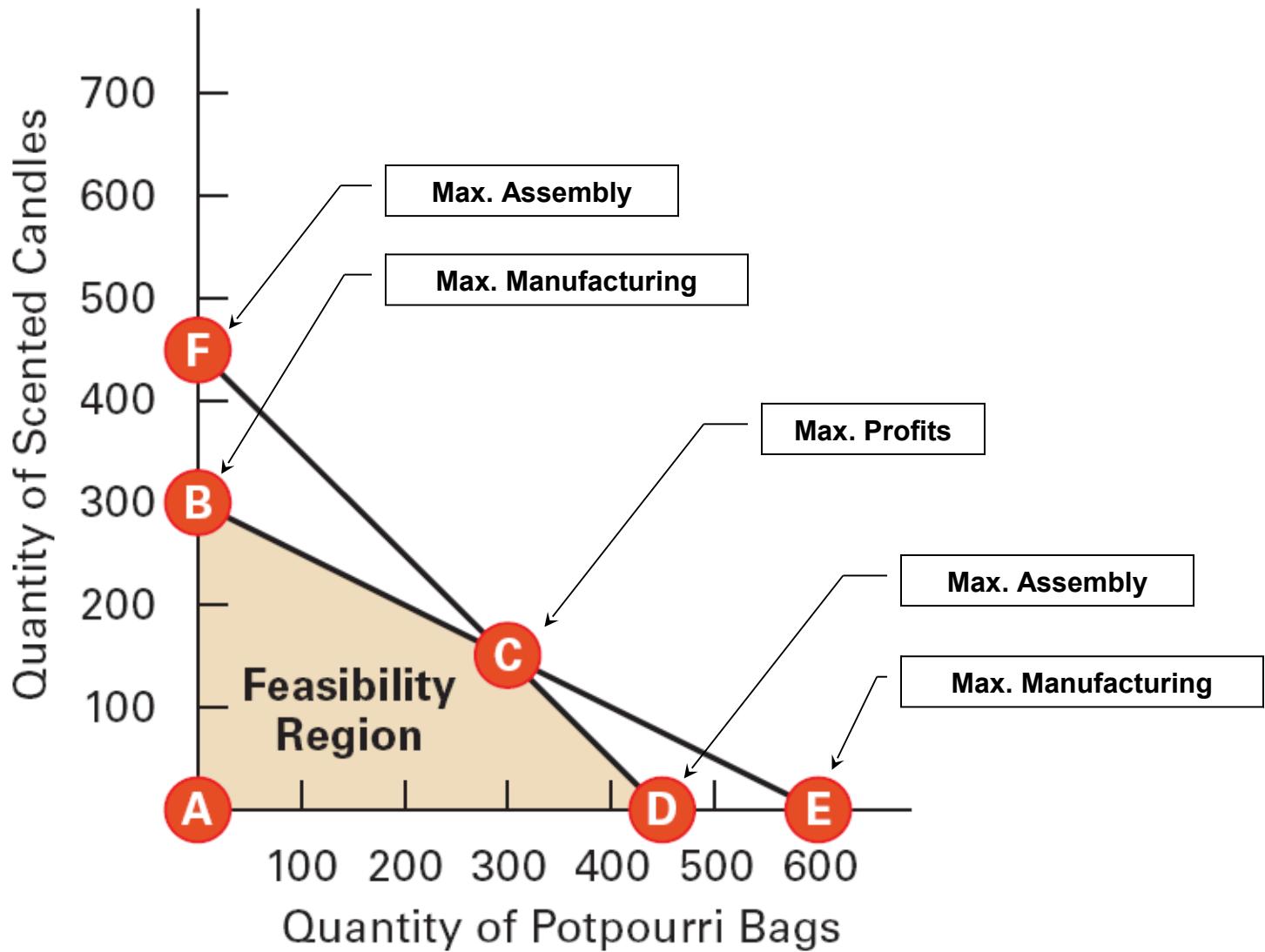
- A technique that seeks to solve resource allocation problems using the proportional relationships between two variables.



Exhibit 9–11 Production Data for Cinnamon-Scented Products

Department	Number of Hours Required (per unit)			Monthly Production Capacity (in hours)
	Potpourri Bags	Scented Candles		
Manufacturing	2	4		1,200
Assembly	2	2		900
Profit per unit	\$10	\$18		

Exhibit 9–12 Graphical Solution to Linear Programming Problem



Contemporary Planning Techniques

- **Project**
 - A one-time-only set of activities that has a definite beginning and ending point time.
- **Project Management**
 - The task of getting a project's activities done on time, within budget, and according to specifications.
 - ❖ Define project goals
 - ❖ Identify all required activities, materials, and labor
 - ❖ Determine the sequence of completion

Exhibit 9–13 Project Planning Process



Source: Based on R.S. Russell and B.W. Taylor III, *Production and Operations Management* (Upper Saddle River, NJ: Prentice Hall, 1995), p. 287.

Contemporary Planning Techniques (cont'd)

- **Scenario**
 - A consistent view of what the future is likely to be.
- **Scenario Planning**
 - An attempt not try to predict the future but to reduce uncertainty by playing out potential situations under different specified conditions.
- **Contingency Planning**
 - Developing scenarios that allow managers determine in advance what their actions should be should a considered event actually occur.

Exhibit 9–14 Preparing for Unexpected Events

- **Identify potential unexpected events.**
- **Determine if any of these events would have early indicators.**
- **Set up an information gathering system to identify early indicators.**
- **Have appropriate responses (plans) in place if these unexpected events occur.**

Terms to Know

- environmental scanning
- competitor intelligence
- forecasts
- quantitative forecasting
- qualitative forecasting
- benchmarking
- resources
- budget
- scheduling
- Gantt chart
- load chart
- PERT network
- events
- activities
- slack time
- critical path
- break-even analysis
- linear programming
- project
- project management
- scenario



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Chapter
10

Organizational Structure and Design

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Defining Organizational Structure

- Discuss the traditional and contemporary views of work specialization, chain of command, and span of control.
- Describe each of the five forms of departmentalization.
- Explain cross-functional teams.
- Differentiate, authority, responsibility, and unity of command.
- Tell what factors influence the amount of centralization and decentralization.
- Explain how formalization is used in organizational design.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Organizational Design Decisions

- Contrast mechanistic and organic organizations.
- Explain the relationship between strategy and structure.
- Tell how organizational size affects organizational design.
- Discuss Woodward's findings on the relationship of technology and structure.
- Explain how environmental uncertainty affects organizational design.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Common Organizational Designs

- Contrast the three traditional organizational designs.
- Explain team, matrix, and project structures.
- Describe the design of virtual and network organizations.
- Discuss the organizational design challenges facing managers today.

Defining Organizational Structure

- **Organizational Structure**
 - The formal arrangement of jobs within an organization.
- **Organizational Design**
 - A process involving decisions about six key elements:
 - ❖ Work specialization
 - ❖ Departmentalization
 - ❖ Chain of command
 - ❖ Span of control
 - ❖ Centralization and decentralization
 - ❖ Formalization

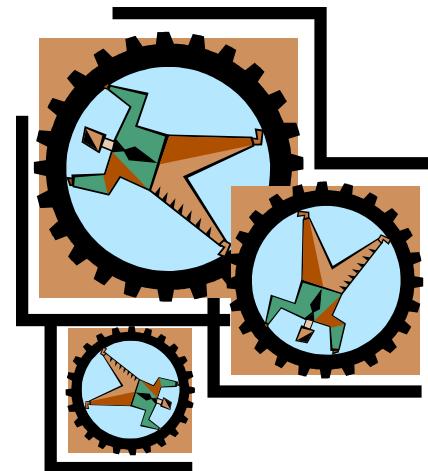
Exhibit 10–1 Purposes of Organizing

- Divides work to be done into specific jobs and departments.
- Assigns tasks and responsibilities associated with individual jobs.
- Coordinates diverse organizational tasks.
- Clusters jobs into units.
- Establishes relationships among individuals, groups, and departments.
- Establishes formal lines of authority.
- Allocates and deploys organizational resources.

Organizational Structure

- **Work Specialization**

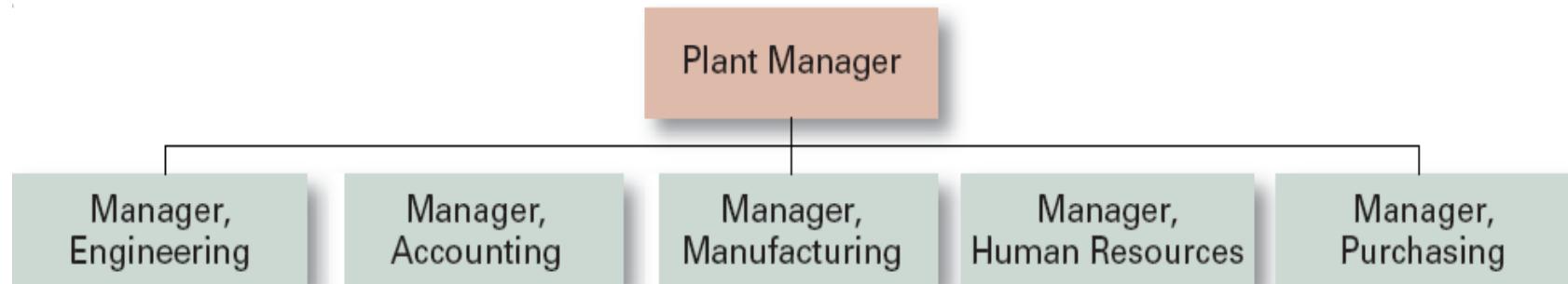
- The degree to which tasks in the organization are divided into separate jobs with each step completed by a different person.
- Overspecialization can result in human diseconomies from boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover.



Departmentalization by Type

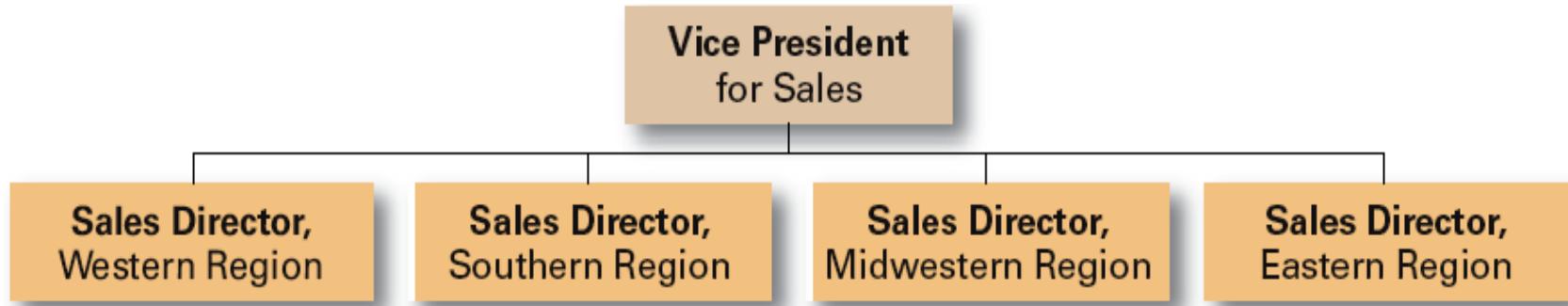
- **Functional**
 - Grouping jobs by functions performed
- **Product**
 - Grouping jobs by product line
- **Geographical**
 - Grouping jobs on the basis of territory or geography
- **Process**
 - Grouping jobs on the basis of product or customer flow
- **Customer**
 - Grouping jobs by type of customer and needs

Exhibit 10–2 Functional Departmentalization



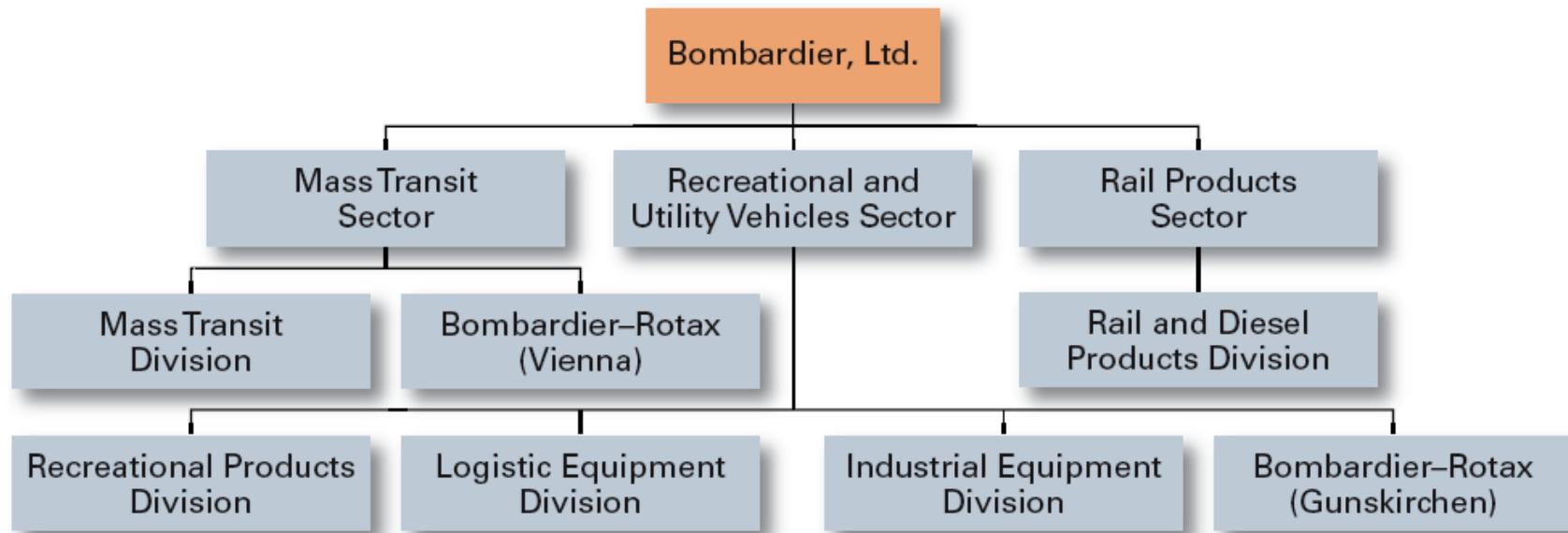
- **Advantages**
 - Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations
 - Coordination within functional area
 - In-depth specialization
- **Disadvantages**
 - Poor communication across functional areas
 - Limited view of organizational goals

Exhibit 10–2 (cont'd) Geographical Departmentalization



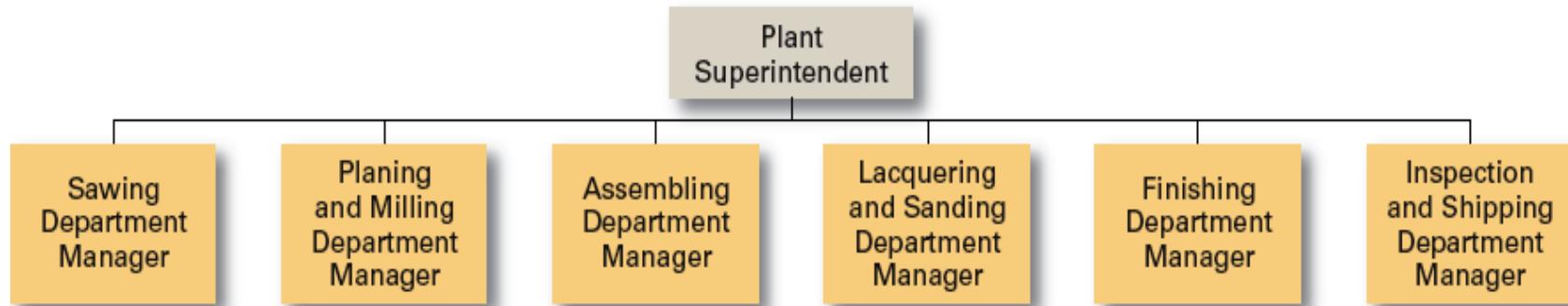
- **Advantages**
 - More effective and efficient handling of specific regional issues that arise
 - Serve needs of unique geographic markets better
- **Disadvantages**
 - Duplication of functions
 - Can feel isolated from other organizational areas

Exhibit 10–2 (cont'd) Product Departmentalization



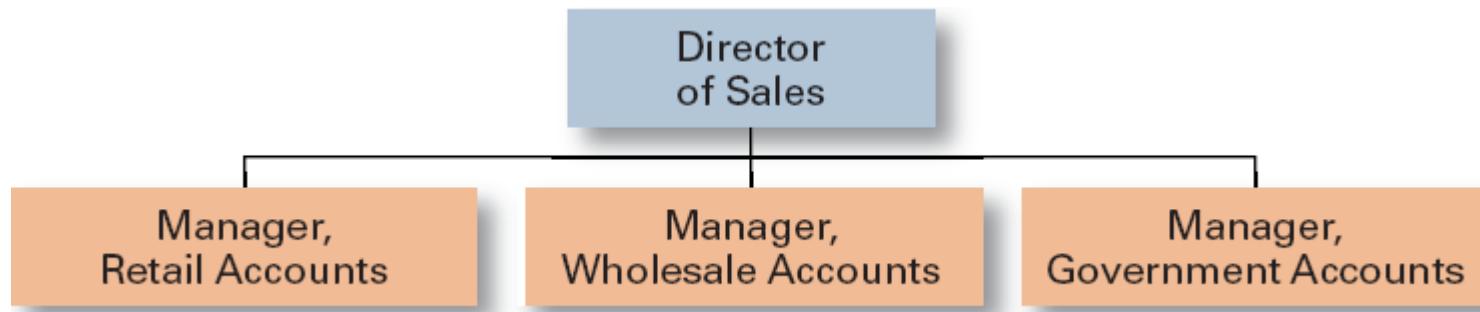
- + Allows specialization in particular products and services
- + Managers can become experts in their industry
- + Closer to customers
- Duplication of functions
- Limited view of organizational goals

Exhibit 10–2 (cont'd) Process Departmentalization



- + More efficient flow of work activities
- Can only be used with certain types of products

Exhibit 10–2 (cont'd) Customer Departmentalization



- + Customers' needs and problems can be met by specialists
- Duplication of functions
- Limited view of organizational goals

Organization Structure (cont'd)

- **Chain of Command**

- The continuous line of authority that extends from upper levels of an organization to the lowest levels of the organization and clarifies who reports to who.



Organization Structure (cont'd)

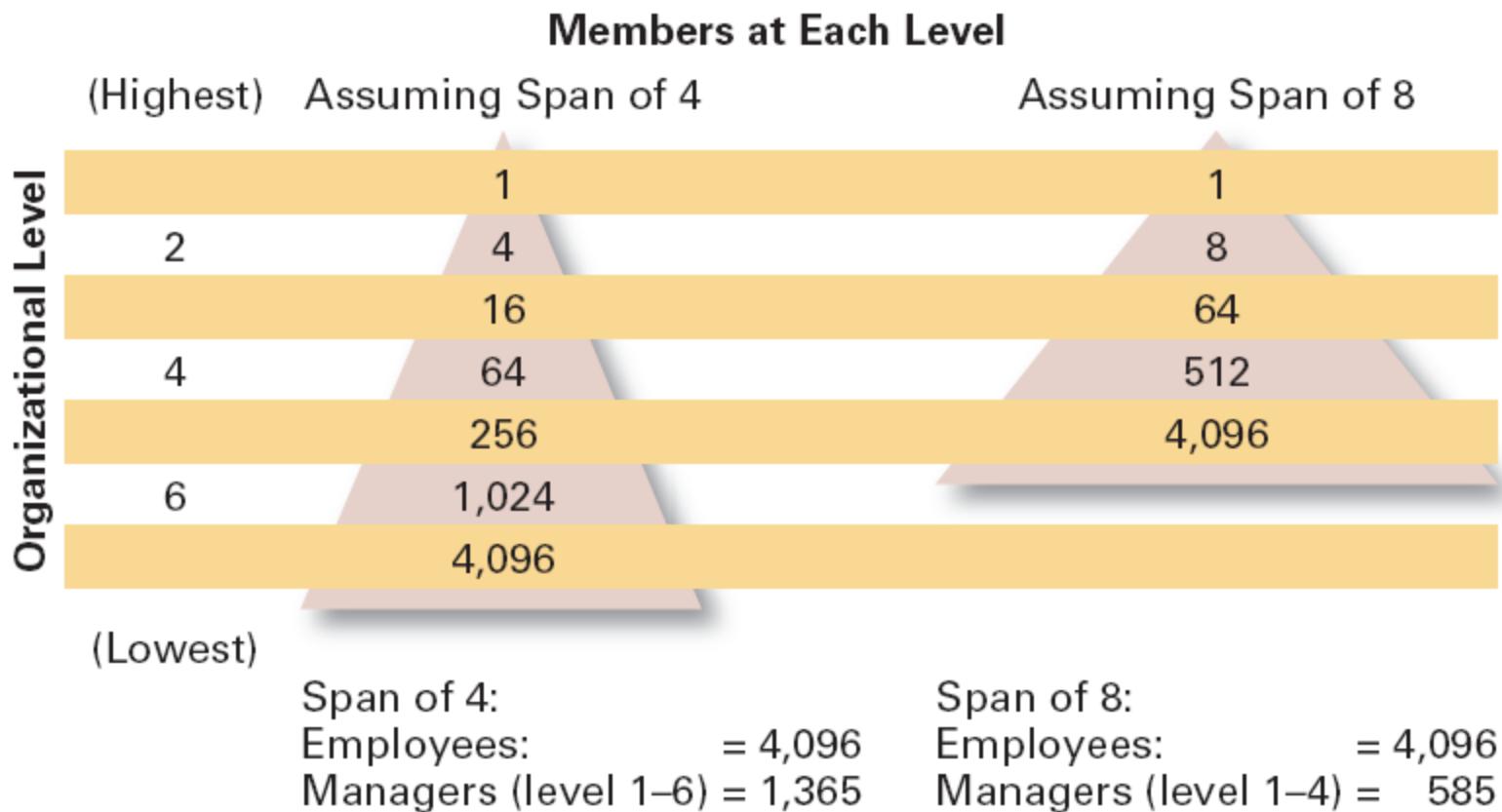
- **Authority**
 - The rights inherent in a managerial position to tell people what to do and to expect them to do it.
- **Responsibility**
 - The obligation or expectation to perform.
- **Unity of Command**
 - The concept that a person should have one boss and should report only to that person.

Organization Structure (cont'd)

- **Span of Control**

- The number of employees who can be effectively and efficiently supervised by a manager.
- Width of span is affected by:
 - ❖ Skills and abilities of the manager
 - ❖ Employee characteristics
 - ❖ Characteristics of the work being done
 - ❖ Similarity of tasks
 - ❖ Complexity of tasks
 - ❖ Physical proximity of subordinates
 - ❖ Standardization of tasks

Exhibit 10–3 Contrasting Spans of Control



Organization Structure (cont'd)

- **Centralization**
 - The degree to which decision-making is concentrated at a single point in the organizations.
 - ❖ Organizations in which top managers make all the decisions and lower-level employees simply carry out those orders.
- **Decentralization**
 - Organizations in which decision-making is pushed down to the managers who are closest to the action.
- **Employee Empowerment**
 - Increasing the decision-making authority (power) of employees.

Exhibit 10–4 Factors that Influence the Amount of Centralization

- **More Centralization**

- Environment is stable.
- Lower-level managers are not as capable or experienced at making decisions as upper-level managers.
- Lower-level managers do not want to have a say in decisions.
- Decisions are relatively minor.
- Organization is facing a crisis or the risk of company failure.
- Company is large.
- Effective implementation of company strategies depends on managers retaining say over what happens.

Exhibit 10–4 (cont'd) Factors that Influence the Amount of Centralization

- **More Decentralization**

- Environment is complex, uncertain.
- Lower-level managers are capable and experienced at making decisions.
- Lower-level managers want a voice in decisions.
- Decisions are significant.
- Corporate culture is open to allowing managers to have a say in what happens.
- Company is geographically dispersed.
- Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

Organization Structure (cont'd)

- **Formalization**

- The degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures.
 - ❖ Highly formalized jobs offer little discretion over what is to be done.
 - ❖ Low formalization means fewer constraints on how employees do their work.

Organizational Design Decisions

- Mechanistic Organization
 - A rigid and tightly controlled structure
 - ❖ High specialization
 - ❖ Rigid departmentalization
 - ❖ Narrow spans of control
 - ❖ High formalization
 - ❖ Limited information network (downward)
 - ❖ Low decision participation
- Organic Organization
 - Highly flexible and adaptable structure
 - ❖ Non-standardized jobs
 - ❖ Fluid team-based structure
 - ❖ Little direct supervision
 - ❖ Minimal formal rules
 - ❖ Open communication network
 - ❖ Empowered employees

Exhibit 10–5 Mechanistic versus Organic Organization

Mechanistic

- High specialization
- Rigid departmentalization
- Clear chain of command
- Narrow spans of control
- Centralization
- High formalization

Organic

- Cross-functional teams
- Cross-hierarchical teams
- Free flow of information
- Wide spans of control
- Decentralization
- Low formalization

Contingency Factors

- Structural decisions are influenced by:
 - Overall strategy of the organization
 - ❖ Organizational structure follows strategy.
 - Size of the organization
 - ❖ Firms change from organic to mechanistic organizations as they grow in size.
 - Technology use by the organization
 - ❖ Firms adapt their structure to the technology they use.
 - Degree of environmental uncertainty
 - ❖ Dynamic environments require organic structures; mechanistic structures need stable environments.

Contingency Factors (cont'd)

- **Strategy Frameworks:**

- **Innovation**

- ❖ Pursuing competitive advantage through meaningful and unique innovations favors an organic structuring.

- **Cost minimization**

- ❖ Focusing on tightly controlling costs requires a mechanistic structure for the organization.

- **Imitation**

- ❖ Minimizing risks and maximizing profitability by copying market leaders requires both organic and mechanistic elements in the organization's structure.

Contingency Factors (cont'd)

- **Strategy and Structure**

- Achievement of strategic goals is facilitated by changes in organizational structure that accommodate and support change.

- **Size and Structure**

- As an organization grows larger, its structure tends to change from organic to mechanistic with increased specialization, departmentalization, centralization, and rules and regulations.

Contingency Factors (cont'd)

- Technology and Structure
 - Organizations adapt their structures to their technology.
 - Woodward's classification of firms based on the complexity of the technology employed:
 - ❖ Unit production of single units or small batches
 - ❖ Mass production of large batches of output
 - ❖ Process production in continuous process of outputs
 - Routine technology = mechanistic organizations
 - Non-routine technology = organic organizations

Exhibit 10–6 Woodward's Findings on Technology, Structure, and Effectiveness

	Unit Production	Mass Production	Process Production
Structural characteristics	Low vertical differentiation Low horizontal differentiation Low formalization	Moderate vertical differentiation High horizontal differentiation High formalization	High vertical differentiation Low horizontal differentiation Low formalization
Most effective structure	Organic	Mechanistic	Organic

Contingency Factors (cont'd)

- Environmental Uncertainty and Structure
 - Mechanistic organizational structures tend to be most effective in stable and simple environments.
 - The flexibility of organic organizational structures is better suited for dynamic and complex environments.



Common Organizational Designs

- Traditional Designs
 - Simple structure
 - ❖ Low departmentalization, wide spans of control, centralized authority, little formalization
 - Functional structure
 - ❖ Departmentalization by function
 - Operations, finance, human resources, and product research and development
 - Divisional structure
 - ❖ Composed of separate business units or divisions with limited autonomy under the coordination and control the parent corporation.

Exhibit 10–7 Strengths and Weaknesses of Traditional Organizational Designs

Simple Structure

Strengths: Fast; flexible; inexpensive to maintain; clear accountability.

Weaknesses: Not appropriate as organization grows; reliance on one person is risky.

Functional Structure

Strengths: Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment) and employees are grouped with others who have similar tasks.

Weaknesses: Pursuit of functional goals can cause managers to lose sight of what's best for overall organization; functional specialists become insulated and have little understanding of what other units are doing.

Divisional Structure

Strengths: Focuses on results—division managers are responsible for what happens to their products and services.

Weaknesses: Duplication of activities and resources increases costs and reduces efficiency.

Exhibit 10–8 Contemporary Organizational Designs

Team Structure

- **What it is:** A structure in which the entire organization is made up of work groups or teams.
- **Advantages:** Employees are more involved and empowered. Reduced barriers among functional areas.
- **Disadvantages:** No clear chain of command. Pressure on teams to perform.

Matrix-Project Structure

- What it is:** A structure that assigns specialists from different functional areas to work on projects but who return to their areas when the project is completed. Project is a structure in which employees continuously work on projects. As one project is completed, employees move on to the next project.
- **Advantages:** Fluid and flexible design that can respond to environmental changes. Faster decision making.
 - **Disadvantages:** Complexity of assigning people to projects. Task and personality conflicts.

Exhibit 10–8 (cont'd) Contemporary Organizational Designs

Boundaryless Structure

- What it is:** A structure that is not defined by or limited to artificial horizontal, vertical, or external boundaries; includes virtual and network types of organizations.
- **Advantages:** Highly flexible and responsive. Draws on talent wherever it's found..
 - **Disadvantages:** Lack of control. Communication difficulties..

Organizational Designs (cont'd)

- Contemporary Organizational Designs

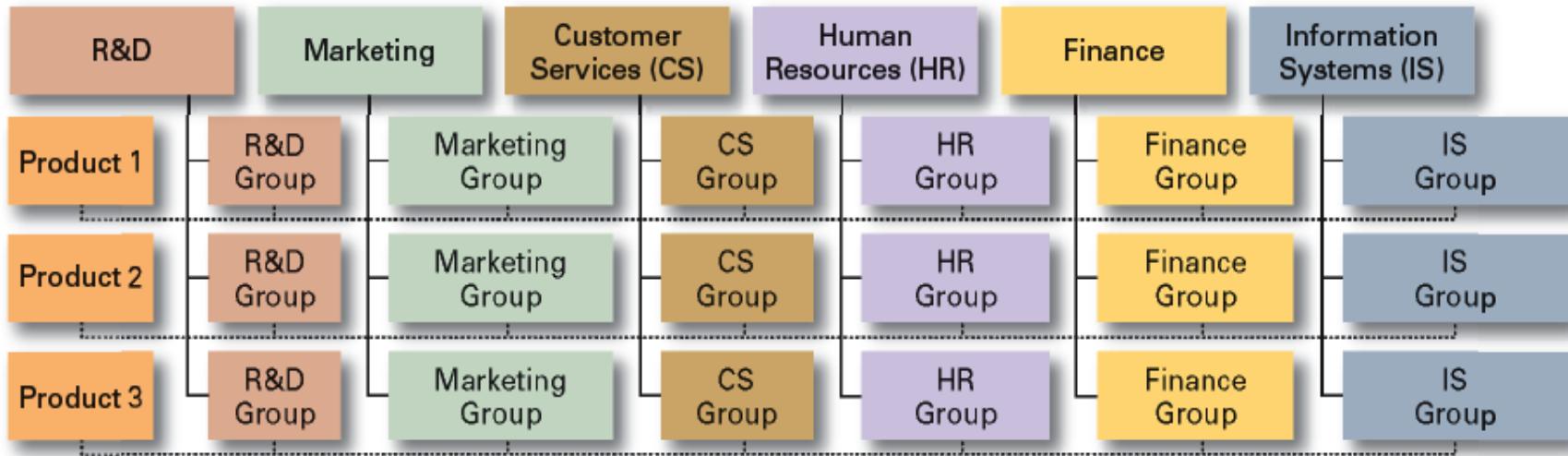
- Team structures

- ❖ The entire organization is made up of work groups or self-managed teams of empowered employees.

- Matrix and project structures

- ❖ Specialists from different functional departments are assigned to work on projects led by project managers.
 - ❖ Matrix and project participants have two managers.
 - ❖ In project structures, employees work continuously on projects; moving on to another project as each project is completed.

Exhibit 10–9 An Example of a Matrix Organization



Organizational Designs (cont'd)

- Contemporary Organizational Designs (cont'd)

- Boundaryless Organization

- ❖ An flexible and unstructured organizational design that is intended to break down external barriers between the organization and its customers and suppliers.
 - ❖ Removes internal (horizontal) boundaries:
 - Eliminates the chain of command
 - Has limitless spans of control
 - Uses empowered teams rather than departments
 - ❖ Eliminates external boundaries:
 - Uses virtual, network, and modular organizational structures to get closer to stakeholders.

Removing External Boundaries

- **Virtual Organization**

- An organization that consists of a small core of full-time employees and that temporarily hires specialists to work on opportunities that arise.

- **Network Organization**

- A small core organization that outsources its major business functions (e.g., manufacturing) in order to concentrate what it does best.

- **Modular Organization**

- A manufacturing organization that uses outside suppliers to provide product components for its final assembly operations.

Today's Organizational Design Challenges

- **Keeping Employees Connected**
 - Widely dispersed and mobile employees
- **Building a Learning Organization**
- **Managing Global Structural Issues**
 - Cultural implications of design elements

Organizational Designs (cont'd)

- **The Learning Organization**

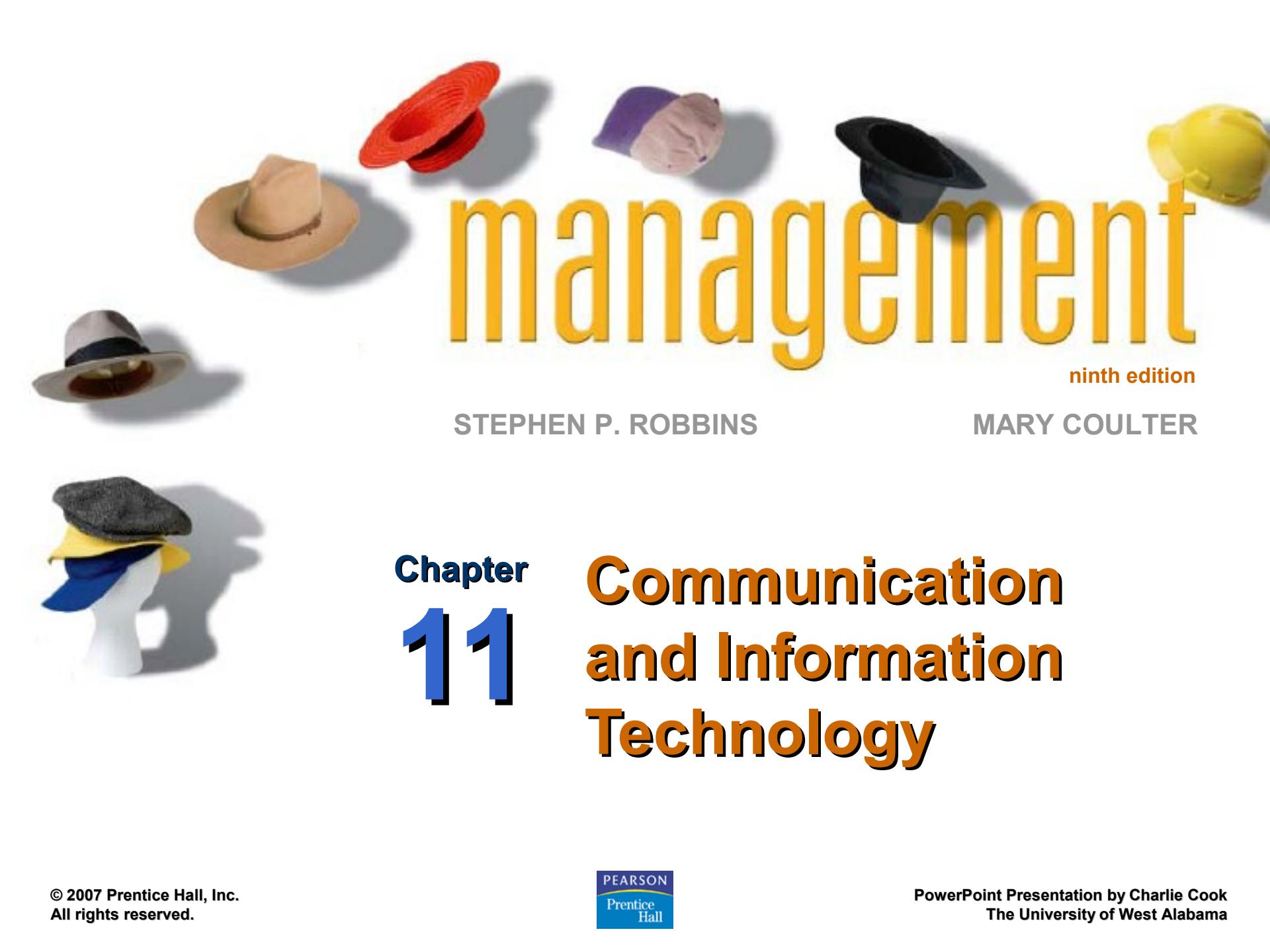
- An organization that has developed the capacity to continuously learn, adapt, and change through the practice of knowledge management by employees.
- Characteristics of a learning organization:
 - ❖ An open team-based organization design that empowers employees
 - ❖ Extensive and open information sharing
 - ❖ Leadership that provides a shared vision of the organization's future, support and encouragement
 - ❖ A strong culture of shared values, trust, openness, and a sense of community.

Terms to Know

- organizing
- organizational structure
- organizational design
- work specialization
- departmentalization
- functional departmentalization
- product departmentalization
- geographical departmentalization
- process departmentalization
- customer departmentalization
- cross-functional teams
- chain of command
- authority
- responsibility
- unity of command
- span of control
- centralization
- decentralization
- employee empowerment
- formalization
- mechanistic organization
- organic organization
- unit production
- mass production
- process production
- simple structure
- functional structure

Terms to Know

- divisional structure
- team structure
- matrix structure
- project structure
- boundaryless organization
- virtual organization
- network organization
- learning organization
- organizational chart



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Chapter
11

Communication and Information Technology

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Understanding Communications

- Differentiate between interpersonal and organizational communication.
- Discuss the functions of communication.

The Process of Interpersonal Communications

- Explain all the components of the communication process.
- List the communication methods managers might use.
- Describe nonverbal communication and how it takes place.
- Explain the barriers to effective interpersonal communication and how to overcome them.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Organizational Communication

- Explain how communication can flow in an organization.
- Describe the three common communication networks.
- Discuss how managers should handle the grapevine.

Understanding Information Technology

- Describe how technology affects managerial communication.
- Define e-mail, instant messaging, blogs and wikis, voice-mail, fax, EDI, teleconferencing, videoconferencing, web conferencing, intranet, and extranet.
- Explain how information technology affects organizations.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

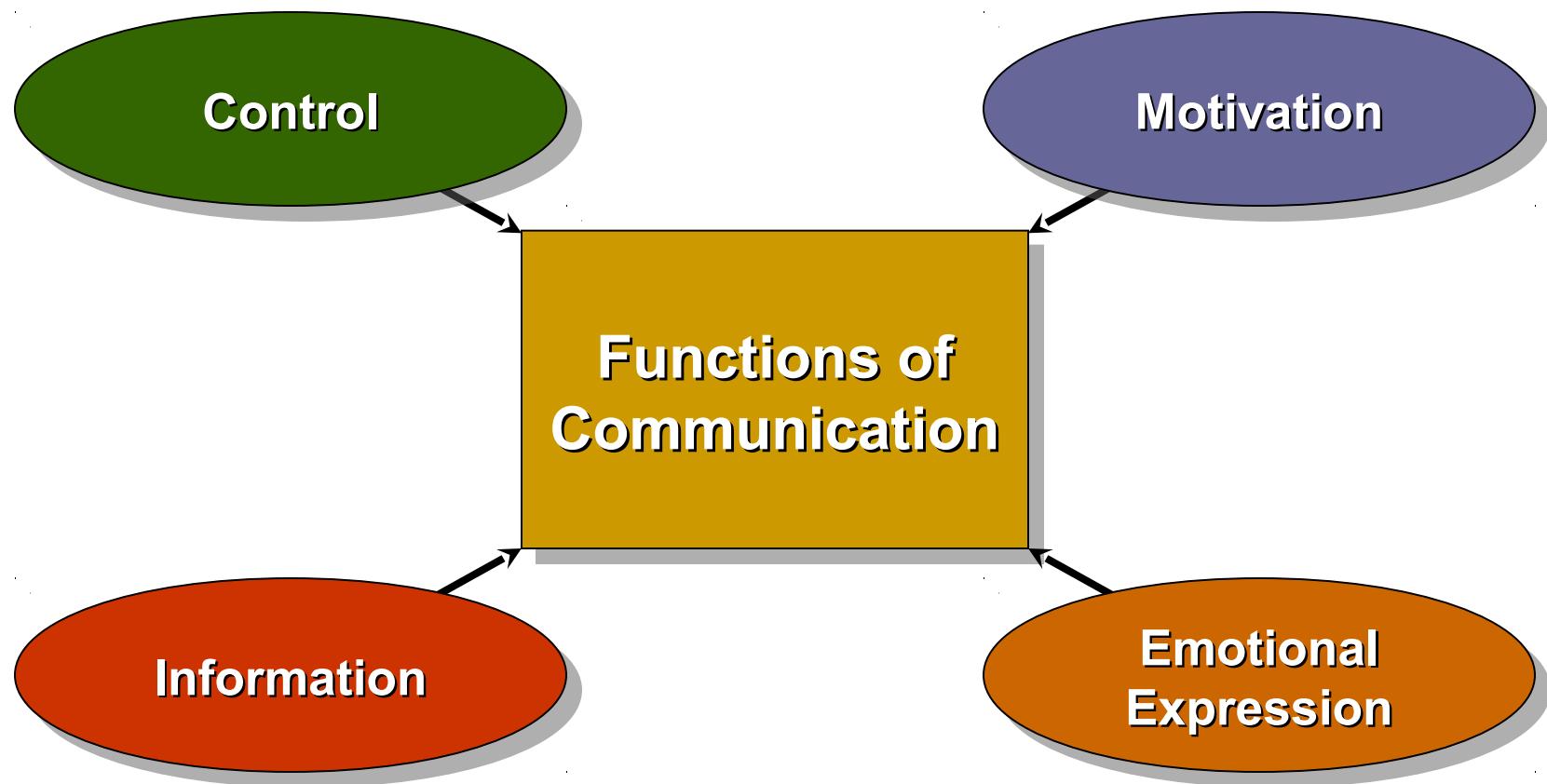
Communication Issues in Today's Organization

- Discuss the challenges of managing communication in an Internet world.
- Explain how organizations can manage knowledge.
- Explain why communicating with customers is an important managerial issue.
- Explain how political correctness is affecting communication.

What Is Communication?

- **Communication**
 - The transfer and understanding of meaning.
 - ❖ Transfer means the message was received in a form that can be interpreted by the receiver.
 - ❖ Understanding the message is not the same as the receiver agreeing with the message.
 - Interpersonal Communication
 - ❖ Communication between two or more people
 - Organizational Communication
 - ❖ All the patterns, network, and systems of communications within an organization

Four Functions of Communication



Functions of Communication

- **Control**
 - Formal and informal communications act to control individuals' behaviors in organizations.
- **Motivation**
 - Communications clarify for employees what is to done, how well they have done it, and what can be done to improve performance.

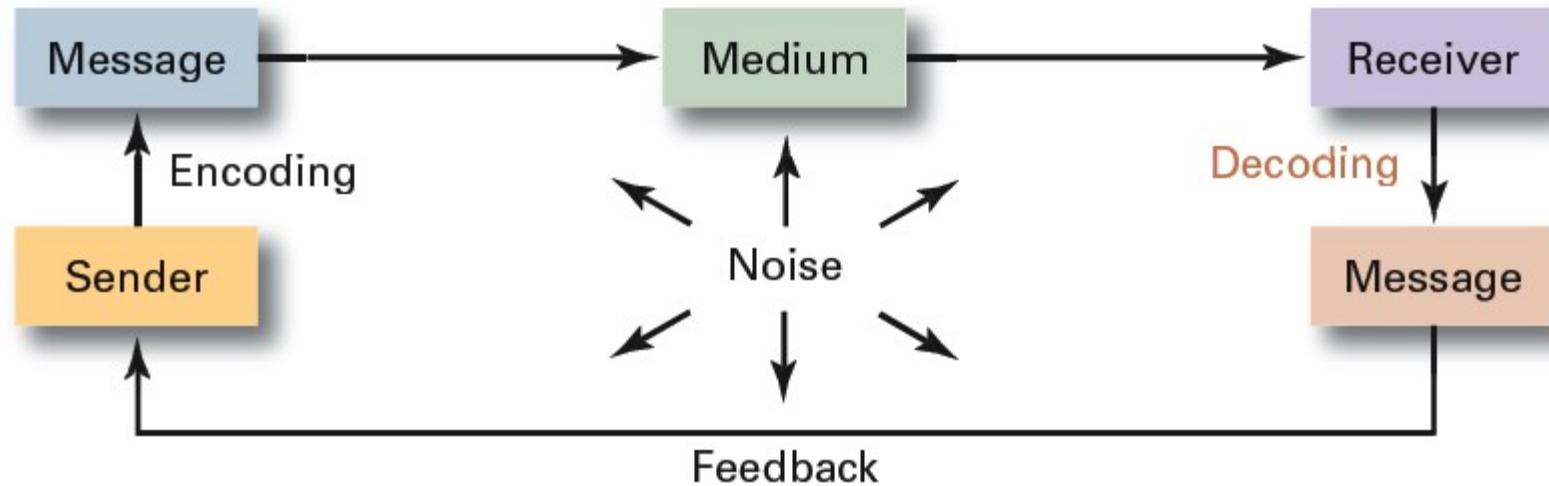
Functions of Communication (cont'd)

- **Emotional Expression**
 - Social interaction in the form of work group communications provides a way for employees to express themselves.
- **Information**
 - Individuals and work groups need information to make decisions or to do their work.

Interpersonal Communication

- **Message**
 - Source: sender's intended meaning
- **Encoding**
 - The message converted to symbolic form
- **Channel**
 - The medium through which the message travels
- **Decoding**
 - The receiver's retranslation of the message
- **Noise**
 - Disturbances that interfere with communications

Exhibit 11–1 The Interpersonal Communication Process



Distortions in Communications

- **Message Encoding**

- The effect of the skills, attitudes, and knowledge of the sender on the process of encoding the message
- The social-cultural system of the sender

- **The Message**

- Symbols used to convey the message's meaning
- The content of the message itself
- The choice of message format
- Noise interfering with the message

Distortions in Communications (cont'd)

- **The Channel**
 - The sender's choice of the appropriate channel or multiple channels for conveying the message
- **Receiver**
 - The effect of skills, attitudes, and knowledge of the receiver on the process of decoding the message
 - The social-cultural system of the receiver
- **Feedback Loop**
 - Communication channel distortions affecting the return message from receiver to sender

Interpersonal Communication Methods

- Face-to-face
- Telephone
- Group meetings
- Formal presentations
- Memos
- Traditional Mail
- Fax machines
- Employee publications
- Bulletin boards
- Audio- and videotapes
- Hotlines
- E-mail
- Computer conferencing
- Voice mail
- Teleconferences
- Videoconferences



Evaluating Communication Methods

- Feedback
- Complexity capacity
- Breadth potential
- Confidentiality
- Encoding ease
- Decoding ease
- Time-space constraint
- Cost
- Interpersonal warmth
- Formality
- Scanability
- Time consumption

Exhibit 11–2 Comparison of Communication Methods

Channel	Criteria											
	Feedback Potential	Complexity Capacity	Breadth Potential	Confidentiality	Encoding Ease	Time-Decoding Ease	Space Constraint	Cost	Personal Warmth	Formality	Scannability	Consumption Time
Face-to-face	1	1	1	1	1	1	1	2	1	4	4	S/R
Telephone	1	4	2	2	1	1	3	3	2	4	4	S/R
Group meetings	2	2	2	4	2	2	1	1	2	3	4	S/R
Formal presentations	4	2	2	4	3	2	1	1	3	3	5	Sender
Memos	4	4	2	3	4	3	5	3	5	2	1	Receiver
Postal mail	5	3	3	2	4	3	5	3	4	1	1	Receiver
Fax	3	4	2	4	3	3	5	3	3	3	1	Receiver
Publications	5	4	2	5	5	3	5	2	4	1	1	Receiver
Bulletin boards	4	5	1	5	3	2	2	4	5	3	1	Receiver
Audio/videotapes	4	4	3	5	4	2	3	2	3	3	5	Receiver
Hot lines	2	5	2	2	3	1	4	2	3	3	4	Receiver
E-mail	3	4	1	2	3	2	4	2	4	3	4	Receiver
Computer conference	1	2	2	4	3	2	3	2	3	3	4	S/R
Voice mail	2	4	2	1	2	1	5	3	2	4	4	Receiver
Teleconference	2	3	2	5	2	2	2	2	3	3	5	S/R
Videoconference	3	3	2	4	2	2	2	1	2	3	5	S/R

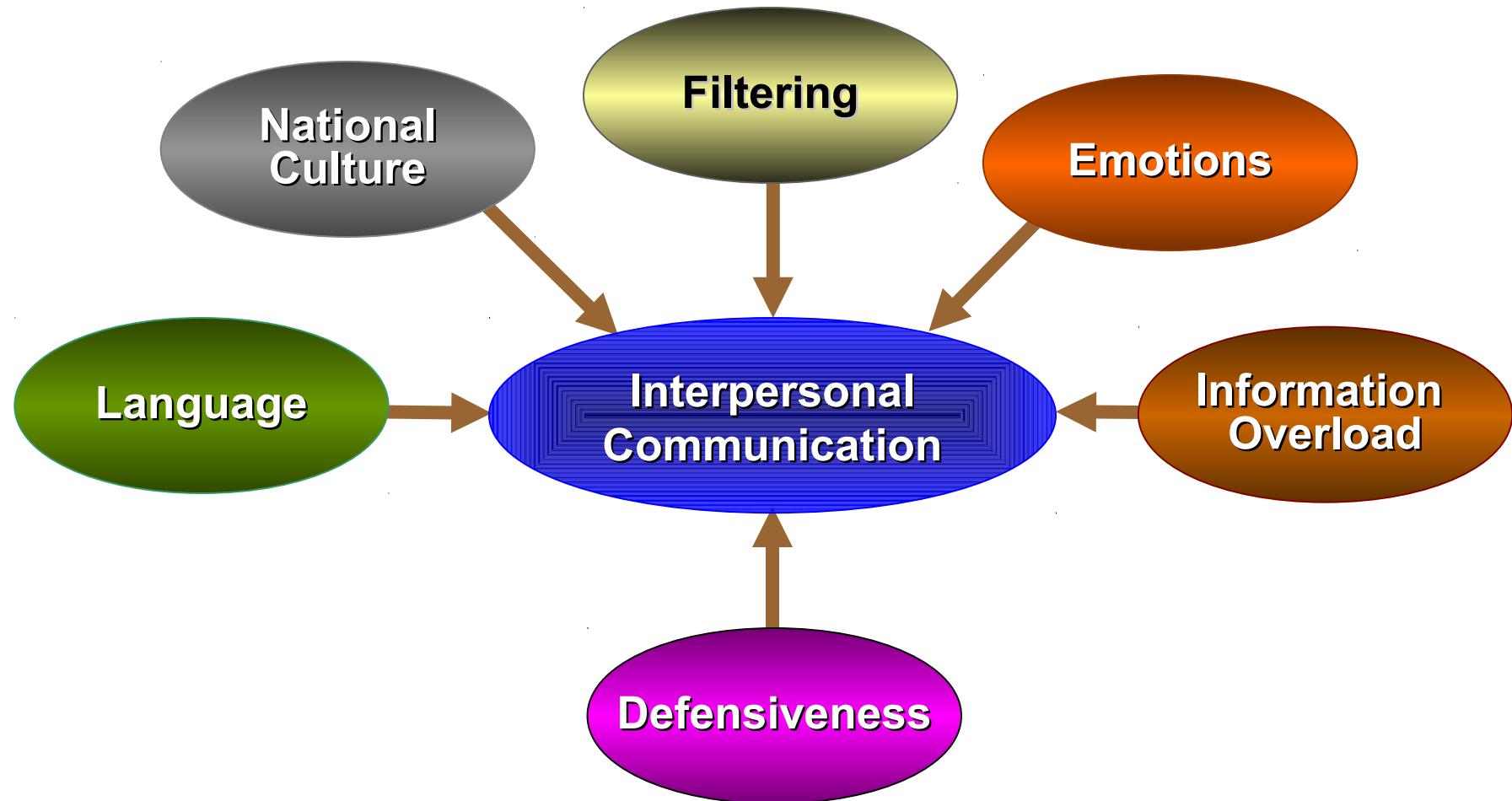
Note: Ratings are on a 1–5 scale where 1 = high and 5 = low. Consumption time refers to who controls the reception of communication. S/R means the sender and receiver share control.

Source: P. G. Clampitt, *Communicating for Managerial Effectiveness* (Newbury Park, CA: Sage Publications, 1991), p. 136.

Interpersonal Communication (cont'd)

- **Nonverbal Communication**
 - **Communication that is transmitted without words.**
 - ❖ **Sounds** with specific meanings or warnings
 - ❖ **Images** that control or encourage behaviors
 - ❖ **Situational behaviors** that convey meanings
 - ❖ **Clothing and physical surroundings** that imply status
 - **Body language:** gestures, facial expressions, and other body movements that convey meaning.
 - **Verbal intonation:** emphasis that a speaker gives to certain words or phrases that conveys meaning.

Interpersonal Communication Barriers



Barriers to Effective Interpersonal Communication

- **Filtering**
 - The deliberate manipulation of information to make it appear more favorable to the receiver.
- **Emotions**
 - Disregarding rational and objective thinking processes and substituting emotional judgments when interpreting messages.
- **Information Overload**
 - Being confronted with a quantity of information that exceeds an individual's capacity to process it.

Barriers to Effective Interpersonal Communication (cont'd)

- **Defensiveness**
 - When threatened, reacting in a way that reduces the ability to achieve mutual understanding.
- **Language**
 - The different meanings of and specialized ways (jargon) in which senders use words can cause receivers to misinterpret their messages.
- **National Culture**
 - Culture influences the form, formality, openness, patterns and use of information in communications.

Overcoming the Barriers to Effective Interpersonal Communications



- Use Feedback
- Simplify Language
 - Listen Actively
- Constrain Emotions
- Watch Nonverbal Cues

Exhibit 11–3 Active Listening Behaviors



Source: Based on P.L. Hunsaker, *Training in Management Skills* (Upper Saddle River, NJ: Prentice Hall, 2001).

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Types of Organizational Communication

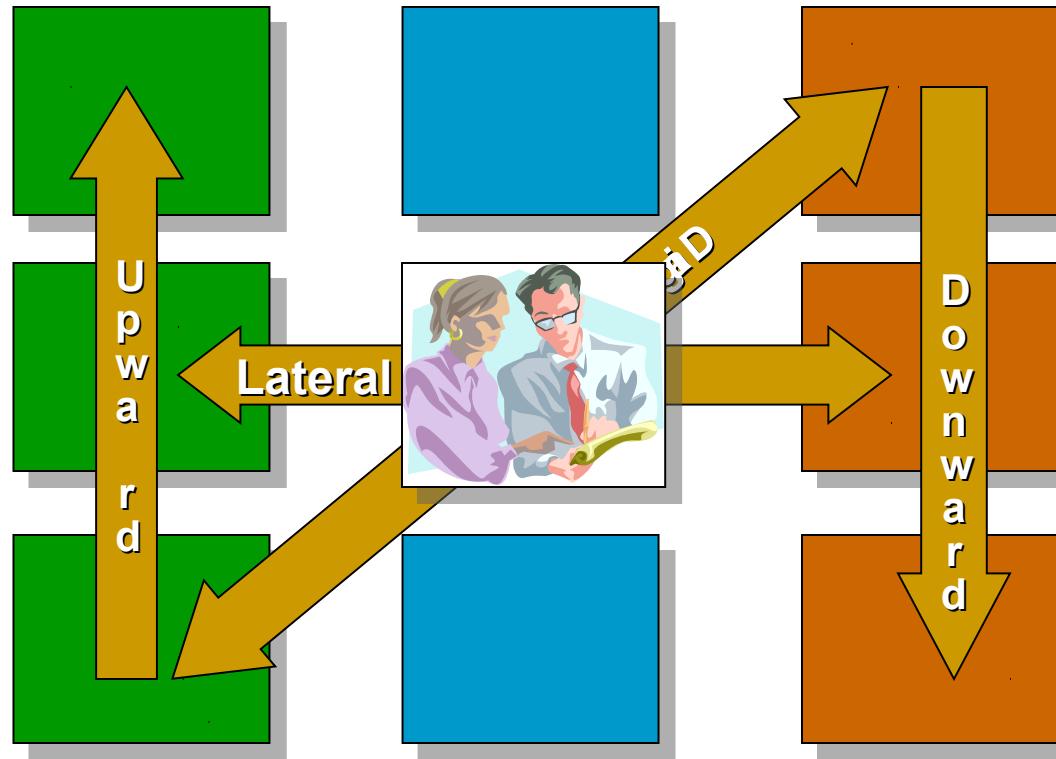
- **Formal Communication**

- Communication that follows the official chain of command or is part of the communication required to do one's job.

- **Informal Communication**

- Communication that is not defined by the organization's hierarchy.
 - ❖ Permits employees to satisfy their need for social interaction.
 - ❖ Can improve an organization's performance by creating faster and more effective channels of communication.

Communication Flows



Direction of Communication Flow

- **Downward**
 - Communications that flow from managers to employees to inform, direct, coordinate, and evaluate employees.
- **Upward**
 - Communications that flow from employees up to managers to keep them aware of employee needs and how things can be improved to create a climate of trust and respect.

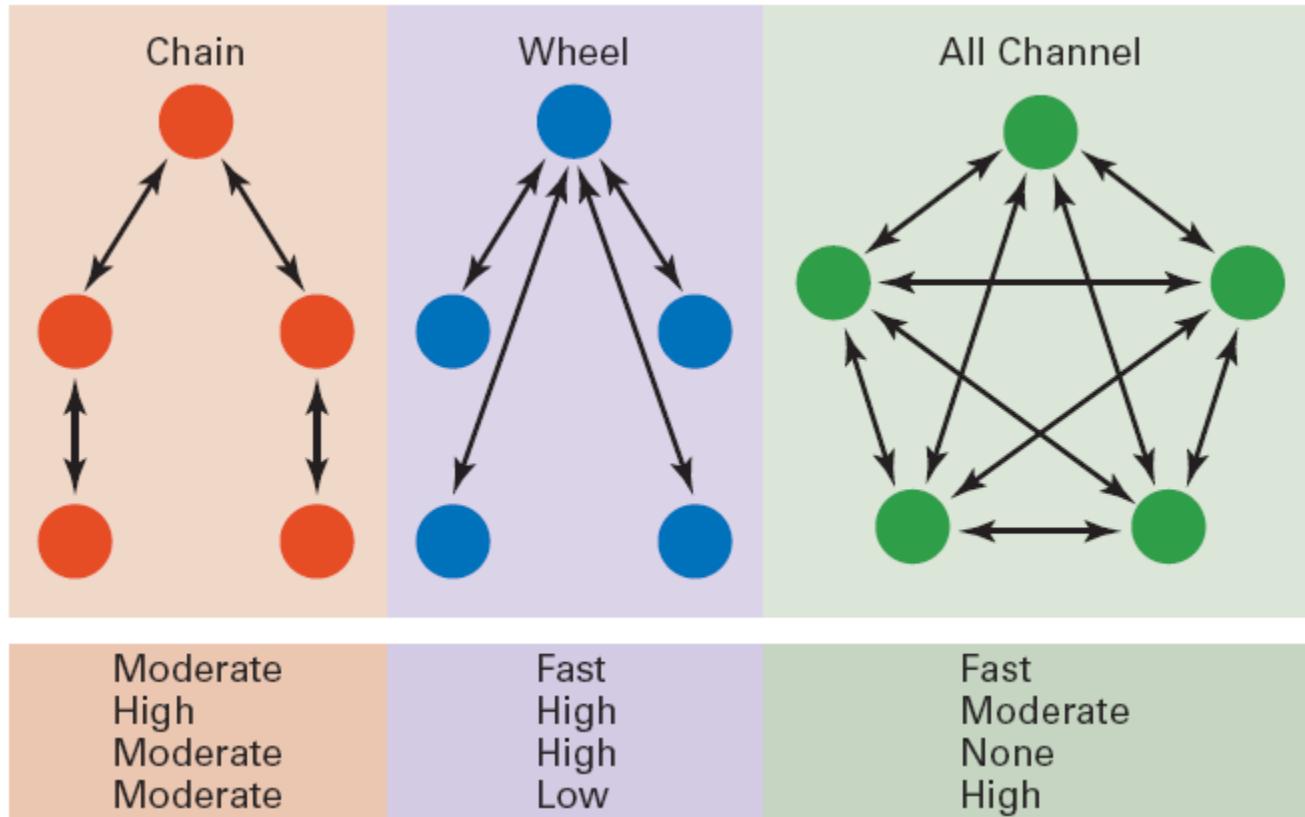
Direction of Communication Flow (cont'd)

- **Lateral (Horizontal) Communication**
 - Communication that takes place among employees on the same level in the organization to save time and facilitate coordination.
- **Diagonal Communication**
 - Communication that cuts across both work areas and organizational levels in the interest of efficiency and speed.

Types of Communication Networks

- **Chain Network**
 - Communication flows according to the formal chain of command, both upward and downward.
- **Wheel Network**
 - All communication flows in and out through the group leader (hub) to others in the group.
- **All-Channel Network**
 - Communications flow freely among all members of the work team.

Exhibit 11–4 Three Common Organizational Communication Networks and How They Rate on Effectiveness Criteria



The Grapevine

- An informal organizational communication network that is active in almost every organization.
 - Provides a channel for issues not suitable for formal communication channels.
 - The impact of information passed along the grapevine can be countered by open and honest communication with employees.



Understanding Information Technology

- Benefits of Information Technology (IT)

- Increased ability to monitor individual and team performance
- Better decision making based on more complete information
- More collaboration and sharing of information
- Greater accessibility to coworkers



Information Technology (cont'd)

- Networked Computer Systems
 - Linking individual computers to create an organizational network for communication and information sharing.
- E-mail
- Instant messaging (IM)
- Blogs
- Wikis
- Voice-mail
- Fax machines
- Electronic Data Exchange (EDI)
- Teleconferencing
- Videoconferencing
- Web conferencing



Information Technology (cont'd)

- **Types of Network Systems**

- **Intranet**

- ❖ An internal network that uses Internet technology and is accessible only to employees.

- **Extranet**

- ❖ An internal network that uses Internet technology and allows authorized users inside the organization to communicate with certain outsiders such as customers and vendors.

- **Wireless (WIFI) capabilities**

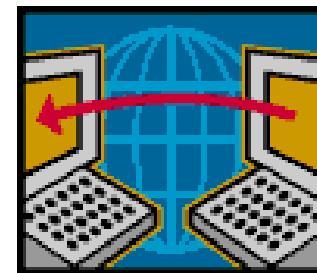


How IT Affects Organization

- **Removes the constraints of time and distance**
 - Allows widely dispersed employees to work together.
- **Provides for the sharing of information**
 - Increases effectiveness and efficiency.
- **Integrates decision making and work**
 - Provides more complete information and participation for better decisions.
- **Creates problems of constant accessibility to employees**
 - Blurs the line between work and personal lives.

Current Communication Issues

- Managing Communication in an Internet World
 - Legal and security issues
 - ❖ Inappropriate use of company e-mail and instant messaging
 - ❖ Loss of confidential and proprietary information due to inadvertent or deliberate dissemination or to hackers.
 - Lack of personal interaction
 - ❖ Being connected is not the same as face-to-face contact.
 - ❖ Difficulties occur in achieving understanding and collaboration in virtual environments.



Current Communication Issues

- Being connected versus being concerned
 - Managing Internet gripe sites as a valuable resource for unique insights into the organization.
 - ❖ Employee complaints (“hot-button” issues)
 - ❖ Customer complaints
 - Responding to Internet gripe sites
 - ❖ Recognized them as a valuable source of information.
 - ❖ Post messages that clarify misinformation.
 - ❖ Take action to correct problems noted on the site.
 - ❖ Set up an internal gripe site.
 - ❖ Continue to monitor the public gripe site.

Current Communication Issues (cont'd)

- Managing the Organization's Knowledge Resources
 - Build online information databases that employees can access.
 - Create "communities of practice" for groups of people who share a concern, share expertise, and interact with each other.



Communication and Customer Service

- **Communicating Effectively with Customers**
 - Recognize the three components of the customer service delivery process:
 - ❖ The customer
 - ❖ The service organization
 - ❖ The service provider
 - Develop a strong service culture focused on the personalization of service to each customer.
 - ❖ Listen and respond to the customer.
 - ❖ Provide access to needed service information.

“Politically Correct” Communication

- Do not use words or phrases that stereotype, intimidate, or offend individuals based on their differences.
- However, choose words carefully to maintain as much clarity as possible in communications.

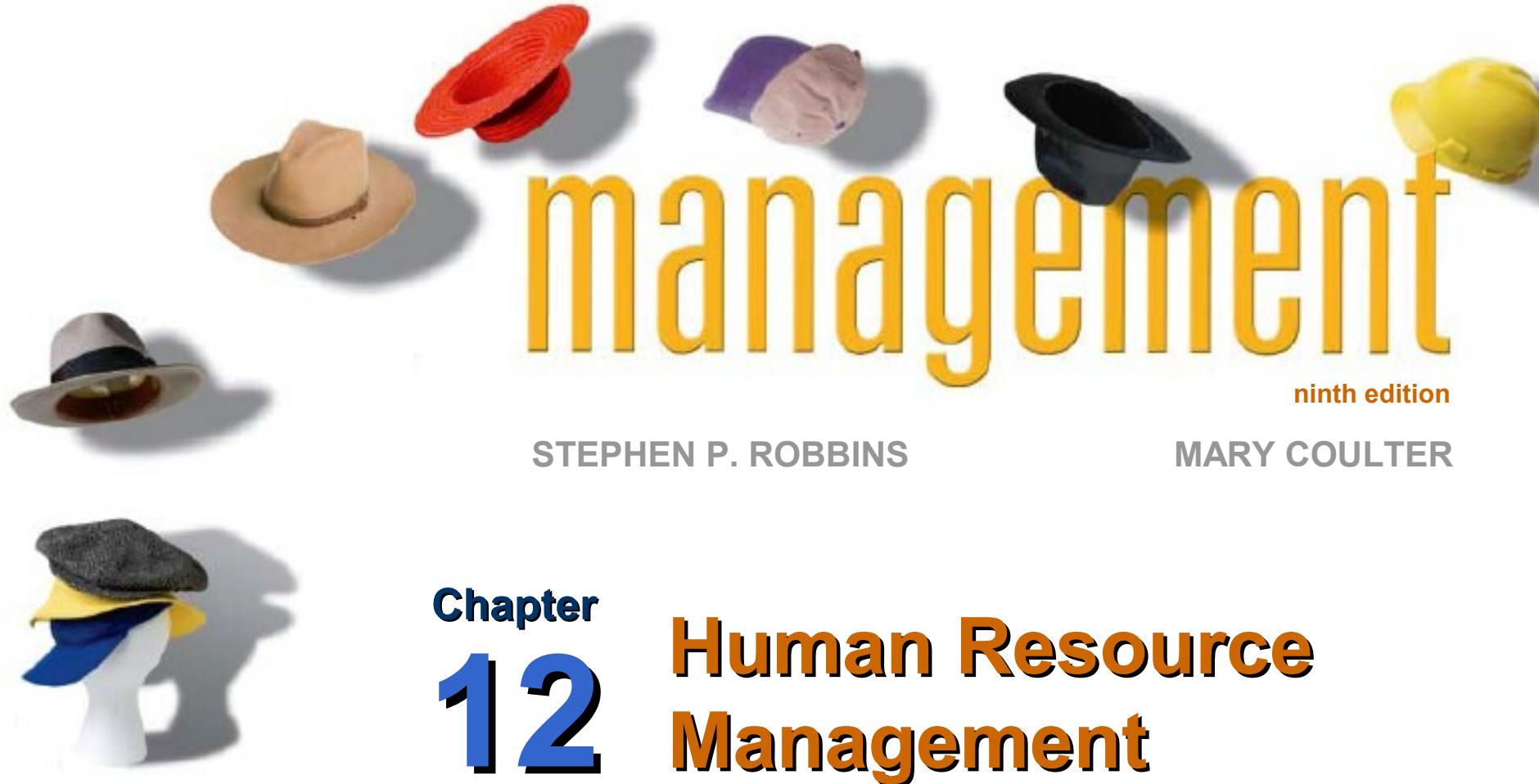


Terms to Know

- communication
- interpersonal communication
- organizational communication
- message
- encoding
- channel
- decoding
- communication process
- noise
- nonverbal communication
- body language
- verbal intonation
- filtering
- selective perception
- information overload
- jargon
- active listening
- formal communication
- informal communication
- downward communication
- upward communication

Terms to Know (cont'd)

- lateral communication
- diagonal communication
- communication networks
- grapevine
- e-mail
- instant messaging (IM)
- blog
- wiki
- voice mail
- fax
- electronic data interchange (EDI)
- teleconferencing
- videoconferencing
- web conferencing
- intranet
- extranet
- communities of practice



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Chapter
12

Human Resource Management

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Why Human Resources Is Important: The HRM Process

- Explain how an organization's human resources can be a significant source of competitive advantage.
- List eight activities necessary for staffing the organization and sustaining high employee performance.
- Discuss the environmental factors that most directly affect the HRM process.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Human Resource Planning; Recruitment/ Decruitment; Selection; Orientation; Training

- Contrast job analysis, job description, and job specification.
- Discuss the major sources of potential job candidates.
- Describe the different selection devices and which work best for different jobs.
- Tell what a realistic job preview is and why it's important.
- Explain why orientation is so important.
- Describe the different types of training and how that training can be provided.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Employee Performance Management; Compensation/Benefits; Career Development

- Describe the different performance appraisal methods.
- Discuss the factors that influence employee compensation and benefits.
- Describe skill-based and variable pay systems.
- Describe career development for today's employees.

Current Issues in Human Resource Management

- Explain how managers can manage downsizing.
- Discuss how managers can manage workforce diversity.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Current Issues in Human Resource Management (cont'd)

- Explain what sexual harassment is and what managers need to know about it.
- Describe how organizations are dealing with work-life balances.

The Importance of Human Resource Management (HRM)

- As a necessary part of the organizing function of management
 - Selecting, training, and evaluating the work force
- As an important strategic tool
 - HRM helps establish an organization's sustainable competitive advantage.
- Adds value to the firm
 - High performance work practices lead to both high individual and high organizational performance.

Exhibit 12–1 Examples of High-Performance Work Practices

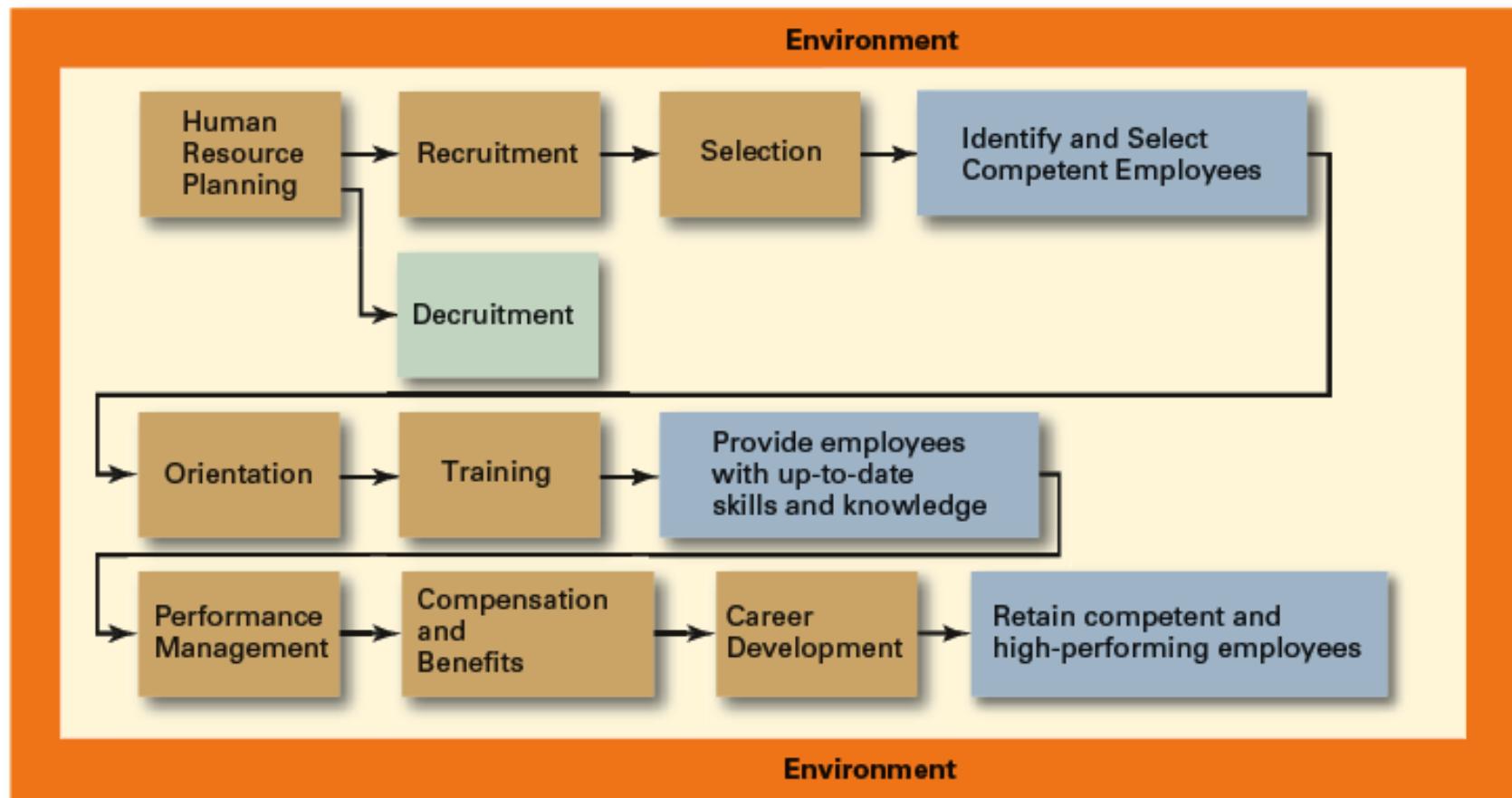
- **Self-managed teams**
- **Decentralized decision making**
- **Training programs to develop knowledge, skills, and abilities**
- **Flexible job assignments**
- **Open communication**
- **Performance-based compensation**
- **Staffing based on person–job and person–organization fit**

Source: Based on W. R. Evans and W. D. Davis, "High-Performance Work Systems and Organizational Performance: The Mediating Role of Internal Social Structure," *Journal of Management*, October 2005, p. 760.

The HRM Process

- **Functions of the HRM Process**
 - Ensuring that competent employees are identified and selected.
 - Providing employees with up-to-date knowledge and skills to do their jobs.
 - Ensuring that the organization retains competent and high-performing employees who are capable of high performance.

Exhibit 12–2 Human Resource Management Process



Environmental Factors Affecting HRM

- Employee Labor Unions
 - Organizations that represent workers and seek to protect their interests through collective bargaining.
 - ❖ Collective bargaining agreement
 - A contractual agreement between a firm and a union elected to represent a bargaining unit of employees of the firm in bargaining for wage, hours, and working conditions.
- Governmental Laws and Regulations
 - Limit managerial discretion in hiring, promoting, and discharging employees.
 - ❖ Affirmative Action: the requirement that organizations take proactive steps to ensure the full participation of protected groups in its workforce.

Exhibit 12–3 Major U.S. Federal Laws and Regulations Related to HRM

- 1963 Equal Pay Act**
- 1964 Civil Rights Act, Title VII (amended in 1972)**
- 1967 Age Discrimination in Employment Act**
- 1973 Vocational Rehabilitation Act**
- 1974 Privacy Act**
- 1978 Mandatory Retirement Act**
- 1986 Immigration Reform and Control Act**
- 1988 Worker Adjustment and Retraining Notification Act**
- 1990 Americans with Disabilities Act**
- 1991 Civil Rights Act of 1991**
- 1993 Family and Medical Leave Act of 1993**
- 1996 Health Insurance Portability and Accountability Act of 1996**
- 2003 Fair and Accurate Credit Transactions Act**
- 2004 FairPay Overtime Initiative**

Managing Human Resources

- **Human Resource (HR) Planning**
 - The process by which managers ensure that they have the right number and kinds of people in the right places, and at the right times, who are capable of effectively and efficiently performing their tasks.
 - Helps avoid sudden talent shortages and surpluses.
 - Steps in HR planning:
 - ❖ Assessing current human resources
 - ❖ Assessing future needs for human resources
 - ❖ Developing a program to meet those future needs

Current Assessment

- Human Resource Inventory

- A review of the current make-up of the organization's current resource status
- Job Analysis
 - ❖ An assessment that defines a job and the behaviors necessary to perform the job
 - Knowledge, skills, and abilities (KSAs)
 - ❖ Requires conducting interviews, engaging in direct observation, and collecting the self-reports of employees and their managers.

Current Assessment (cont'd)

- **Job Description**

- A written statement of what the job holder does, how it is done, and why it is done.

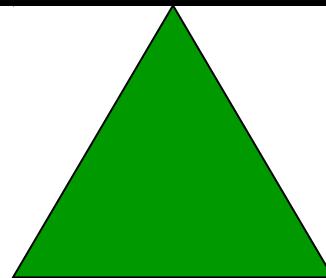
- **Job Specification**

- A written statement of the minimum qualifications that a person must possess to perform a given job successfully.

Meeting Future Human Resource Needs

Supply of Employees

Demand for Employees



Factors Affecting Staffing

Strategic Goals

Forecast demand for products and services

Availability of knowledge, skills, and abilities

Recruitment and Decruitment

- **Recruitment**
 - The process of locating, identifying, and attracting capable applicants to an organization
- **Decruitment**
 - The process of reducing a surplus of employees in the workforce of an organization
- **E-recruiting**
 - Recruitment of employees through the Internet
 - ❖ Organizational web sites
 - ❖ Online recruiters

Exhibit 12–4 Major Sources of Potential Job Candidates

Source	Advantages	Disadvantages
Internet	Reaches large numbers of people; can get immediate feedback	Generates many unqualified candidates
Employee referrals	Knowledge about the organization provided by current employee; can generate strong candidates because a good referral reflects on the recommender	May not increase the diversity and mix of employees
Company Web site	Wide distribution; can be targeted to specific groups	Generates many unqualified candidates
College recruiting	Large centralized body of candidates	Limited to entry-level positions
Professional recruiting organizations	Good knowledge of industry challenges and requirements	Little commitment to specific organization

Exhibit 12–5 Decruitment Options

Option	Description
Firing	Permanent involuntary termination
Layoffs	Temporary involuntary termination; may last only a few days or extend to years
Attrition	Not filling openings created by voluntary resignations or normal retirements
Transfers	Moving employees either laterally or downward; usually does not reduce costs but can reduce intraorganizational supply-demand imbalances
Reduced workweeks	Having employees work fewer hours per week, share jobs, or perform their jobs on a part-time basis
Early retirements	Providing incentives to older and more senior employees for retiring before their normal retirement date
Job sharing	Having employees share one full-time position

Selection

- **Selection Process**

- The process of screening job applicants to ensure that the most appropriate candidates are hired.

- **What is Selection?**

- An exercise in predicting which applicants, if hired, will be (or will not be) successful in performing well on the criteria the organization uses to evaluate performance.
 - Selection errors:
 - ❖ Reject errors for potentially successful applicants
 - ❖ Accept errors for ultimately poor performers

Exhibit 12–6 Selection Decision Outcomes

		Selection Decision	
		Accept	Reject
Later Job Performance	Successful	Correct decision	Reject error
	Unsuccessful	Accept error	Correct decision

Validity and Reliability

- **Validity (of Prediction)**
 - A proven relationship between the selection device used and some relevant criterion for successful performance in an organization.
 - ❖ High tests scores equate to high job performance; low scores to poor performance.
- **Reliability (of Prediction)**
 - The degree of consistency with which a selection device measures the same thing.
 - ❖ Individual test scores obtained with a selection device are consistent over multiple testing instances.

Exhibit 12–7 Selection Devices

- Application Forms
- Written Tests
- Performance Simulations
- Interviews
- Background Investigations
- Physical examinations



Written Tests

- **Types of Tests**
 - Intelligence: how smart are you?
 - Aptitude: can you learn to do it?
 - Attitude: how do you feel about it?
 - Ability: can you do it now?
 - Interest: do you want to do it?
- **Legal Challenges to Tests**
 - Lack of job-relatedness of test items or interview questions to job requirements
 - Discrimination in equal employment opportunity against members of protected classes

Performance Simulation Tests

- Testing an applicant's ability to perform actual job behaviors, use required skills, and demonstrate specific knowledge of the job.
 - Work sampling
 - ❖ Requiring applicants to actually perform a task or set of tasks that are central to successful job performance.
 - Assessment centers
 - ❖ Dedicated facilities in which job candidates undergo a series of performance simulation tests to evaluate their managerial potential.

Other Selection Approaches

- **Interviews**
 - Although used almost universally, managers need to approach interviews carefully.
- **Background Investigations**
 - Verification of application data
 - Reference checks:
 - ❖ Lack validity because self-selection of references ensures only positive outcomes.
- **Physical Examinations**
 - Useful for physical requirements and for insurance purposes related to pre-existing conditions.

Exhibit 12–8 Suggestions for Interviewing

1. **Structure a *fixed set of questions* for all applicants.**
2. **Have *detailed information about the job* for which applicants are interviewing.**
3. **Minimize any *prior knowledge* of applicants' background, experience, interests, test scores, or other characteristics.**
4. **Ask *behavioral questions* that require applicants to give detailed accounts of actual job behaviors.**
5. **Use a *standardized evaluation form*.**
6. **Take *notes* during the interview.**
7. **Avoid *short interviews* that encourage premature decision making.**

Source: Based on D.A. DeCenzo and S.P. Robbins, *Human Resource Management*, 7th ed. (New York Wiley: 2002, p. 200)

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Exhibit 12–9 Examples of “Can’t Ask and Can Ask” Interview Questions for Managers*

Can’t Ask

- **What’s your birth date? or How old are you?**
- **What’s your marital status? or Do you plan to have a family?**
- **What’s your native language?**
- **Have you ever been arrested?**

Can Ask

- **Are you over 18?**
- **Would you relocate?**
- **Are you authorized to work in the United States?**
- **Have you ever been convicted of [fill in the blank]?—The crime must be reasonably related to the performance of the job.**

* Note: Managers should be aware that there are numerous other “can and can’t ask” questions. Be sure to always check with your HR department for specific guidance.

Exhibit 12–10 Quality of Selection Devices as Predictors

Selection Device	Position			
	Senior Management	Middle and Lower Management	Complex Nonmanagerial	Routine Work
Application form	2	2	2	2
Written tests	1	1	2	3
Work samples	—	—	4	4
Assessment center	5	5	—	—
Interviews	4	3	2	2
Verification of application data	3	3	3	3
Reference checks	1	1	1	1
Physical exam	1	1	1	2

Note: Validity is measured on a scale from 1 (highest) to (lowest). A dash means "not applicable."

Other Selection Approaches (cont'd)

- **Realistic Job Preview (RJP)**
 - The process of relating to an applicant both the positive and the negative aspects of the job.
 - ❖ Encourages mismatched applicants to withdraw.
 - ❖ Aligns successful applicants' expectations with actual job conditions; reducing turnover.

Orientation

- Transitioning a new employee into the organization.

- Work-unit orientation

- Work-unit orientation
 - ❖ Familiarizes new employee with work-unit goals
 - ❖ Clarifies how his or her job contributes to unit goals
 - ❖ Introduces he or she to his or her coworkers

- Organization orientation

- Organization orientation
 - ❖ Informs new employee about the organization's objectives, history, philosophy, procedures, and rules.
 - ❖ Includes a tour of the entire facility

Exhibit 12–11 Types of Training

Type	Includes
General	Communication skills, computer systems application and programming, customer service, executive development, management skills and development, personal growth, sales, supervisory skills, and technological skills and knowledge
Specific	Basic life/work skills, creativity, customer education, diversity/cultural awareness, remedial writing, managing change, leadership, product knowledge, public speaking/presentation skills, safety, ethics, sexual harassment, team building, wellness, and others

Source: Based on “2005 Industry Report—Types of Training,” *Training*, December 2005, p. 22.

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Exhibit 12–12 Employee Training Methods

- **Traditional Training Methods**

- **On-the-job**
- **Job rotation**
- **Mentoring and coaching**
- **Experiential exercises**
- **Workbooks/manuals**
- **Classroom lectures**

- **Technology-Based Training Methods**

- **CD-ROM/DVD/videotapes/ audiotapes**
- **Videoconferencing/ teleconferencing/ satellite TV**
- **E-learning**

Employee Performance Management

- **Performance Management System**
 - A process of establishing performance standards and appraising employee performance in order to arrive at objective HR decisions and to provide documentation in support of those decisions.



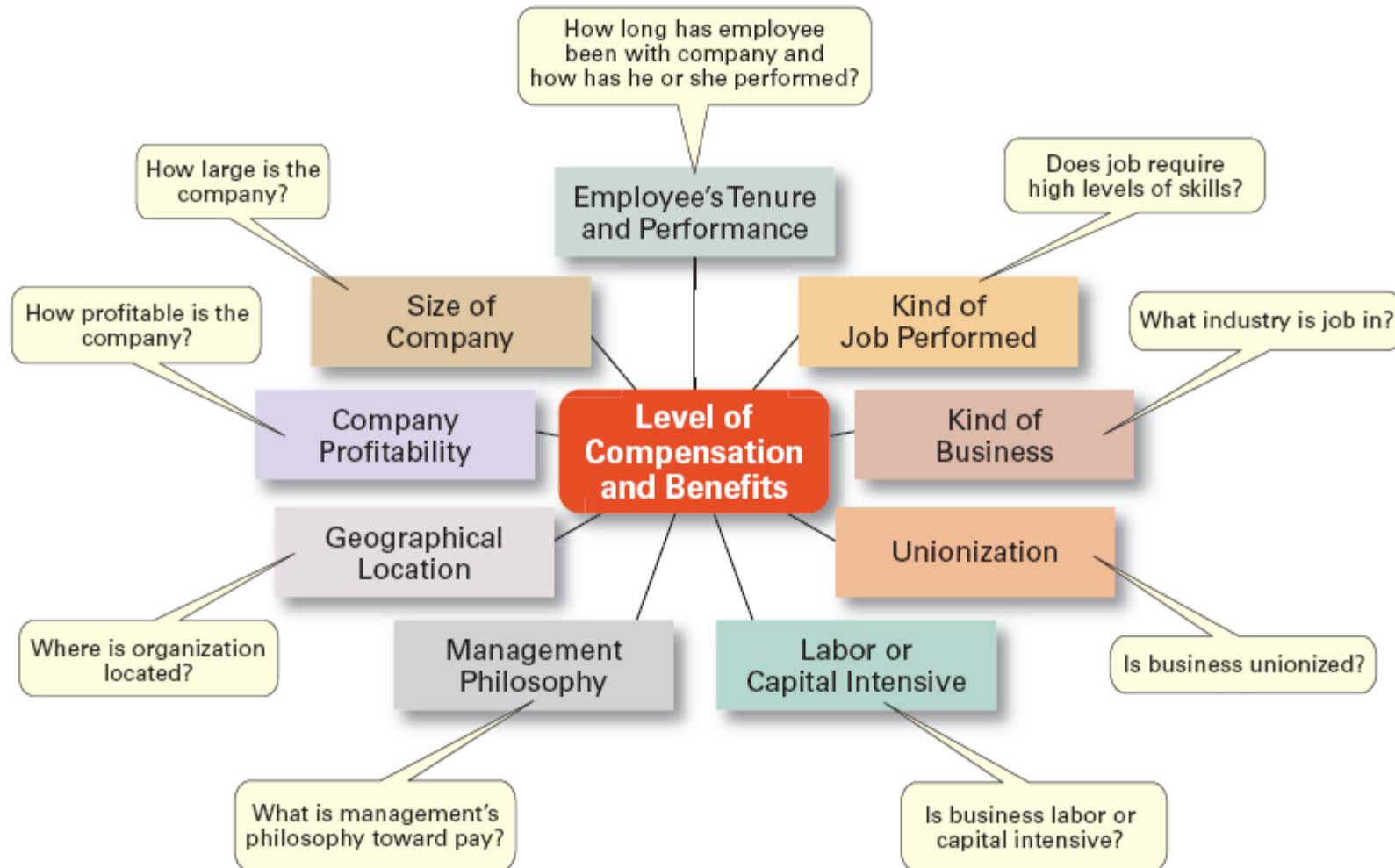
Exhibit 12–13 Advantages and Disadvantages of Performance Appraisal Methods

Method	Advantage	Disadvantage
Written essays	Simple to use	More a measure of evaluator's writing ability than of employee's actual performance
Critical incidents	Rich examples; behaviorally based	Time-consuming; lack quantification
Graphic rating scales	Provide quantitative data; less time-consuming than others	Do not provide depth of job behavior assessed
BARS	Focus on specific and measurable job behaviors	Time-consuming; difficult to develop
Multiperson comparisons	Compares employees with one another	Unwieldy with large number of employees; legal concerns
MBO	Focuses on end goals; results oriented	Time-consuming
360-degree appraisals	Thorough	Time-consuming

Compensation and Benefits

- Benefits of a Fair, Effective, and Appropriate Compensation System
 - Helps attract and retain high-performance employees
 - Impacts on the strategic performance of the firm
- Types of Compensation
 - Base wage or salary
 - Wage and salary add-ons
 - Incentive payments
 - Skill-based pay
 - Variable pay

Exhibit 12–14 Factors That Influence Compensation and Benefits



Sources: Based on R.I. Henderson, Compensation Management, 6th ed. (Upper Saddle River, NJ: Prentice Hall, 1994), pp. 3–24; and A. Murray, "Mom, Apple Pie, and Small Business," Wall Street Journal, August 15, 1994, p. A1.

Career Development

- **Career Defined**
 - The sequence of positions held by a person during his or her lifetime.
 - **The Way It Was**
 - ❖ **Career Development**
 - Provided for information, assessment, and training
 - Helped attract and retain highly talented people
 - ❖ **Now**
 - Individuals—not the organization—are responsible for designing, guiding, and developing their own careers.
 - **Boundaryless Career**
 - ❖ A career in which individuals, not organizations, define career progression and organizational loyalty

Exhibit 12–15 What College Graduates Want From Jobs

Top Factors for U.S. Students

- Work–life balance
- Annual base salary
- Job stability and security
- Recognition for a job done well
- Increasingly challenging tasks
- Rotational programs

Top Factors for U.K. Students

- International career opportunities
- Flexible working hours
- Variety of assignments
- Paid overtime

Sources: Based on S. Shellenbarger, "Avoiding the Next Enron: Today's Crop of Soon-to-Be Grads Seeks Job Security," *Wall Street Journal Online*, February 16, 2006; "MBAs Eye Financial Services and Management Consulting," *HRMarketer.com*, June 7, 2005; and J. Boone, "Students Set Tighter Terms for Work," *FinancialTimes.com*, May 21, 2005.

Exhibit 12–16

Some Suggestions for a Successful Management Career



Current Issues in HRM

- **Managing Downsizing**

- The planned elimination of jobs in an organization
 - ❖ Provide open and honest communication.
 - ❖ Provide assistance to employees being downsized.
 - ❖ Reassure and counseling to surviving employees.

- **Managing Work Force Diversity**

- Widen the recruitment net for diversity
- Ensure selection without discrimination
- Provide orientation and training that is effective

Current Issues in HRM (cont'd)

- **Sexual Harassment**
 - An unwanted activity of a sexual nature that affects an individual's employment.
 - ❖ Unwanted sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature when submission or rejection of this conduct explicitly or implicitly affects an individual's employment.
 - An offensive or hostile environment
 - ❖ An environment in which a person is affected by elements of a sexual nature.
- **Workplace Romances**
 - Potential liability for harassment

Current Issues in HRM (cont'd)

- **Work-Life Balance**
 - Employees have personal lives that they don't leave behind when they come to work.
 - Organizations have become more attuned to their employees by offering **family-friendly benefits**:
 - ❖ On-site child care
 - ❖ Summer day camps
 - ❖ **Flextime**
 - ❖ Job sharing
 - ❖ Leave for personal matters
 - ❖ Flexible job hours

Current Issues in HRM (cont'd)

- **Controlling HR Costs**

- **Employee health-care**

- ❖ **Encouraging healthy lifestyles**

- Financial incentives
 - Wellness programs
 - Charging employees with poor health habits more for benefits

- **Employee pension plans**

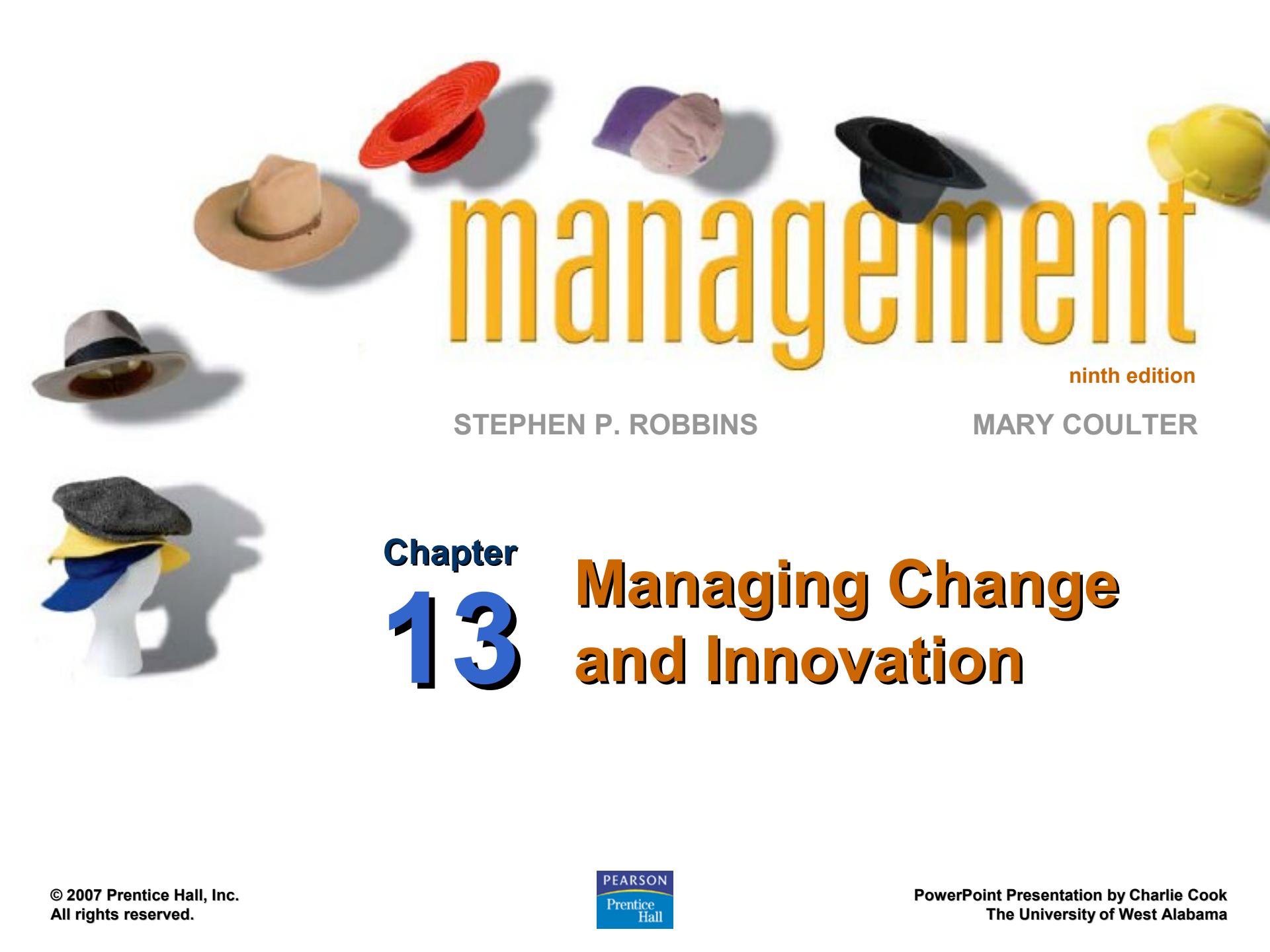
- ❖ **Reducing pension benefits**
 - ❖ **No longer providing pension plans**

Terms to Know

- **high-performance work practices**
- **human resource management process**
- **labor union**
- **affirmative action**
- **human resource planning**
- **job analysis**
- **job description**
- **job specification**
- **recruitment**
- **deruitment**
- **selection**
- **validity**
- **reliability**
- **work sampling**
- **assessment centers**
- **realistic job preview (RJP)**
- **orientation**
- **performance management system**
- **written essay**
- **critical incidents**
- **graphic rating scales**

Terms to Know (cont'd)

- behaviorally anchored rating scales (BARS)
- multiperson comparisons
- 360 degree feedback
- skill-based pay
- variable pay
- career
- downsizing
- sexual harassment
- family-friendly benefits



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Chapter
13

Managing Change and Innovation

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Forces for Change: Two Views of the Change Process

- Discuss the external and internal forces for change.
- Contrast the calm waters and white-water rapids metaphors of change.
- Explain Lewin's three-step model of the change process.

Managing Organizational Change

- Define organizational change.
- Contrast internal and external change agents.
- Explain how managers might change structure, technology, and people.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Managing Change

- Explain why people resist change and how resistance might be managed.

Contemporary Issues in Managing Change

- Explain why changing organizational culture is so difficult and how managers can do it.
- Describe employee stress and how managers can help employees deal with stress.
- Discuss what it takes to make change happen successfully.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Stimulating Innovation

- Explain why innovation isn't just creativity.
- Explain the systems view of innovation.
- Describe the structural, cultural, and human resource variables that are necessary for innovation.
- Explain what idea champions are and why they're important to innovation.

What Is Change?

- **Organizational Change**
 - Any alterations in the people, structure, or technology of an organization
- **Characteristics of Change**
 - Is constant yet varies in degree and direction
 - Produces uncertainty yet is not completely unpredictable
 - Creates both threats and opportunities
 - *Managing change is an integral part of every manager's job.*

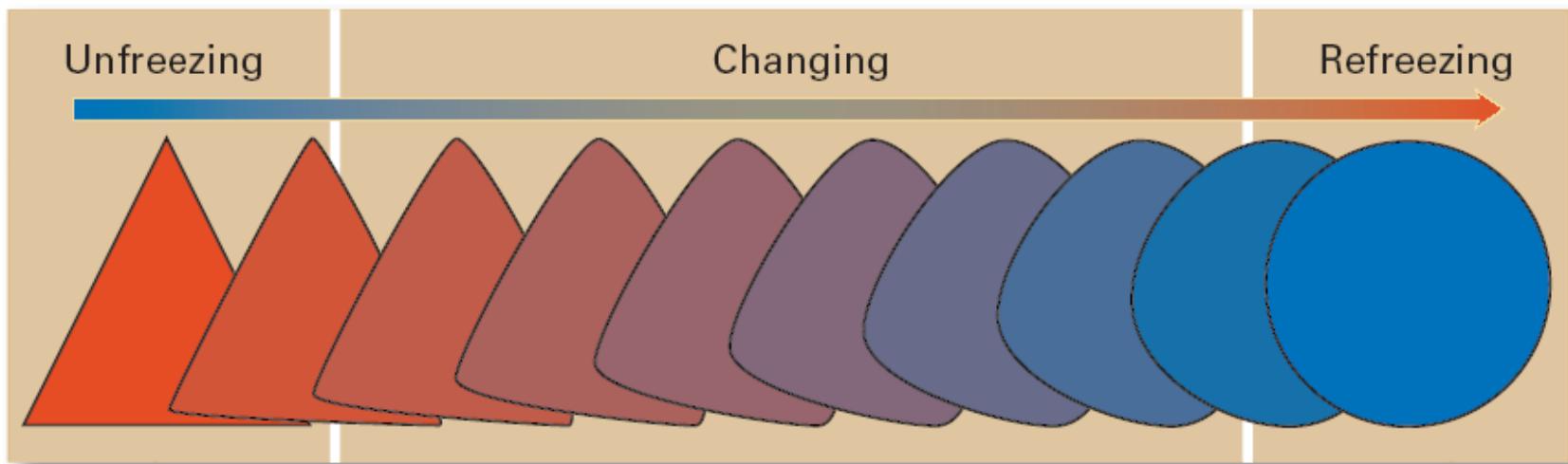
Forces for Change

- **External Forces**
 - Marketplace
 - Governmental laws and regulations
 - Technology
 - Labor market
 - Economic changes
- **Internal Forces**
 - Changes in organizational strategy
 - Workforce changes
 - New equipment
 - Employee attitudes

Change Process Viewpoints

- The Calm Waters Metaphor
 - Lewin's description of the change process as a break in the organization's equilibrium state
 - ❖ *Unfreezing* the status quo
 - ❖ *Changing* to a new state
 - ❖ *Refreezing* to make the change permanent
- White-Water Rapids Metaphor
 - The lack of environmental stability and predictability requires that managers and organizations continually adapt (manage change actively) to survive.

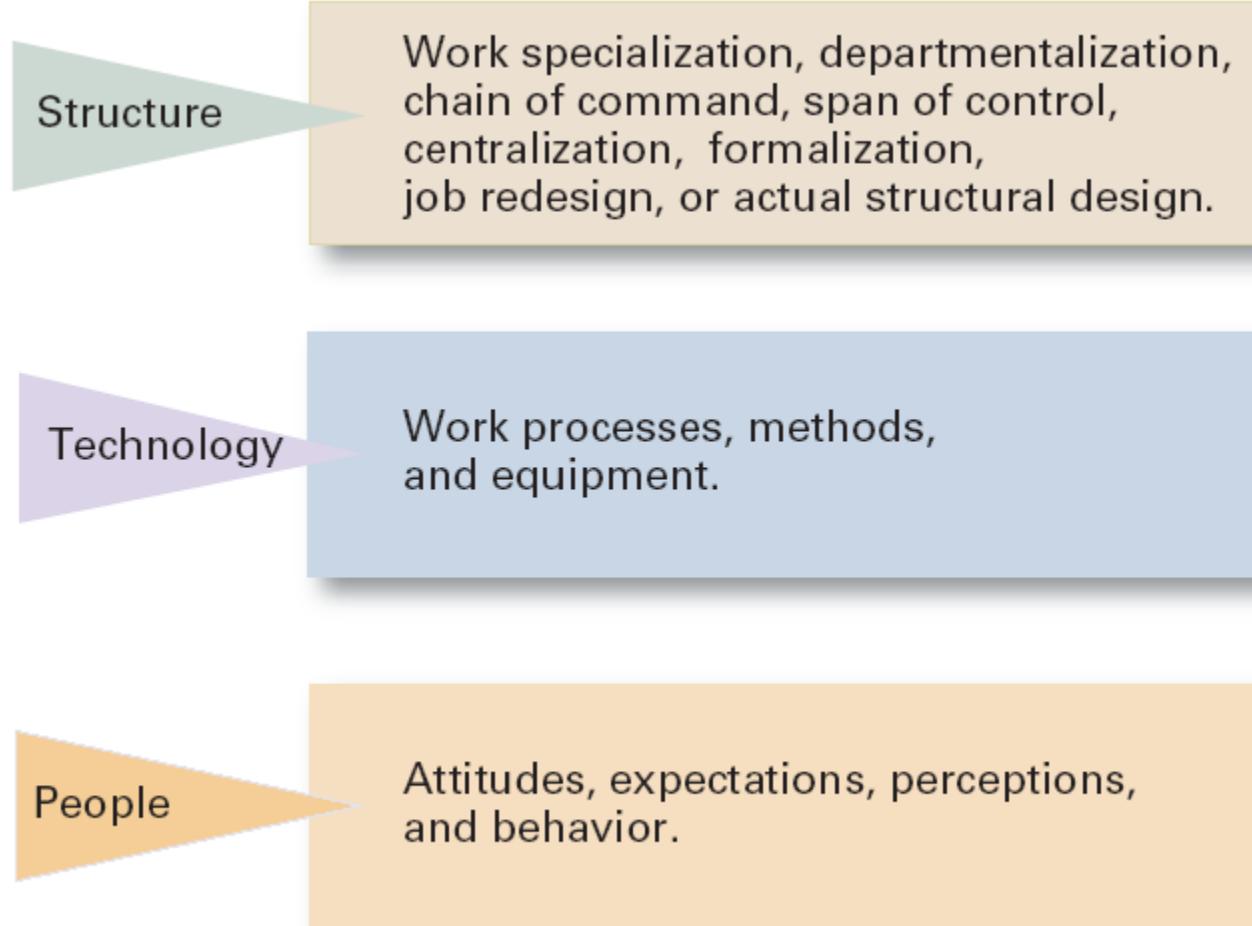
Exhibit 13–1 The Change Process



Change Agents

- **Change Agents**
 - Persons who act as catalysts and assume the responsibility for managing the change process.
- **Types of Change Agents**
 - Managers: internal entrepreneurs
 - Nonmanagers: change specialists
 - Outside consultants: change implementation experts

Exhibit 13–2 Three Categories of Change



Types of Change

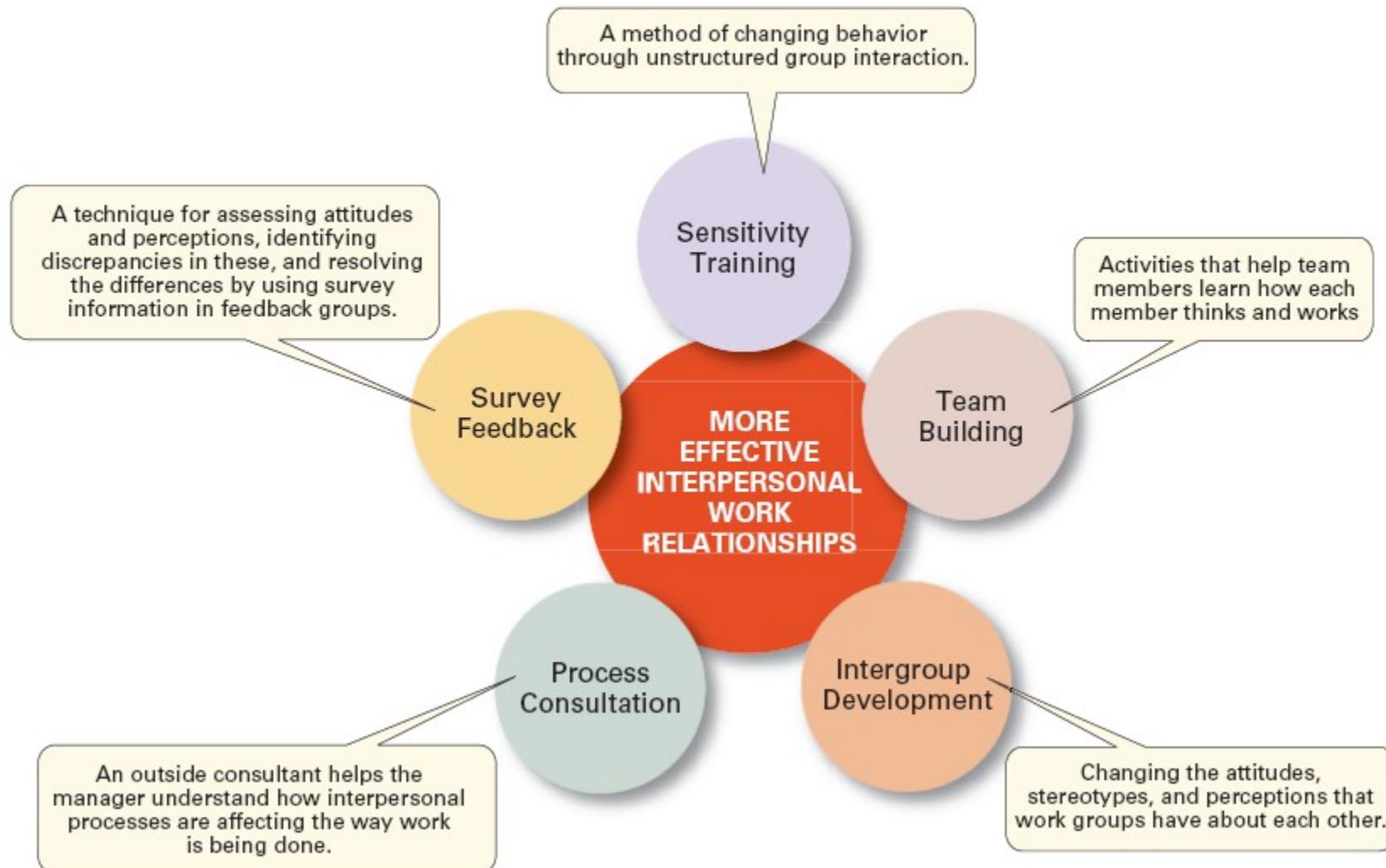
- **Structural**
 - Changing an organization's structural components or its structural design
- **Technological**
 - Adopting new equipment, tools, or operating methods that displace old skills and require new ones
 - ❖ Automation: replacing certain tasks done by people with machines
 - ❖ Computerization
- **People**
 - Changing attitudes, expectations, perceptions, and behaviors of the workforce
- **Organizational development (OD)**
 - Techniques or programs to change people and the nature and quality of interpersonal work relationships.

Organizational Development

- **Organizational Development (OD)**
 - Techniques or programs to change people and the nature and quality of interpersonal work relationships.
- **Global OD**
 - OD techniques that work for U.S. organizations may be inappropriate in other countries and cultures.



Exhibit 13–3 Organizational Development Techniques



Managing Resistance to Change

- Why People Resist Change?
 - The ambiguity and uncertainty that change introduces
 - The comfort of old habits
 - A concern over personal loss of status, money, authority, friendships, and personal convenience
 - The perception that change is incompatible with the goals and interest of the organization

Exhibit 13–4 Managerial Actions to Reduce Resistance to Change

- **Education and communication**
- **Participation**
- **Facilitation and support**
- **Negotiation**
- **Manipulation and co-optation**
- **Selecting people who accept change**
- **Coercion**

Issues in Managing Change (cont'd)

- **Changing Organizational Cultures**

- **Cultures are naturally resistant to change.**
- **Conditions that facilitate cultural change:**
 - ❖ The occurrence of a dramatic crisis
 - ❖ Leadership changing hands
 - ❖ A young, flexible, and small organization
 - ❖ A weak organizational culture

Exhibit 13–5 Strategies for Managing Cultural Change

- Set the tone through management behavior; top managers, particularly, need to be positive role models.
- Create new stories, symbols, and rituals to replace those currently in use.
- Select, promote, and support employees who adopt the new values.
- Redesign socialization processes to align with the new values.
- To encourage acceptance of the new values, change the reward system.
- Replace unwritten norms with clearly specified expectations.
- Shake up current subcultures through job transfers, job rotation, and/or terminations.
- Work to get consensus through employee participation and creating a climate with a high level of trust.

Issues in Managing Change (cont'd)

- Handling Employee Stress

- Stress

- ❖ The adverse reaction people have to excessive pressure placed on them from extraordinary demands, constraints, or opportunities.
 - ❖ Functional Stress
 - Stress that has a positive effect on performance.

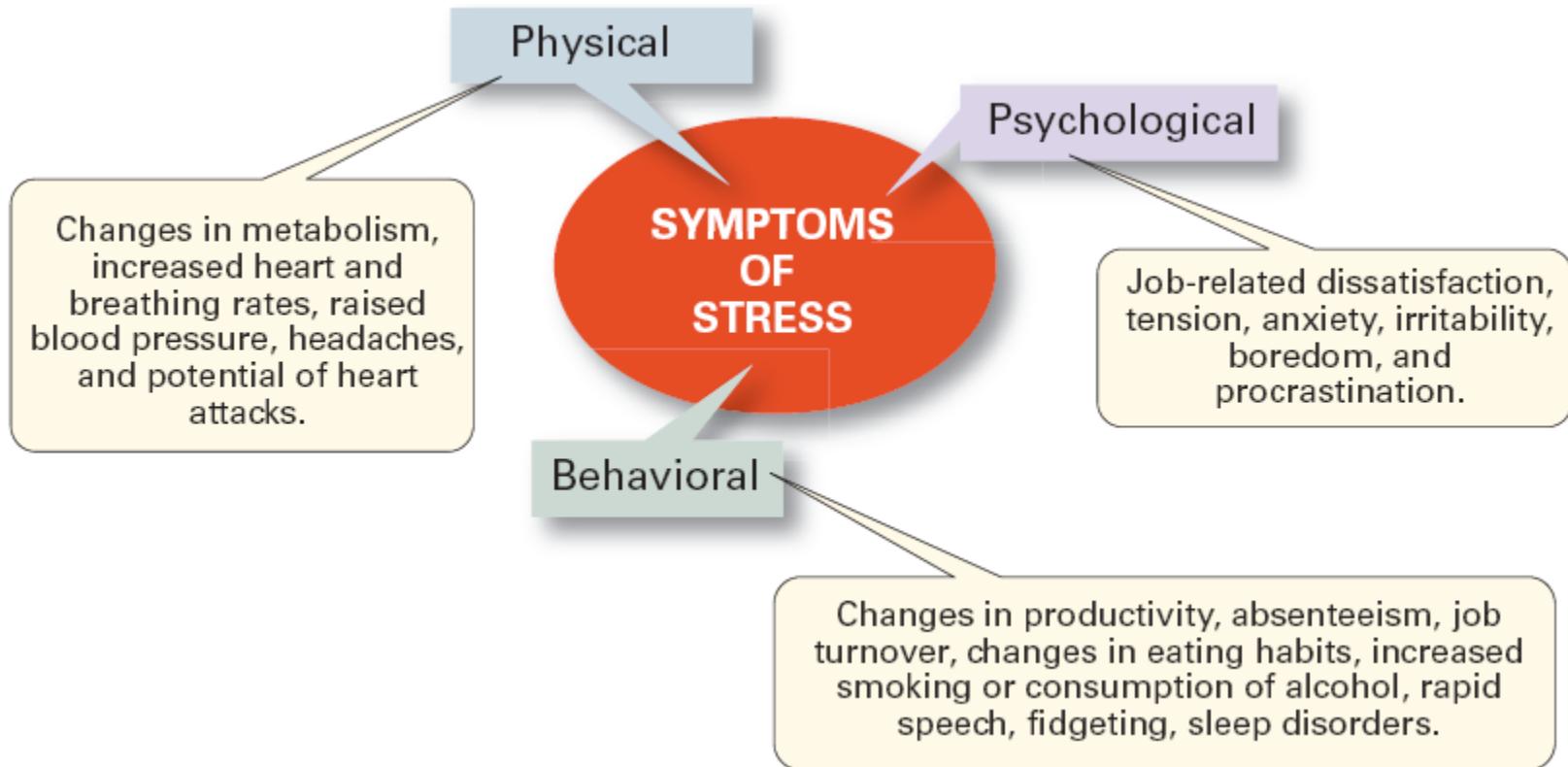
- How Potential Stress Becomes Actual Stress

- ❖ When there is uncertainty over the outcome.
 - ❖ When the outcome is important.

Exhibit 13–6 Causes of Stress



Exhibit 13–7 Symptoms of Stress



Issues in Managing Change (cont'd)

- Reducing Stress

- Engage in proper employee selection
- Match employees' KSA's to jobs' Tasks, Duties, and Responsibilities (TDR's)
- Use realistic job interviews for reduce ambiguity
- Improve organizational communications
- Develop a performance planning program
- Use job redesign
- Provide a counseling program
- Offer time planning management assistance
- Sponsor wellness programs

Issues in Managing Change (cont'd)

- **Making Change Happen Successfully**

- Embrace change—become a change-capable organization.
- Create a simple, compelling message explaining why change is necessary.
- Communicate constantly and honestly.
- Foster as much employee participation as possible—get all employees committed.
- Encourage employees to be flexible.
- Remove those who resist and cannot be changed.

Exhibit 13–8 Characteristics of Change-Capable Organizations

- **Link the present and the future.**
- **Make learning a way of life.**
- **Actively support and encourage day-to-day improvements and changes.**
- **Ensure diverse teams.**
- **Encourage mavericks.**
- **Shelter breakthroughs**
- **Integrate technology.**
- **Build and deepen trust.**

Stimulating Innovation

- **Creativity**
 - The ability to combine ideas in a unique way or to make an unusual association.
- **Innovation**
 - Turning the outcomes of the creative process into useful products, services, or work methods.
- **Idea Champion**
 - Dynamic self-confident leaders who actively and enthusiastically inspire support for new ideas, build support, overcome resistance, and ensure that innovations are implemented.

Exhibit 13–9 Innovative Companies Around the World

Apple and Google reign worldwide. But respondents from different regions often favored local companies.*	ASIA-PACIFIC 1 Apple 9 Nokia 2 Google 10 Infosys 3 3M 11 Virgin 4 Samsung 12 P&G 5 Microsoft 13 Dell 6 IBM 14 Sony 7 GE 15 Intel 8 Toyota	EUROPE 1 Apple 9 GE 2 Google 10 eBay 3 Nokia 11 IKEA 4 Microsoft 12 RyanAir 5 3M 13 Sony 6 Toyota 14 Intel 7 Virgin 15 Porsche 8 BMW	NORTH AMERICA 1 Apple 9 IBM 2 Google 10 Dell 3 P&G 11 Wal-Mart 4 3M 12 IDEO 5 Toyota 13 Target 6 GE 14 Samsung 7 Starbucks 15 Southwest 8 Microsoft
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Data: Boston Consulting Group * We broke ties by comparing 10-year annualized total shareholder returns. In ties between a public and a private company, the public company was favored.

Source: "A Global Pulse of Innovation," *BusinessWeek*, April 24, 2006, p. 74.

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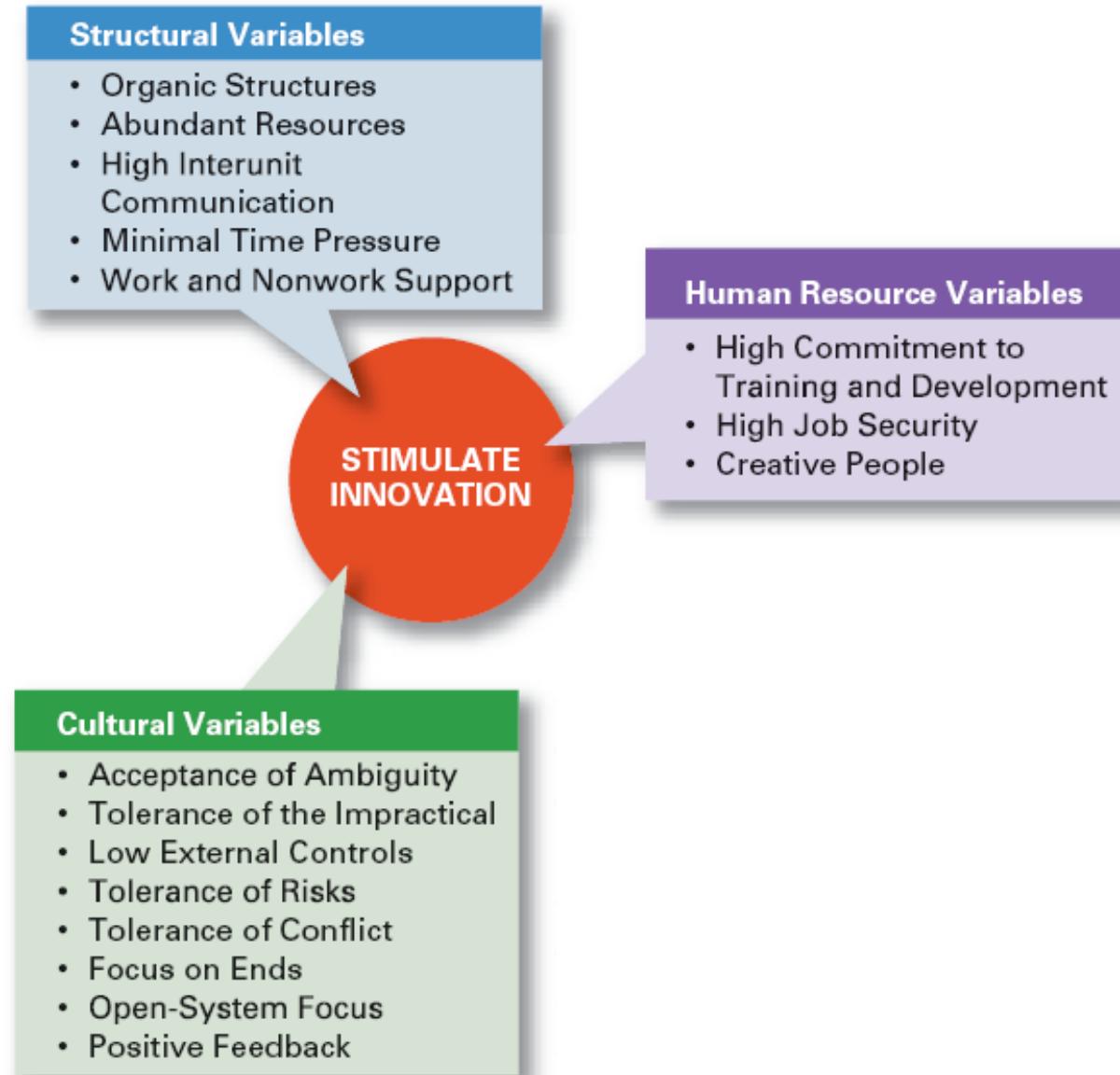
13-461

Exhibit 13–10 Systems View of Innovation



Source: Adapted from R.W. Woodman, J.E. Sawyer, and R.W. Griffin, "Toward a Theory of Organizational Creativity," *Academy of Management Review*, April 1993, p. 309.

Exhibit 13–11 **Innovation Variables**



Creating the “Right” Environment for Innovation

- **Structural Variables**

- Adopt an organic structure
- Make available plentiful resources
- Engage in frequent interunit communication
- Minimize extreme time pressures on creative activities
- Provide explicit support for creativity

Creating the “Right” Environment for Innovation (cont’d)

- **Cultural Variables**
 - Accept ambiguity
 - Tolerate the impractical
 - Have low external controls
 - Tolerate risk taking
 - Tolerate conflict
 - Focus on ends rather than means
 - Develop an open-system focus
 - Provide positive feedback

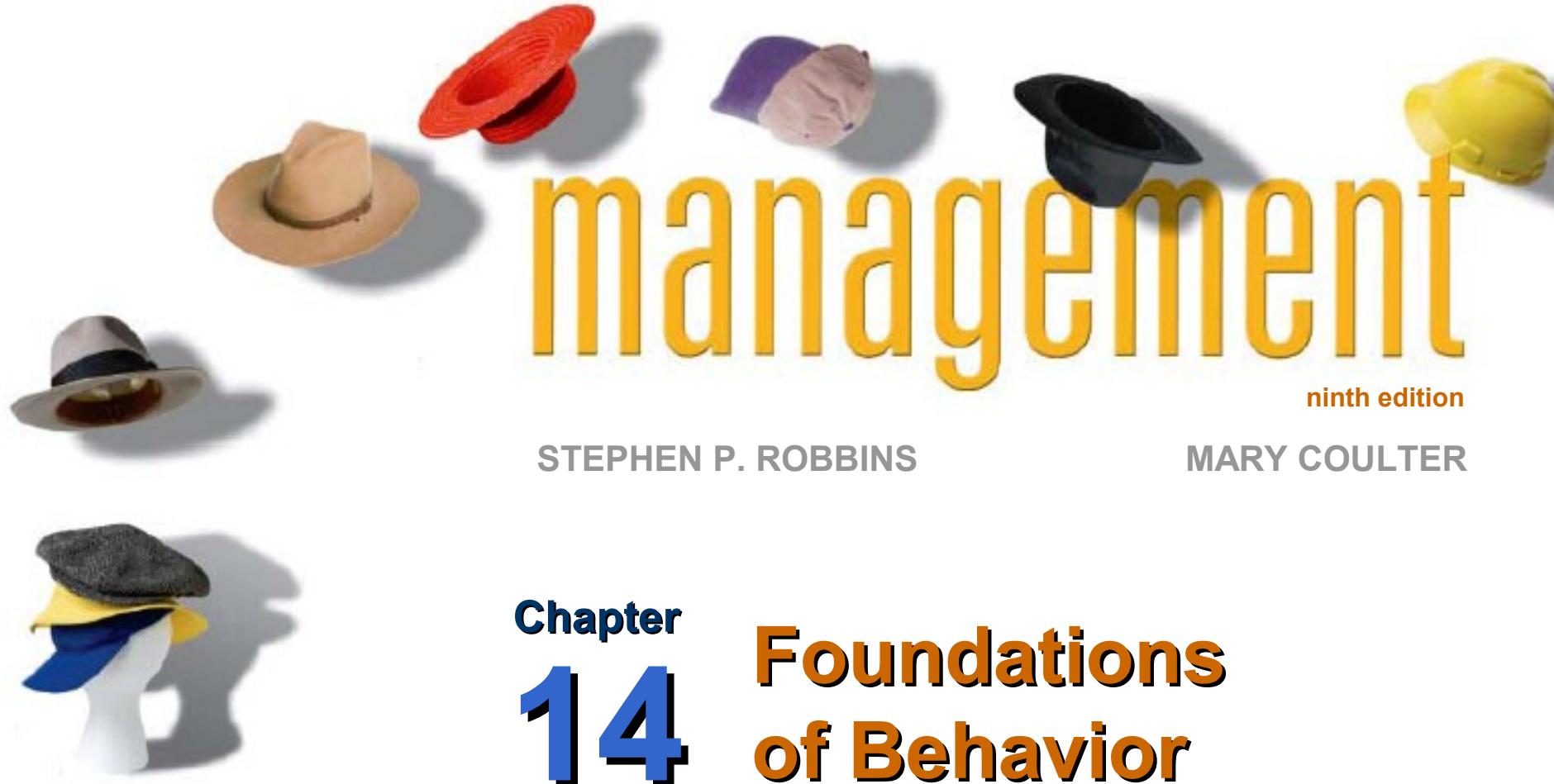
Creating the “Right” Environment for Innovation (cont’d)

- **Human Resource Variables**

- Actively promote training and development to keep employees’ skills current.
- Offer high job security to encourage risk taking.
- Encourage individual to be “champions” of change.

Terms to Know

- organizational change
- change agent
- organizational development (OD)
- stress
- creativity
- innovation
- idea champion



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Chapter
14

Foundations of Behavior

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Why Look at Individual Behavior?

- Explain why the concept of an organization as an iceberg is important to understanding organizational behavior.
- Describe the focus and the goals of organizational behavior.
- Define the six important employee behaviors that managers want to explain, predict, and influence.

Attitudes

- Describe the three components of an attitude.
- Discuss three job-related attitudes.
- Describe the impact job satisfaction has on employee behavior.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Attitudes (cont'd)

- Explain how individuals reconcile inconsistencies between attitudes and behavior.

Personality

- Contrast the MBTI and the big-five model of personality.
- Describe the five personality traits that have proved to be most powerful in explaining individual behavior in organizations.
- Explain how emotions and emotional intelligence impact behavior.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Perception

- Explain how an understanding of perception can help managers.
- Describe the key elements of attribution theory.
- Discuss how the fundamental attribution error and self-serving bias can distort attributions.
- Name three shortcuts used in judging others.

Learning

- Explain how operant conditioning helps managers understand, predict, and influence behavior.
- Describe the implications of social learning theory for managing people at work.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Learning (cont'd)

- Discuss how managers can shape behavior.

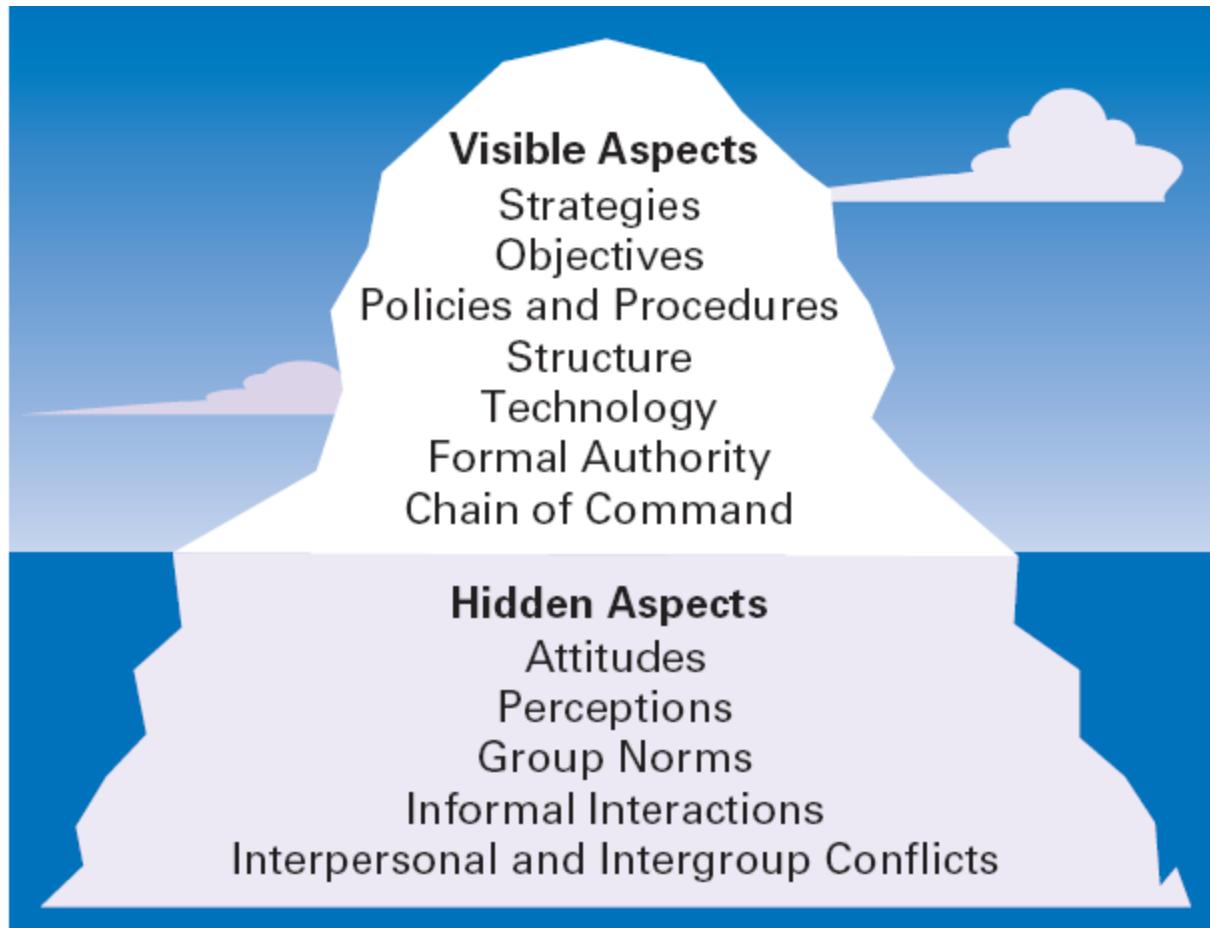
Contemporary OB Issues

- Describe the challenges managers face in managing Gen Y workers.
- Explain what managers can do to deal with workplace misbehavior.

Why Look at Individual Behavior?

- **Organizational Behavior (OB)**
 - The actions of people at work
- **Focus of Organizational Behavior**
 - Individual behavior
 - ❖ Attitudes, personality, perception, learning, and motivation
 - Group behavior
 - ❖ Norms, roles, team building, leadership, and conflict
- **Goals of Organizational Behavior**
 - To explain, predict and influence behavior.

Exhibit 14.1 The Organization as an Iceberg



Important Employee Behaviors

- **Employee Productivity**
 - A performance measure of both efficiency and effectiveness
- **Absenteeism**
 - The failure to report to work when expected
- **Turnover**
 - The voluntary and involuntary permanent withdrawal from an organization



Important Employee Behaviors (cont'd)

- **Organizational Citizenship Behavior (OCB)**
 - Discretionary behavior that is not a part of an employee's formal job requirements, but which promotes the effective functioning of the organization.
- **Job Satisfaction**
 - The individual's general attitude toward his or her job



Important Employee Behaviors (cont'd)

- **Workplace Misbehavior**

- Any intentional employee behavior that has negative consequences for the organization or individuals within the organization.
- Types of Misbehavior

- ❖ Deviance
- ❖ Aggression
- ❖ Antisocial behavior
- ❖ Violence



Psychological Factors Affecting Employee Behavior

- Attitudes
- Personality
- Perception
- Learning

- Employee Productivity
- Absenteeism
- Turnover
- Organizational Citizenship
- Job Satisfaction
- Workplace Misbehavior

Psychological Factors

- **Attitudes**
 - Evaluative statements—either favorable or unfavorable—concerning objects, people, or events.
- **Components Of An Attitude**
 - **Cognitive component:** the beliefs, opinions, knowledge, or information held by a person.
 - **Affective component:** the emotional or feeling part of an attitude.
 - **Behavioral component:** the intention to behave in a certain way.

Psychological Factors (cont'd)

- **Job Satisfaction**
 - Job satisfaction is affected by level of income earned and by the type of job a worker does.
- **Job Satisfaction and Productivity**
 - For individuals, productivity appears to lead to job satisfaction.
 - For organizations, those with more satisfied employees are more effective than those with less satisfied employees.

Psychological Factors (cont'd)

- **Job Satisfaction and Absenteeism**
 - Satisfied employees tend to have lower levels of absenteeism.
- **Job Satisfaction and Turnover**
 - Satisfied employees have lower levels of turnover; dissatisfied employees have higher levels of turnover.
 - Turnover is affected by the level of employee performance.
 - ❖ The preferential treatment afforded superior employees makes satisfaction less important in predicting their turnover decisions.

Psychological Factors (cont'd)

- **Job Satisfaction and Customer Satisfaction**
 - The level of job satisfaction for frontline employees is related to increased customer satisfaction and loyalty.
 - Interaction with dissatisfied customers can increase an employee's job dissatisfaction.
 - Actions to increase job satisfaction for customer service workers:
 - ❖ Hire upbeat and friendly employees.
 - ❖ Reward superior customer service.
 - ❖ Provide a positive work climate.
 - ❖ Use attitude surveys to track employee satisfaction.

Psychological Factors (cont'd)

- **Job Satisfaction and Workplace Misbehavior**
 - Dissatisfied employees will respond somehow
 - Not easy to predict exactly how they'll respond

Psychological Factors (cont'd)

- **Job Involvement**
 - The degree to which an employee identifies with his or her job, actively participates in it, and considers his or her performance to be important to his or her self-worth.
 - ❖ High levels of commitment are related to fewer absences and lower resignation rates.

Psychological Factors (cont'd)

- **Organizational Commitment**
 - Is the degree to which an employee identifies with a particular organization and its goals and wishes to maintain membership in the organization.
 - Leads to lower levels of both absenteeism and turnover.
 - Could be becoming an outmoded measure as the number of workers who change employers increases.

Psychological Factors (cont'd)

- **Perceived Organizational Support**
 - Is the general belief of employees that their organization values their contribution and cares about their well-being.
 - Represents the commitment of the organization to the employee.
 - Providing high levels of support increases job satisfaction and lower turnover.

Attitudes and Consistency

- People seek consistency in two ways:
 - Consistency among their attitudes.
 - Consistency between their attitudes and behaviors.
- If an inconsistency arises, individuals:
 - Alter their attitudes
or
 - Alter their behavior
or
 - Develop a rationalization for the inconsistency

Cognitive Dissonance Theory

- Cognitive Dissonance

- Any incompatibility or inconsistency between attitudes or between behavior and attitudes.
 - ❖ Any form of inconsistency is uncomfortable and individuals will try to reduce the dissonance.
- The intensity of the desire to reduce the dissonance is influenced by:
 - ❖ The importance of the factors creating the dissonance.
 - ❖ The degree to which an individual believes that the factors causing the dissonance are controllable.
 - ❖ Rewards available to compensate for the dissonance.

Attitude Surveys

- **Attitude Surveys**
 - A instrument/document that presents employees with a set of statements or questions eliciting how they feel about their jobs, work groups, supervisors, or their organization.
 - Provide management with feedback on employee perceptions of the organization and their jobs.

Exhibit 14.2 Sample Attitude Survey

Please answer each of the following statements using the following rating scale:

5 = Strongly agree

4 = Agree

3 = Undecided

2 = Disagree

1 = Strongly disagree

Statement	Rating
1. This company is a pretty good place to work.	_____
2. I can get ahead in this company if I make the effort.	_____
3. This company's wage rates are competitive with those of other companies.	_____
4. Employee promotion decisions are handled fairly.	_____
5. I understand the various fringe benefits the company offers.	_____
6. My job makes the best use of my abilities.	_____
7. My workload is challenging but not burdensome.	_____
8. I have trust and confidence in my boss.	_____
9. I feel free to tell my boss what I think.	_____
10. I know what my boss expects of me.	_____

Source: Based on T. Lammers, "The Essential Employee Survey," *Inc.*, December 1992, pp. 159–161.

The Importance of Attitudes

- **Implication for Managers**

- Attitudes warn of potential behavioral problems:
 - ❖ Managers should do things that generate the positive attitudes that reduce absenteeism and turnover.
- Attitudes influence behaviors of employees:
 - ❖ Managers should focus on helping employees become more productive to increase job satisfaction.
- Employees will try to reduce dissonance unless:
 - ❖ Managers identify the external sources of dissonance.
 - ❖ Managers provide rewards compensating for the dissonance.

Personality

- **Personality**
 - The unique combination of psychological characteristics (measurable traits) that affect how a person reacts and interacts with others.



Classifying Personality Traits

- Myers Briggs Type Indicator (MBTI®)

- A general personality assessment tool that measures the personality of an individual using four categories:
 - ❖ Social interaction: Extrovert or Introvert (E or I)
 - ❖ Preference for gathering data: Sensing or Intuitive (S or N)
 - ❖ Preference for decision making: Feeling or Thinking (F or T)
 - ❖ Style of decision making: Perceptive or Judgmental (P or J)

Exhibit 14.3 Examples of MBTI® Types

Type	Description
INFJ (introvert, intuitive, feeling, judgmental)	Quietly forceful, conscientious, and concerned for others. Such people succeed by perseverance, originality, and the desire to do whatever is needed or wanted. They are often highly respected for their uncompromising principles.
ESTP (extrovert, sensing, thinking, perceptive)	Blunt and sometimes insensitive. Such people are matter-of-fact and do not worry or hurry. They enjoy whatever comes along. They work best with real things that can be assembled or disassembled.
ISFP (introvert, sensing, feeling, perceptive)	Sensitive, kind, modest, shy, and quietly friendly. Such people strongly dislike disagreements and will avoid them. They are loyal followers and quite often are relaxed about getting things done.
ENTJ (extrovert, intuitive, thinking, judgmental)	Warm, friendly, candid, and decisive; also usually skilled in anything that requires reasoning and intelligent talk, but may sometimes overestimate what they are capable of doing.

Source: Based on I. Briggs-Myers, *Introduction to Type* (Palo Alto, CA: Consulting Psychologists Press, 1980), pp. 7–8.

The Big-Five Model

- **Extraversion**
 - Sociable, talkative, and assertive
- **Agreeableness**
 - Good-natured, cooperative, and trusting
- **Conscientiousness**
 - Responsible, dependable, persistent, and achievement oriented
- **Emotional Stability**
 - Calm, enthusiastic, and secure or tense, nervous, and insecure
- **Openness to Experience**
 - Imaginative, artistically sensitive, and intellectual

Other Personality Insights

- **Locus of Control**
 - **Internal locus:** persons who believe that they control their own destiny.
 - **External locus:** persons who believe that what happens to them is due to luck or chance (the uncontrollable effects of outside forces) .
- **Machiavellianism (Mach)**
 - The degree to which an individual is pragmatic, maintains emotional distance, and seeks to gain and manipulate power—ends can justify means.

Other Personality Insights (cont'd)

- **Self-Esteem (SE)**
 - The degree to which people like or dislike themselves
 - High SEs
 - ❖ Believe in themselves and expect success.
 - ❖ Take more risks and use unconventional approaches.
 - ❖ Are more satisfied with their jobs than Low SEs.
 - Low SEs
 - ❖ Are more susceptible to external influences.
 - ❖ Depend on positive evaluations from others.
 - ❖ Are more prone to conform than high SEs.

Other Personality Insights (cont'd)

- **Self-Monitoring**

- An individual's ability to adjust his or her behavior to external, situational factors.
- High self-monitors:
 - ❖ Are sensitive to external cues and behave differently in different situations.
 - ❖ Can present contradictory public persona and private selves —impression management.
- Low self-monitors
 - ❖ Do not adjust their behavior to the situation.
 - ❖ Are behaviorally consistent in public and private.

Other Personality Insights (cont'd)

- Risk-Taking
 - The propensity (or willingness) to take risks.
 - ❖ High risk-takers take less time and require less information than low risk-takers when making a decision.
 - Organizational effectiveness is maximized when the risk-taking propensity of a manager is aligned with the specific demands of the job assigned to the manager.

Emotions

- Emotions
 - Intense feelings (reactions) that are directed at specific objects (someone or something)
 - Universal emotions:
 - ❖ Anger
 - ❖ Fear
 - ❖ Sadness
 - ❖ Happiness
 - ❖ Disgust
 - ❖ Surprise



Emotional Intelligence

- Emotional Intelligence (EI)
 - An assortment of noncognitive skills, capabilities, and competencies that influence a person's ability to succeed in coping with environmental demands and pressures.
 - Dimensions of EI:
 - ❖ Self-awareness: knowing what you're feeling
 - ❖ Self-management: managing emotions and impulses
 - ❖ Self-motivation: persisting despite setbacks and failures
 - ❖ Empathy: sensing how others are feeling
 - ❖ Social skills: handling the emotions of others

Implications for Managers

- Employee selection
- Helps in understanding employee behavior(s)
- By understanding others' behavior(s), can work better with them

Understanding Personality Differences

- **Personality-Job Fit Theory (Holland)**
 - An employee's job satisfaction and likelihood of turnover depends on the compatibility of the employee's personality and occupation.
 - Key points of the theory:
 - ❖ There are differences in personalities.
 - ❖ There are different types of jobs.
 - ❖ Job satisfaction and turnover are related to the match between personality and job for an individual.

Exhibit 14.4 Holland's Typology of Personality and Sample Occupations

Type	Personality Characteristics	Sample Occupations
<i>Realistic.</i> Prefers physical activities that require skill, strength, and coordination.	Shy, genuine, persistent, stable, conforming, practical	Mechanic, drill press operator, assembly-line worker, farmer
<i>Investigative.</i> Prefers activities involving thinking, organizing, and understanding.	Analytical, original, curious, independent	Biologist, economist, mathematician, news reporter
<i>Social.</i> Prefers activities that involve helping and developing others.	Sociable, friendly, cooperative, understanding	Social worker, teacher, counselor clinical psychologist
<i>Conventional.</i> Prefers rule-regulated, orderly, and unambiguous activities.	Conforming, efficient, practical, unimaginative, inflexible	Accountant, corporate manager, bank teller, file clerk
<i>Enterprising.</i> Prefers verbal activities in which there are opportunities to influence others and attain power.	Self-confident, ambitious, energetic, domineering	Lawyer, real estate agent, public relations specialist, small business manager
<i>Artistic.</i> Prefers ambiguous and unsystematic activities that allow creative expression.	Imaginative, disorderly, idealistic, emotional, impractical	Painter, musician, writer, interior decorator

Source: Based on J. L. Holland, *Making Vocational Choices: A Theory of Vocational Personalities and Work Environments* (Odessa, FL: Psychological Assessment Resources, 1997).

Perception

- Perception
 - A process by which individuals give meaning (reality) to their environment by organizing and interpreting their sensory impressions.
- Factors influencing perception:
 - The perceiver's personal characteristics—interests, biases and expectations
 - The target's characteristics—distinctiveness, contrast, and similarity)
 - The situation (context) factors—place, time, location —draw attention or distract from the target

Exhibit 14.5 Perception Challenges: What Do You See?



Old woman or young woman?

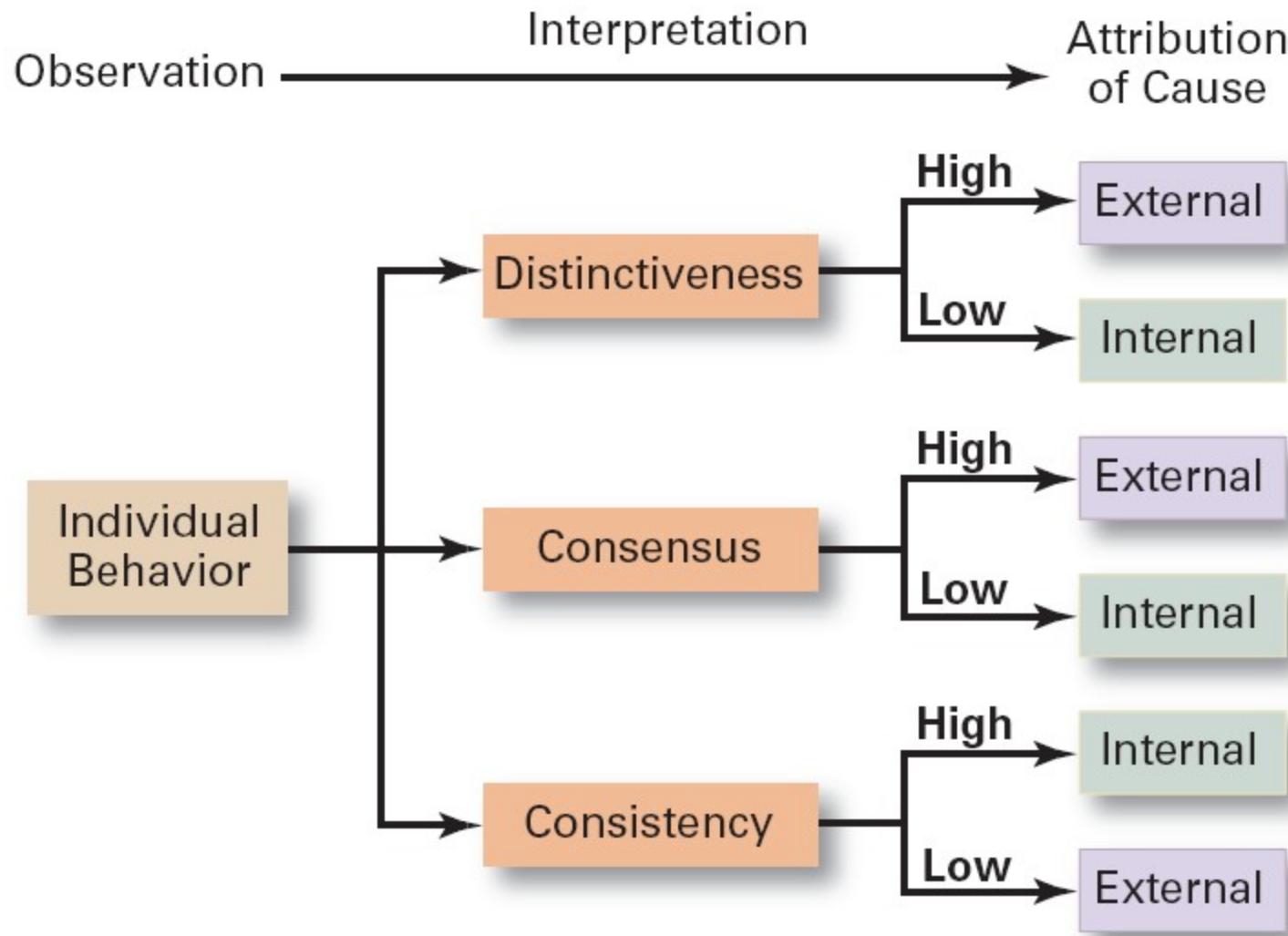


A knight on a horse?

How We Perceive People

- **Attribution Theory**
 - How the actions of individuals are perceived by others depends on what meaning (causation) we attribute to a given behavior.
 - ❖ Internally caused behavior: under the individual's control
 - ❖ Externally caused behavior: due to outside factors
 - Determining the source of behaviors:
 - ❖ Distinctiveness: different behaviors in different situations
 - ❖ Consensus: behaviors similar to others in same situation
 - ❖ Consistency: regularity of the same behavior over time

Exhibit 14.6 Attribution Theory



How We Perceive People (cont'd)

- **Attribution Theory – errors and biases (cont'd)**
 - Fundamental attribution error
 - ❖ The tendency to underestimate the influence of external factors and to overestimate the influence of internal or personal factors.
 - Self-serving bias
 - ❖ The tendency of individuals to attribute their successes to internal factors while blaming personal failures on external factors.

Shortcuts Used in Judging Others

- **Assumed Similarity**
 - Assuming that others are more like us than they actually are.
- **Stereotyping**
 - Judging someone on the basis of our perception of a group he or she is a part of.
- **Halo Effect**
 - Forming a general impression of a person on the basis of a single characteristic of that person

Implications for Managers

- Employees react to perceptions
- Pay close attention to how employees perceive their jobs and management actions

Learning

- Learning
 - Any relatively permanent change in behavior that occurs as a result of experience.
 - ❖ Almost all complex behavior is learned.
 - ❖ Learning is a continuous, life-long process.
 - ❖ The principles of learning can be used to shape behavior
- Theories of learning:
 - Operant conditioning
 - Social learning

Learning (cont'd)

- Operant Conditioning (B.F. Skinner)
 - The theory that behavior is a function of its consequences and is learned through experience.
 - Operant behavior: voluntary or learned behaviors
 - ❖ Behaviors are learned by making rewards contingent to behaviors.
 - ❖ Behavior that is rewarded (positively reinforced) is likely to be repeated.
 - ❖ Behavior that is punished or ignored is less likely to be repeated.

Learning (cont'd)

- **Social Learning**

- The theory that individuals learn through their observations of others and through their direct experiences.
- Attributes of models that influence learning:
 - ❖ **Attentional:** the attractiveness or similarity of the model
 - ❖ **Retention:** how well the model can be recalled
 - ❖ **Motor reproduction:** the reproducibility of the model's actions
 - ❖ **Reinforcement:** the rewards associated with learning the model behavior

Shaping: A Managerial Tool

- **Shaping Behavior**
 - Attempting to “mold” individuals by guiding their learning in graduated steps such that they learn to behave in ways that most benefit the organization.
 - Shaping methods:
 - ❖ **Positive reinforcement:** rewarding desired behaviors.
 - ❖ **Negative reinforcement:** removing an unpleasant consequence once the desired behavior is exhibited.
 - ❖ **Punishment:** penalizing an undesired behavior.
 - ❖ **Extinction:** eliminating a reinforcement for an undesired behavior.

Contemporary Issues in OB

- Managing Generational Differences in the Workplace

- Gen Y: individuals born after 1978

- ❖ Bring new attitudes to the workplace that reflect wide arrays of experiences and opportunities
 - ❖ Want to work, but don't want work to be their life
 - ❖ Challenge the status quo
 - ❖ Have grown up with technology



Exhibit 14.7 Gen Y Workers

Gen Y Workers

High Expectations of Self

They aim to work faster and better than other workers.

High Expectations of Employers

They want fair and direct managers who are highly engaged in their professional development.

Ongoing Learning

They seek out creative challenges and view colleagues as vast resources from whom to gain knowledge.

Immediate Responsibility

They want to make an important impact on Day 1.

Goal-Oriented

They want small goals with tight deadlines so they can build up ownership of tasks.

Source: Bruce Tulgan of Rainmaker Thinking. Used with permission.

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14-517

Contemporary Issues in OB

- Managing Negative Behavior in the Workplace
 - Tolerating negative behavior sends the wrong message to other employees
 - Both preventive and responsive actions to negative behaviors are needed:
 - ❖ Screening potential employees
 - ❖ Responding immediately and decisively to unacceptable behavior
 - ❖ Paying attention to employee attitudes

Terms to Know

- behavior
- organizational behavior
- employee productivity
- absenteeism
- turnover
- organizational citizenship behavior
- job satisfaction
- workplace misbehavior
- attitudes
- cognitive component
- affective component
- behavioral component
- job involvement
- organizational commitment
- perceived organizational support
- cognitive dissonance
- attitude surveys
- personality
- big-five model
- locus of control
- Machiavellianism

Terms to Know (cont'd)

- self-esteem
- self-monitoring
- impression management
- emotions
- emotional intelligence (EI)
- perception
- attribution theory
- fundamental attribution error
- self-serving bias
- assumed similarity
- stereotyping
- halo effect
- learning
- operant conditioning
- social learning theory
- shaping behavior



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Chapter
15

Understanding Groups and Teams

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Understanding Groups

- Define the different types of groups.
- Describe the five stages of group development.

Explaining Work Group Behavior

- Explain the major components that determine group performance and satisfaction.
- Discuss how roles, norms, conformity, status systems, group size, and group cohesiveness influence group behavior.
- Explain how group norms can both help and hurt an organization.
- Define groupthink and social loafing.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Explaining Work Group Behavior (cont'd)

- Describe the relationships between group cohesiveness and productivity.
- Discuss how conflict management influences group behavior.
- Tell the advantages and disadvantages of group decision making.

Creating Effective Teams

- Compare groups and teams.
- Explain why teams have become so popular in organizations.
- Describe the four most common types of teams.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Creating Effective Teams (cont'd)

- List the characteristics of effective teams.

Current Challenges in Managing Teams

- Discuss the challenges of managing global teams
- Explain the role of informal (social) networks in managing teams.

Understanding Groups

- **Group**
 - Two or more interacting and interdependent individuals who come together to achieve specific goals.
 - **Formal groups**
 - ❖ Work groups defined by the organization's structure that have designated work assignments and tasks.
 - Appropriate behaviors are defined by and directed toward organizational goals.
 - **Informal groups**
 - ❖ Groups that are independently formed to meet the social needs of their members.

Exhibit 15–1 Examples of Formal Groups

- **Command Groups**

➤ Groups that are determined by the organization chart and composed of individuals who report directly to a given manager.

- **Task Groups**

➤ Groups composed of individuals brought together to complete a specific job task; their existence is often temporary because once the task is completed, the group disbands.

Exhibit 15–1 Examples of Formal Groups (cont'd)

- **Cross-Functional Teams**

➤ Groups that bring together the knowledge and skills of individuals from various work areas or groups whose members have been trained to do each others' jobs.

- **Self-Managed Teams**

➤ Groups that are essentially independent and in addition to their own tasks, take on traditional responsibilities such as hiring, planning and scheduling, and performance evaluations.

Stages in Group Development

- **Forming**
 - Members join and begin the process of defining the group's purpose, structure, and leadership.
- **Storming**
 - Intragroup conflict occurs as individuals resist control by the group and disagree over leadership.
- **Norming**
 - Close relationships develop as the group becomes cohesive and establishes its norms for acceptable behavior.
- **Performing**
 - A fully functional group structure allows the group to focus on performing the task at hand.
- **Adjourning**
 - The group prepares to disband and is no longer concerned with high levels of performance.

Exhibit 15–2 Stages of Group Development

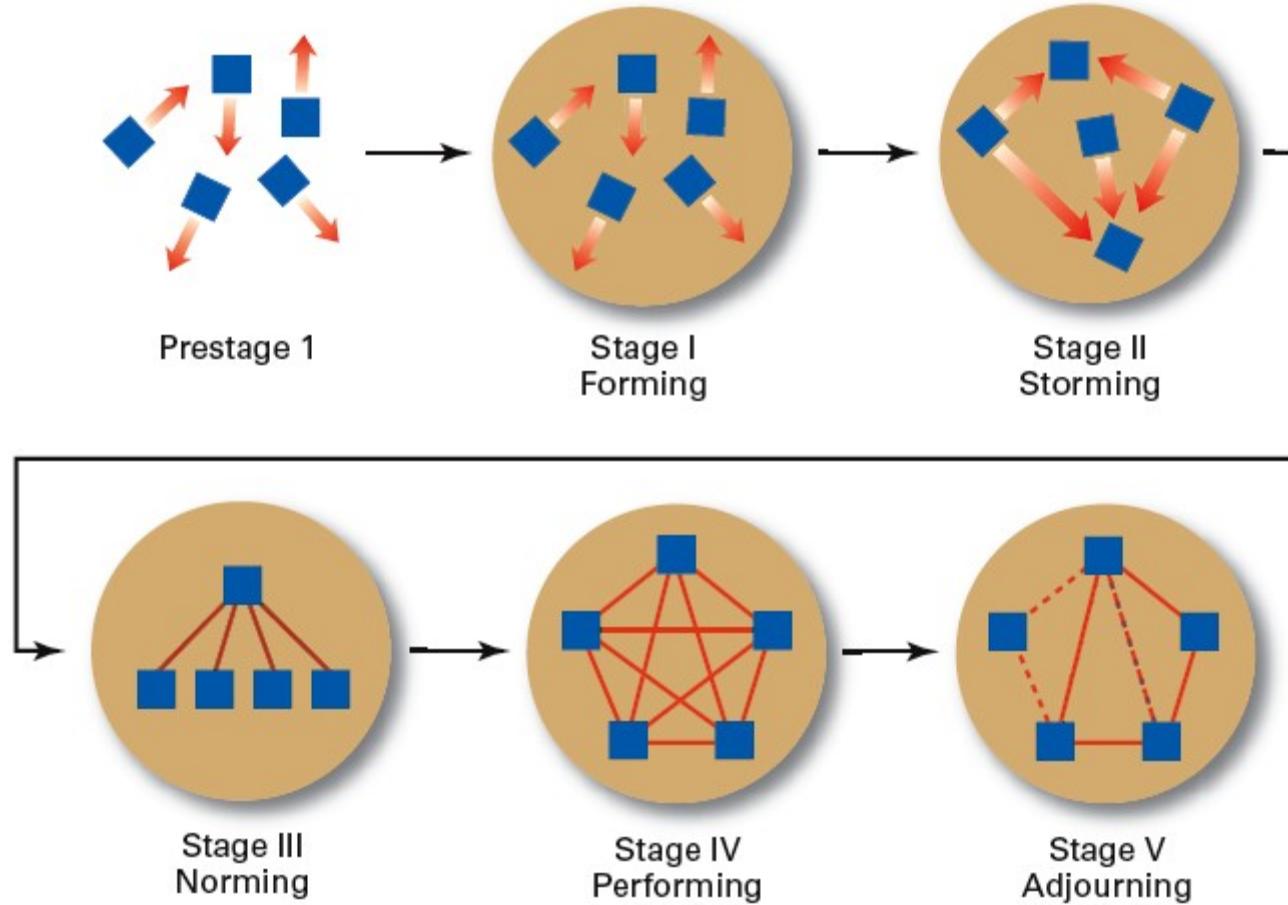
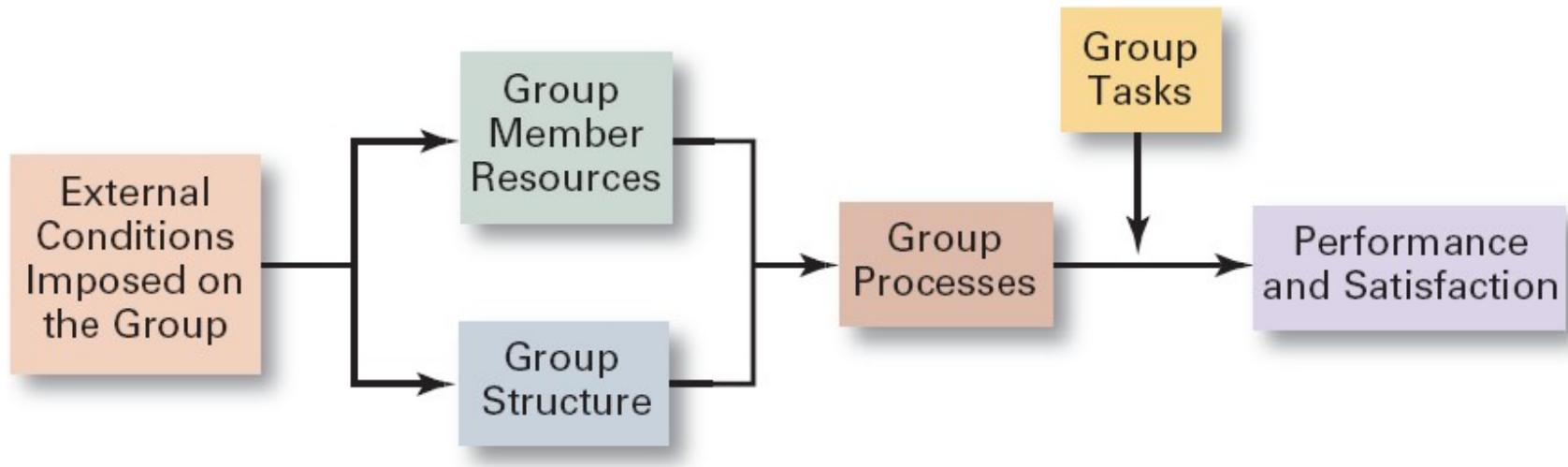


Exhibit 15–3 Group Behavior Model



Work Group Behavior

- Internal Variables Affecting Group Behavior
 - The individual abilities of the group's members
 - The size of the group
 - The level of conflict
 - The internal pressures on members to conform to the group's norms

Conditions Affecting Group Behavior

- **External (Organizational) Conditions**

- Overall strategy
- Authority structures
- Formal regulations
- Available organizational resources
- Employee selection criteria
- Performance management (appraisal) system
- Organizational culture
- General physical layout

- **Internal Group Variables**

- Individual competencies and traits of members
- Group structure
- Size of the group
- Cohesiveness and the level of intragroup conflict
- Internal pressures on members to conform to the group's norms

Group Structure

- **Role**
 - The set of expected behavior patterns attributed to someone who occupies a given position in a social unit that assist the group in task accomplishment or maintaining group member satisfaction.
 - Role conflict: experiencing differing role expectations
 - Role ambiguity: uncertainty about role expectations

Group Structure (cont'd)

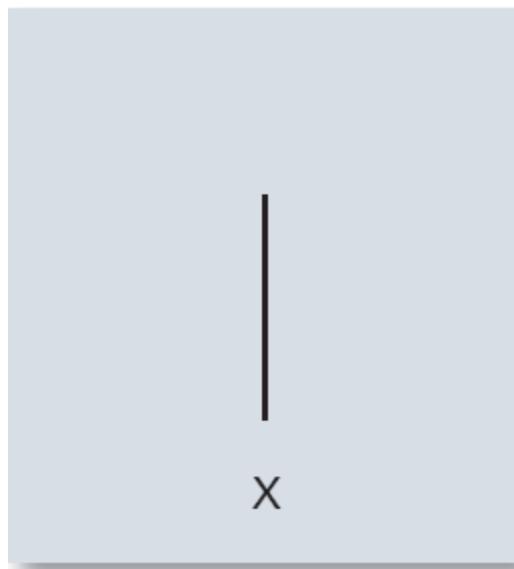
- Norms
 - Acceptable standards or expectations that are shared by the group's members.
- Common types of norms
 - Effort and performance
 - ❖ Output levels, absenteeism, promptness, socializing
 - Dress
 - Loyalty

Group Structure (cont'd)

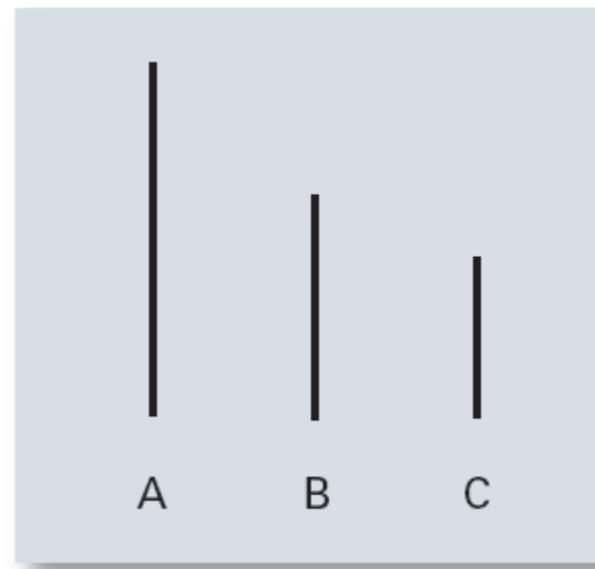
- **Conformity**

- Individuals conform in order to be accepted by groups.
- Group pressures can have an effect on an individual member's judgment and attitudes.
- The effect of conformity is not as strong as it once was, although still a powerful force.
- **Groupthink**
 - ❖ The extensive pressure of others in a strongly cohesive or threatened group that causes individual members to change their opinions to conform to that of the group.

Exhibit 15–4 Examples of Cards Used in the Asch Study



X



A

B

C

Group Structure (cont'd)

- **Status System**
 - The formal or informal prestige grading, position, or ranking system for members of a group that serves as recognition for individual contributions to the group and as a behavioral motivator.
 - ❖ Formal status systems are effective when the perceived ranking of an individual and the status symbols accorded that individual are congruent.

Group Structure: Group Size

- **Small groups**
 - Complete tasks faster than larger groups.
 - Make more effective use of facts.
- **Large groups**
 - Solve problems better than small groups.
 - Are good for getting diverse input.
 - Are more effective in fact-finding.
- **Social Loafing**
 - The tendency for individuals to expend less effort when working collectively than when work individually.



Group Structure (cont'd)

- **Group Cohesiveness**

- The degree to which members are attracted to a group and share the group's goals.
 - ❖ Highly cohesive groups are more effective and productive than less cohesive groups when their goals aligned with organizational goals.



Exhibit 15–5 The Relationship Between Cohesiveness and Productivity

		Cohesiveness	
		High	Low
Alignment of Group and Organizational Goals	High	Strong Increase in Productivity	Moderate Increase in Productivity
	Low	Decrease in Productivity	No Significant Effect on Productivity

Group Processes: Group Decision Making

- **Advantages**

- Generates more complete information and knowledge.
- Generates more diverse alternatives.
- Increases acceptance of a solution.
- Increases legitimacy of decision.

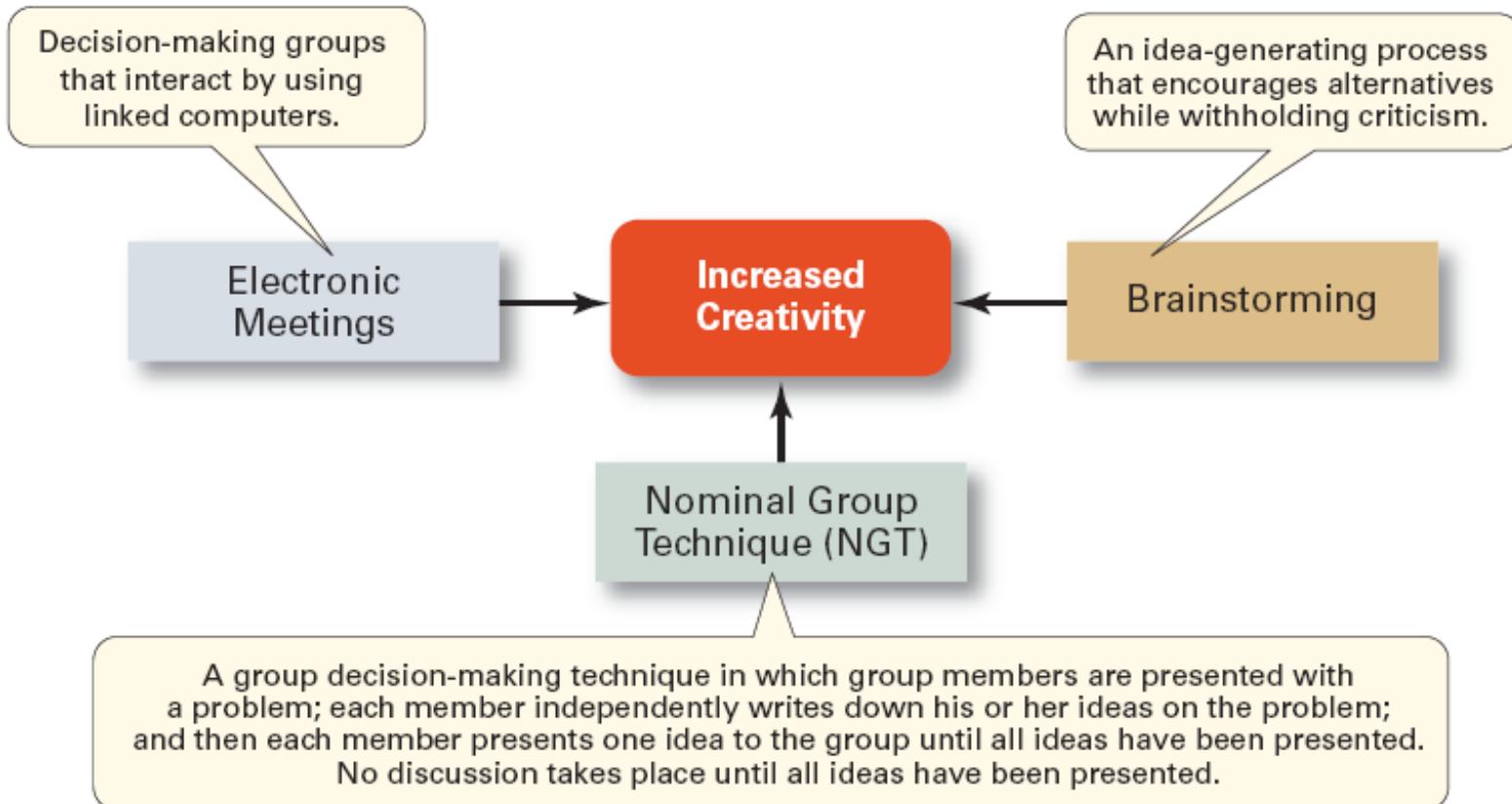
- **Disadvantages**

- Time consuming
- Minority domination
- Pressures to conform
- Ambiguous responsibility

Exhibit 15–6 Group versus Individual Decision Making

Criteria of Effectiveness	Groups	Individuals
Accuracy	✓	
Speed		✓
Creativity	✓	
Degree of acceptance	✓	
Efficiency		✓

Exhibit 15–7 Techniques for Making More Creative Group Decisions



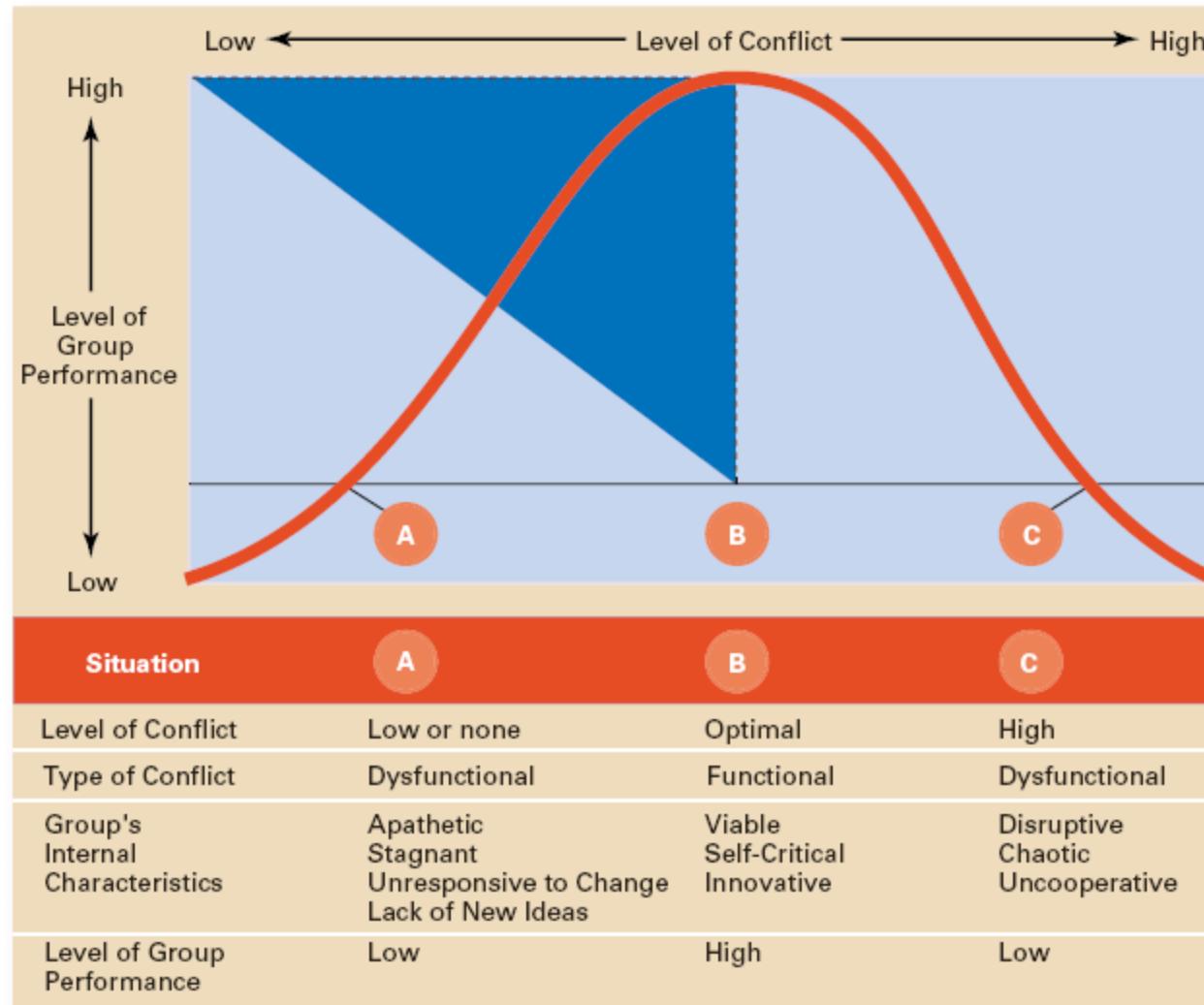
Group Processes: Conflict Management

- **Conflict**
 - The perceived incompatible differences in a group resulting in some form of interference with or opposition to its assigned tasks.
 - ❖ **Traditional view:** conflict must be avoided.
 - ❖ **Human relations view:** conflict is a natural and inevitable outcome in any group.
 - ❖ **Interactionist view:** conflict can be a positive force and is absolutely necessary for effective group performance.

Group Processes: Conflict Management (cont'd)

- **Categories of Conflict**
 - Functional conflicts are constructive.
 - Dysfunctional conflicts are destructive.
- **Types of Conflict**
 - Task conflict: content and goals of the work
 - Relationship conflict: interpersonal relationships
 - Process conflict: how the work gets done

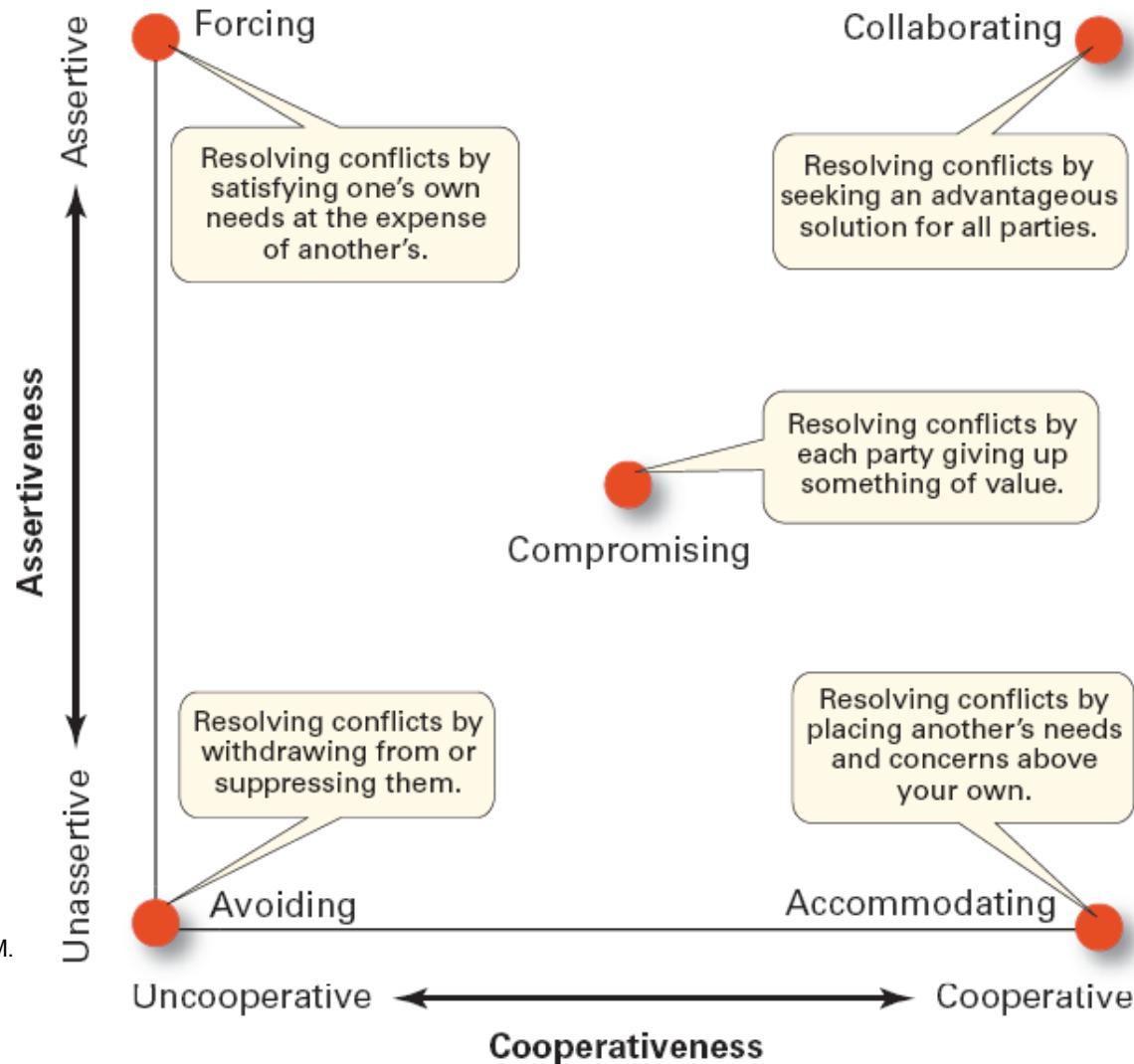
Exhibit 15–8 Conflict and Group Performance



Group Processes: Conflict Management (cont'd)

- **Techniques to Reduce Conflict:**
 - Avoidance
 - Accommodation
 - Forcing
 - Compromise
 - Collaboration

Exhibit 15–9 Conflict-Management Techniques



Source: Adapted from K.W. Thomas, "Conflict and Negotiation Processes in Organizations," in M.D. Dunnette and L.M. Hough (eds.) *Handbook of Industrial and Organizational Psychology*, vol. 3, 2d ed. (Palo Alto, CA: Consulting Psychologists Press, 1992), p. 668. With permission.

Group Tasks and Group Effectiveness

- **Highly complex and interdependent tasks require:**
 - Effective communications: discussion among group members.
 - Controlled conflict: More interaction among group members.

What Is a Team?

- **Work Team**
 - A group whose members work intensely on a specific common goal using their positive synergy, individual and mutual accountability, and complementary skills.
- **Types of Teams**
 - Problem-solving teams
 - Self-managed work teams
 - Cross-functional teams
 - Virtual teams

Exhibit 15–10 Groups versus Teams

Work Group	Team
<ul style="list-style-type: none">• Strong, clearly focused leader• Individual accountability• The group's purpose is the same as the broader organizational mission• Individual work products• Runs efficient meetings• Measures its effectiveness indirectly by its influence on others (such as financial performance of the business)• Discusses, decides, and delegates together	<ul style="list-style-type: none">• Shared leadership roles• Individual and mutual accountability• Specific team purpose that the team itself delivers• Collective work products• Encourages open-ended discussion and active problem-solving meetings• Measures performance directly by assessing collective work products• Discusses, decides, and does real work

Types of Teams

- Problem-solving Teams
 - Employees from the same department and functional area who are involved in efforts to improve work activities or to solve specific problems.
- Self-managed Work Teams
 - A formal group of employees who operate without a manager and responsible for a complete work process or segment.

Types of Teams (cont'd)

- **Cross-functional Teams**

- A hybrid grouping of individuals who are experts in various specialties and who work together on various tasks.

- **Virtual Teams**

- Teams that use computer technology to link physically dispersed members in order to achieve a common goal.

Advantages of Using Teams

- Teams outperform individuals.
- Teams provide a way to better use employee talents.
- Teams are more flexible and responsive.
- Teams can be quickly assembled, deployed, refocused, and disbanded.



Exhibit 15–11 Characteristics of Effective Teams



Characteristics of Effective Teams

- Have a clear understanding of their goals.
- Have competent members with relevant technical and interpersonal skills.
- Exhibit high mutual trust in the character and integrity of their members.
- Are unified in their commitment to team goals.
- Have good communication systems.
- Possess effective negotiating skills
- Have appropriate leadership
- Have both internally and externally supportive environments

Current Challenges in Managing Teams

- **Getting employees to:**

- Cooperate with others
- Share information
- Confront differences
- Sublimate personal interest for the greater good of the team



Managing Global Teams

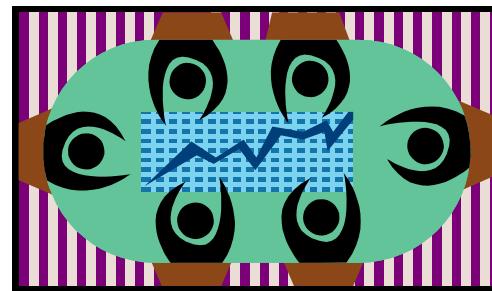
- **Group Member Resources**
 - Unique cultural characteristics of team members
 - Avoiding stereotyping
- **Group Structure**
 - Conformity—less groupthink
 - Status—varies in importance among cultures
 - Social loafing—predominately a Western bias
 - Cohesiveness—more difficult to achieve
- **Group processes—capitalize on diverse ideas**
- **Manager's role—a communicator sensitive to the type of globe team to use.**

Exhibit 15–12 Drawbacks and Benefits of Global Teams

Drawbacks	Benefits
<ul style="list-style-type: none">• Dislike team members• Mistrust team members• Stereotyping• Communication problems• Stress and tension	<ul style="list-style-type: none">• Greater diversity of ideas• Limited groupthink• Increased attention on understanding others' ideas, perspectives, etc.

Understanding Social Networks

- **Social Network**
 - The patterns of informal connections among individuals within groups
- **The Importance of Social Networks**
 - Relationships can help or hinder team effectiveness
 - Relationships improve team goal attainment and increase member commitment to the team.

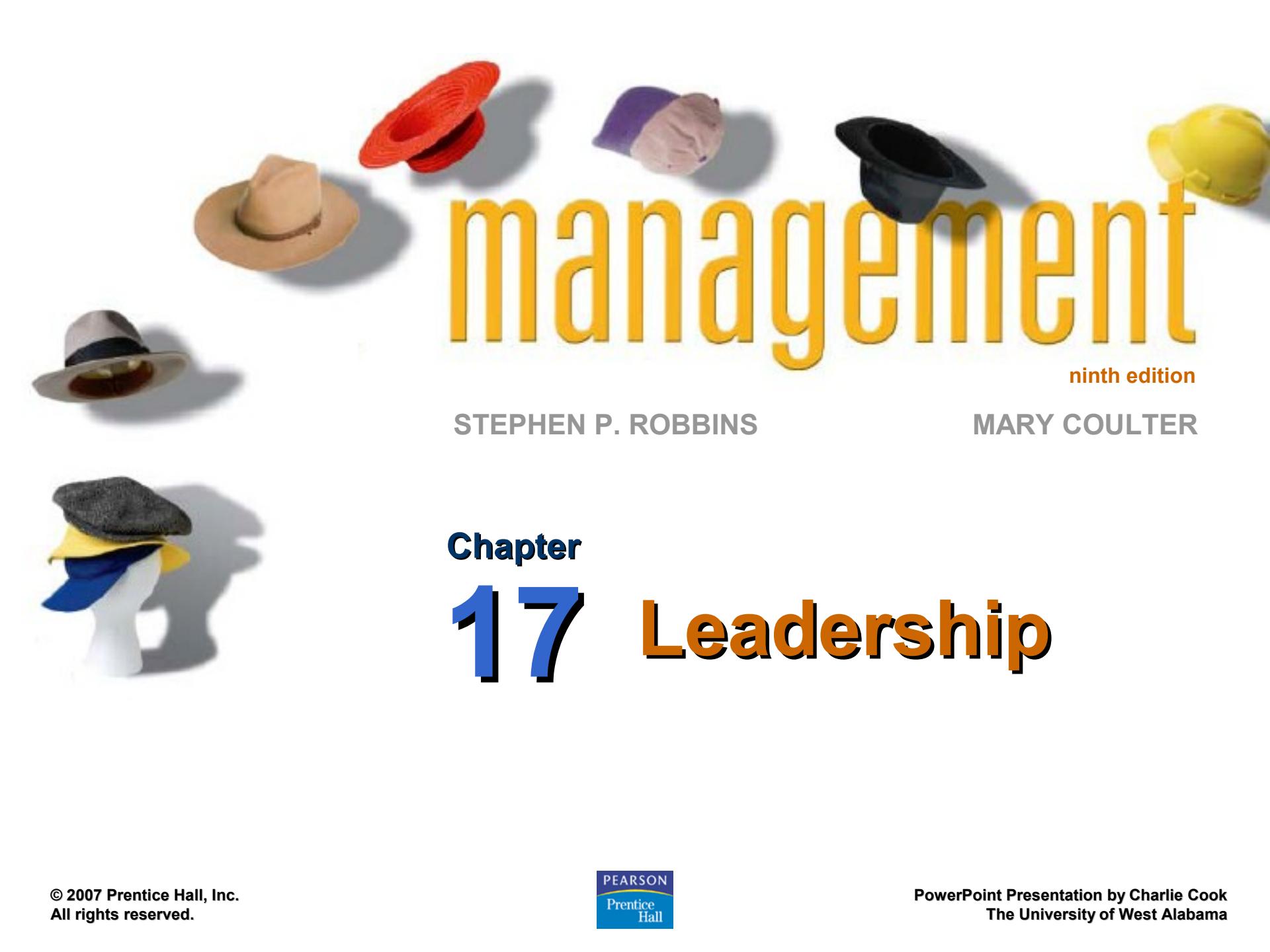


Terms to Know

- group
- forming
- storming
- norming
- performing
- adjourning
- role
- norms
- groupthink
- status
- social loafing
- group cohesiveness
- conflict
- traditional view of conflict
- human relations view of conflict
- interactionist view of conflict
- functional conflicts
- dysfunctional conflicts
- task conflict
- relationship conflict
- process conflict
- work teams

Terms to Know

- problem-solving team
- self-managed work team
- cross-functional team
- virtual team
- social network structure



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MARY COULTER

Chapter

17 Leadership

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Who Are Leaders and What Is Leadership

- Define leaders and leadership.
- Explain why managers should be leaders.

Early Leadership Theories

- Discuss what research has shown about leadership traits.
- Contrast the findings of the four behavioral leadership theories.
- Explain the dual nature of a leader's behavior.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Contingency Theories of Leadership

- Explain how Fiedler's theory of leadership is a contingency model.
- Contrast situational leadership theory and the leader participation model.
- Discuss how path-goal theory explains leadership.

Contemporary Views on Leadership

- Differentiate between transactional and transformational leaders.
- Describe charismatic and visionary leadership.
- Discuss what team leadership involves.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Leadership Issues in the Twenty-First Century

- Tell the five sources of a leader's power.
- Discuss the issues today's leaders face.
- Explain why leadership is sometimes irrelevant.

Leaders and Leadership

- Leader – Someone who can influence others and who has managerial authority
- Leadership – What leaders do; the process of influencing a group to achieve goals
- Ideally, all managers *should be* leaders
- Although groups may have informal leaders who emerge, those are not the leaders we're studying

Leadership research has tried to answer: What is an effective leader?

Early Leadership Theories

- Trait Theories (1920s-30s)
 - Research focused on identifying personal characteristics that differentiated leaders from nonleaders was unsuccessful.
 - Later research on the leadership process identified seven traits associated with successful leadership:
 - ❖ Drive, the desire to lead, honesty and integrity, self-confidence, intelligence, job-relevant knowledge, and extraversion.

Exhibit 17–1 Seven Traits Associated with Leadership

1. *Drive.* Leaders exhibit a high effort level. They have a relatively high desire for achievement; they are ambitious; they have a lot of energy; they are tirelessly persistent in their activities; and they show initiative.
2. *Desire to lead.* Leaders have a strong desire to influence and lead others. They demonstrate the willingness to take responsibility.
3. *Honesty and integrity.* Leaders build trusting relationships between themselves and followers by being truthful or nondeceitful and by showing high consistency between word and deed.
4. *Self-confidence.* Followers look to leaders for an absence of self-doubt. Leaders, therefore, need to show self-confidence in order to convince followers of the rightness of their goals and decisions.
5. *Intelligence.* Leaders need to be intelligent enough to gather, synthesize, and interpret large amounts of information, and they need to be able to create visions, solve problems, and make correct decisions.
6. *Job-relevant knowledge.* Effective leaders have a high degree of knowledge about the company, industry, and technical matters. In-depth knowledge allows leaders to make well-informed decisions and to understand the implications of those decisions.
7. *Extraversion.* Leaders are energetic, lively people. They are sociable, assertive, and rarely silent or withdrawn.

Source: S. A. Kirkpatrick and E. A. Locke, "Leadership: Do Traits Really Matter?" *Academy of Management Executive*, May 1991, pp. 48–60; T. A. Judge, J. E. Bono, R. Ilies, and M. W. Gerhardt, "Personality and Leadership: A Qualitative and Quantitative Review," *Journal of Applied Psychology*, August 2002, pp. 765–780.

Exhibit 17–2 Behavioral Theories of Leadership

	Behavioral Dimension	Conclusion
University of Iowa	<p><i>Democratic style:</i> involving subordinates, delegating authority, and encouraging participation</p> <p><i>Autocratic style:</i> dictating work methods, centralizing decision making, and limiting participation</p> <p><i>Laissez-faire style:</i> giving group freedom to make decisions and complete work</p>	Democratic style of leadership was most effective, although later studies showed mixed results.
Ohio State	<p><i>Consideration:</i> being considerate of followers' ideas and feelings</p> <p><i>Initiating structure:</i> structuring work and work relationships to meet job goals</p>	High-high leader (high in consideration and high in initiating structure) achieved high subordinate performance and satisfaction, but not in all situations.

Exhibit 17–2 (cont'd) Behavioral Theories of Leadership

	Behavioral Dimension	Conclusion
University of Michigan	<p><i>Employee-oriented:</i> emphasized interpersonal relationships and taking care of employees' needs</p> <p><i>Production-oriented:</i> emphasized technical or task aspects of job</p>	Employee-oriented leaders were associated with high group productivity and higher job satisfaction.
Managerial Grid	<p><i>Concern for people:</i> measured leader's concern for subordinates on a scale of 1 to 9 (low to high)</p> <p><i>Concern for production:</i> measured leader's concern for getting job done on a scale of 1 to 9 (low to high)</p>	Leaders performed best with a 9.9 style (high concern for production and high concern for people).

Early Leadership Theories (cont'd)

- Behavioral Theories

- University of Iowa Studies (Kurt Lewin)

- ❖ Identified three leadership styles:
 - Autocratic style: centralized authority, low participation
 - Democratic style: involvement, high participation, feedback
 - Laissez faire style: hands-off management
 - ❖ Research findings: mixed results
 - No specific style was consistently better for producing better performance
 - Employees were more satisfied under a democratic leader than an autocratic leader.

Early Leadership Theories (cont'd)

- Behavioral Theories (cont'd)

- Ohio State Studies

- ❖ Identified two dimensions of leader behavior
 - **Initiating structure:** the role of the leader in defining his or her role and the roles of group members
 - **Consideration:** the leader's mutual trust and respect for group members' ideas and feelings.
 - ❖ Research findings: mixed results
 - High-high leaders generally, but not always, achieved high group task performance and satisfaction.
 - Evidence indicated that situational factors appeared to strongly influence leadership effectiveness.

Early Leadership Theories (cont'd)

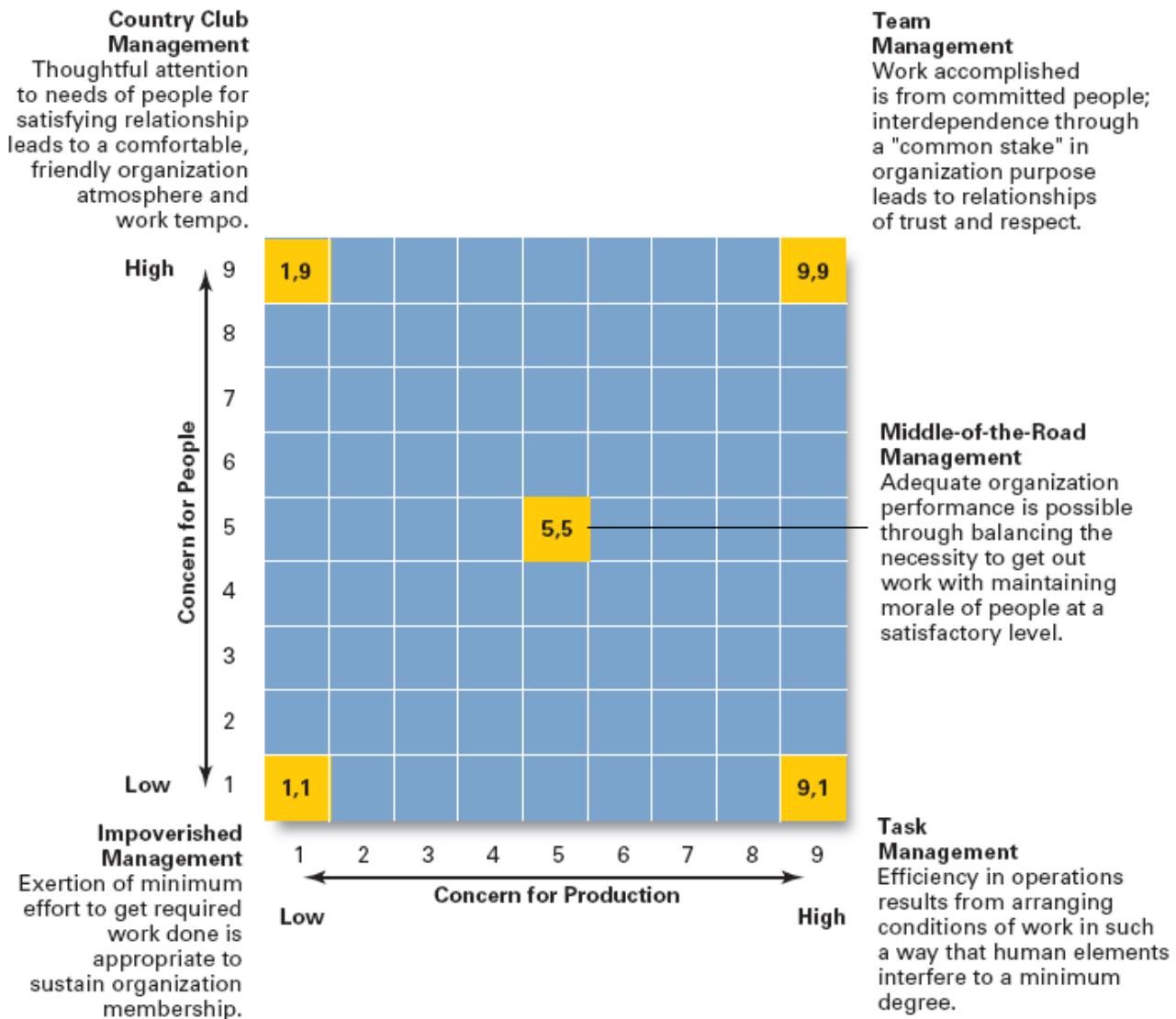
- Behavioral Theories (cont'd)
 - University of Michigan Studies
 - ❖ Identified two dimensions of leader behavior
 - Employee oriented: emphasizing personal relationships
 - Production oriented: emphasizing task accomplishment
 - ❖ Research findings:
 - Leaders who are employee oriented are strongly associated with high group productivity and high job satisfaction.

The Managerial Grid

- Managerial Grid
 - Appraises leadership styles using two dimensions:
 - ❖ Concern for people
 - ❖ Concern for production
 - Places managerial styles in five categories:
 - ❖ Impoverished management
 - ❖ Task management
 - ❖ Middle-of-the-road management
 - ❖ Country club management
 - ❖ Team management

Exhibit 17–3

The Managerial Grid



Source: Reprinted by permission of *Harvard Business Review*. An exhibit from "Breakthrough in Organization Development" by Robert R. Blake, Jane S. Mouton, Louis B. Barnes, and Larry E. Greiner, November–December 1964, p. 136. Copyright © 1964 by the President and Fellows of Harvard College. All rights reserved.

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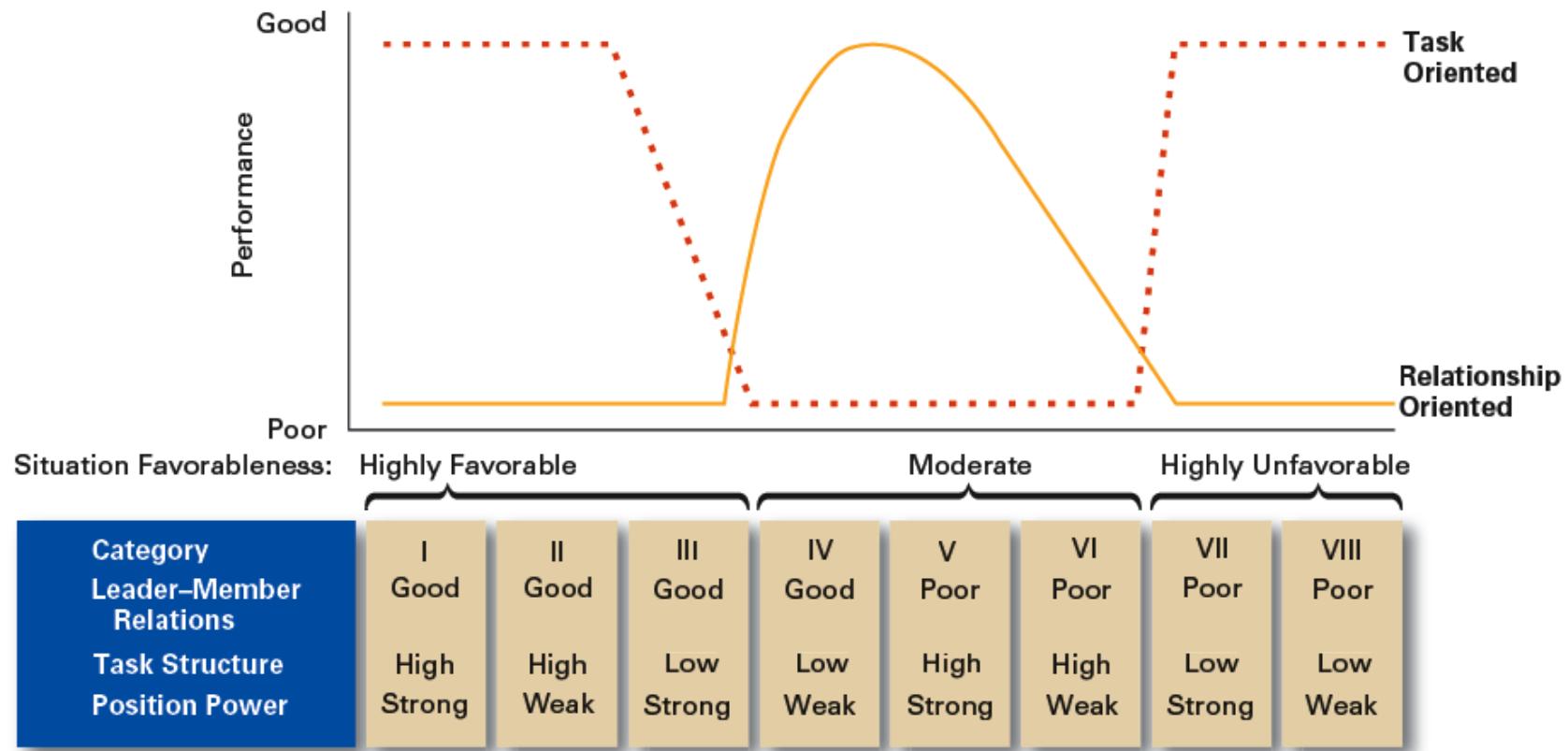
Contingency Theories of Leadership

- The Fiedler Model (cont'd)
 - Proposes that effective group performance depends upon the proper match between the leader's style of interacting with followers and the degree to which the situation allows the leader to control and influence.
 - Assumptions:
 - ❖ A certain leadership style should be most effective in different types of situations.
 - ❖ Leaders do not readily change leadership styles.
 - Matching the leader to the situation or changing the situation to make it favorable to the leader is required.

Contingency Theories... (cont'd)

- The Fiedler Model (cont'd)
 - Least-preferred co-worker (LPC) questionnaire
 - ❖ Determines leadership style by measuring responses to 18 pairs of contrasting adjectives.
 - High score: a relationship-oriented leadership style
 - Low score: a task-oriented leadership style
 - Situational factors in matching leader to the situation:
 - ❖ Leader-member relations
 - ❖ Task structure
 - ❖ Position power

Exhibit 17–4 Findings of the Fiedler Model



Contingency Theories... (cont'd)

- Hersey and Blanchard's Situational Leadership Theory (SLT)
 - Argues that successful leadership is achieved by selecting the right leadership style which is contingent on the level of the followers' readiness.
 - ❖ Acceptance: leadership effectiveness depends on whether followers accept or reject a leader.
 - ❖ Readiness: the extent to which followers have the ability and willingness to accomplish a specific task.
 - Leaders must relinquish control over and contact with followers as they become more competent.

Contingency Theories... (cont'd)

- Hersey and Blanchard's Situational Leadership Theory (SLT)
 - Creates four specific leadership styles incorporating Fiedler's two leadership dimensions:
 - ❖ Telling: high task-low relationship leadership
 - ❖ Selling: high task-high relationship leadership
 - ❖ Participating: low task-high relationship leadership
 - ❖ Delegating: low task-low relationship leadership

Contingency Theories... (cont'd)

- Hersey and Blanchard's Situational Leadership Theory (SLT)
 - Posits four stages follower readiness:
 - ❖ R1: followers are unable and unwilling
 - ❖ R2: followers are unable but willing
 - ❖ R3: followers are able but unwilling
 - ❖ R4: followers are able and willing

Contingency Theories... (cont'd)

- Leader Participation Model (Vroom and Yetton)
 - Posits that leader behavior must be adjusted to reflect the task structure—whether it is routine, nonroutine, or in between—based on a sequential set of rules (contingencies) for determining the form and amount of follower participation in decision making in a given situation.

Contingency Theories... (cont'd)

- Leader Participation Model Contingencies:

- Decision significance
- Importance of commitment
- Leader expertise
- Likelihood of commitment
- Group support
- Group expertise
- Team competence



Exhibit 17–5 Leadership Styles in the Vroom Leader Participation Model

- **Decide:** Leader makes the decision alone and either announces or sells it to group.
- **Consult Individually:** Leader presents the problem to group members individually, gets their suggestions, and then makes the decision.
- **Consult Group:** Leader presents the problem to group members in a meeting, gets their suggestions, and then makes the decision.
- **Facilitate:** Leader presents the problem to the group in a meeting and, acting as facilitator, defines the problem and the boundaries within which a decision must be made.
- **Delegate:** Leader permits the group to make the decision within prescribed limits.

Source: Based on V. Vroom, "Leadership and the Decision-Making Process," *Organizational Dynamics*, vol. 28, no. 4 (2000), p. 84.

Exhibit 17–6

Time-Driven Model

	Decision Significance	Importance of Commitment	Leader Expertise	Likelihood of Commitment	Group Support	Group Expertise	Team Competence	
PROBLEM STATEMENT	H	H	H	H	-	-	-	Decide
				L	H	H	H	Delegate
					L	-	L	
					L	-	-	Consult (Group)
					L	-	-	
	L	L	L	H	H	H	H	Facilitate
					L	-	L	
					L	-	-	Consult (Individually)
					L	-	-	
					L	-	-	Facilitate
	L	H	-	H	-	-	-	Decide
				L	-	H	H	Facilitate
					L	-	L	
					L	-	-	Consult (Individually)
					L	-	-	
	L	-	H	H	-	-	-	Decide
				L	-	-	H	Delegate
					L	-	L	Facilitate
					L	-	-	Decide

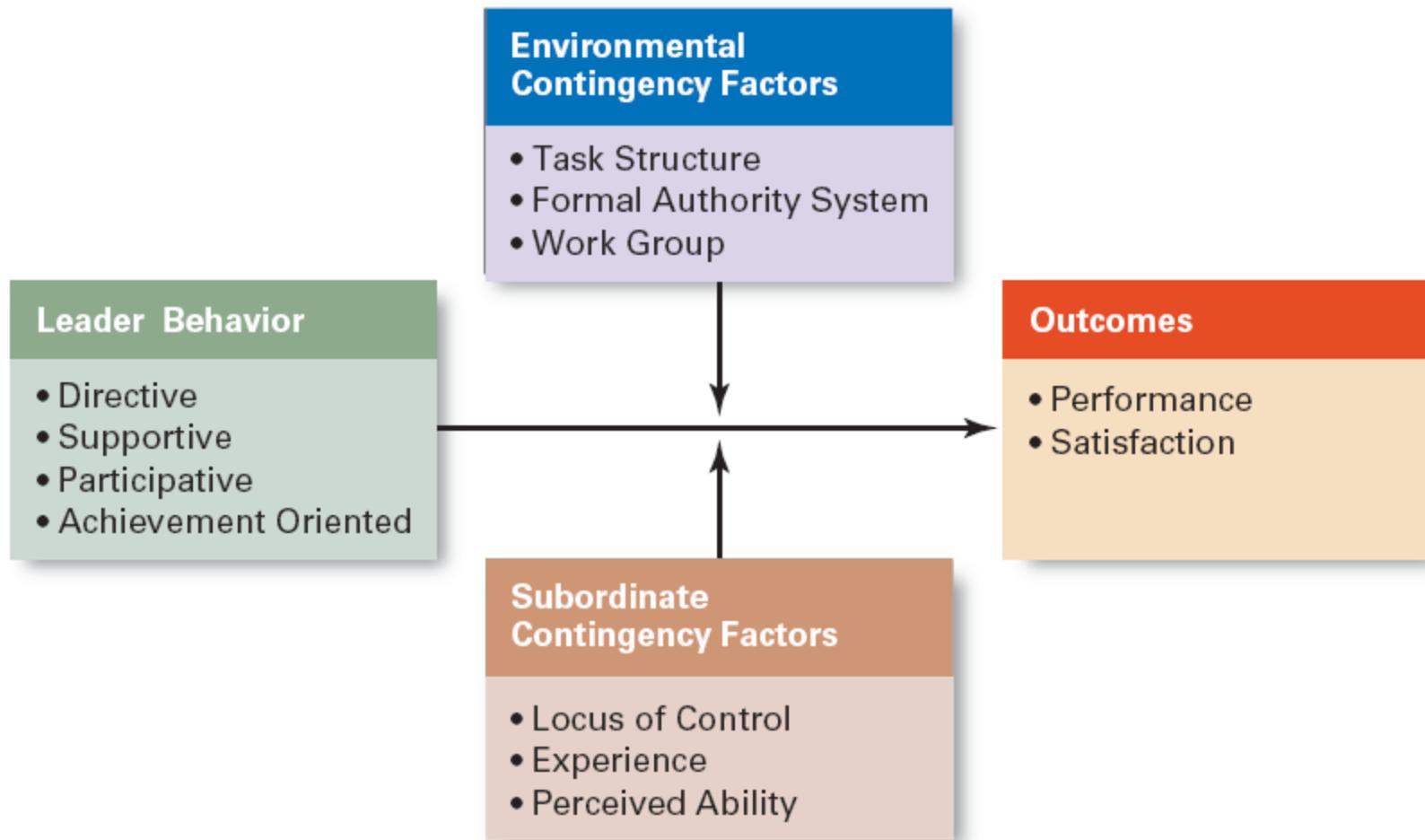
Source: Adapted from V. Vroom, "Leadership and the Decision-Making Process," *Organizational Dynamics*, vol. 28, no. 4 (2000), p. 87.

Contingency Theories... (cont'd)

- **Path-Goal Model**

- States that the leader's job is to assist his or her followers in attaining their goals and to provide direction or support to ensure their goals are compatible with organizational goals.
- Leaders assume different leadership styles at different times depending on the situation:
 - ❖ Directive leader
 - ❖ Supportive leader
 - ❖ Participative leader
 - ❖ Achievement oriented leader

Exhibit 17–7 Path-Goal Theory



Contemporary Views on Leadership

- **Transactional Leadership**
 - Leaders who guide or motivate their followers in the direction of established goals by clarifying role and task requirements.
- **Transformational Leadership**
 - Leaders who inspire followers to transcend their own self-interests for the good of the organization by clarifying role and task requirements.
 - Leaders who also are capable of having a profound and extraordinary effect on their followers.

Contemporary Views...(cont'd)

- **Charismatic Leadership**

- An enthusiastic, self-confident leader whose personality and actions influence people to behave in certain ways.
- Characteristics of charismatic leaders:
 - ❖ Have a vision.
 - ❖ Are able to articulate the vision.
 - ❖ Are willing to take risks to achieve the vision.
 - ❖ Are sensitive to the environment and follower needs.
 - ❖ Exhibit behaviors that are out of the ordinary.

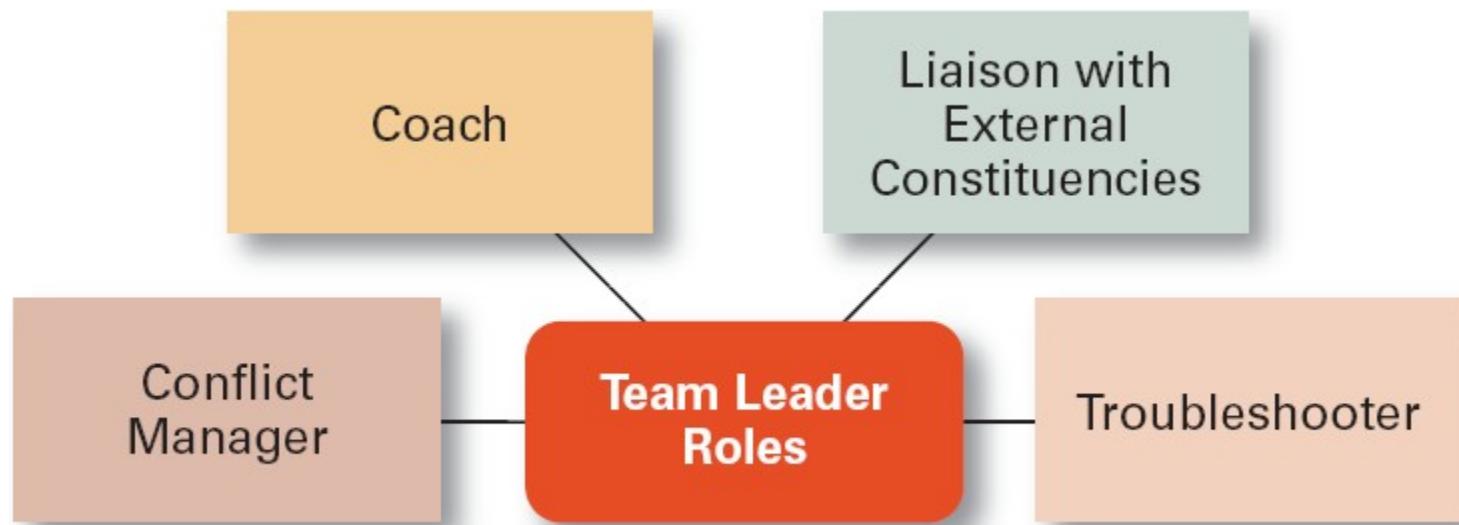
Contemporary Views...(cont'd)

- **Visionary Leadership**
 - A leader who creates and articulates a realistic, credible, and attractive vision of the future that improves upon the present situation.
- **Visionary leaders have the ability to:**
 - Explain the vision to others.
 - Express the vision not just verbally but through behavior.
 - Extend or apply the vision to different leadership contexts.

Contemporary Views... (cont'd)

- **Team Leadership Characteristics**
 - Having patience to share information
 - Being able to trust others and to give up authority
 - Understanding when to intervene
- **Team Leader's Job**
 - Managing the team's external boundary
 - Facilitating the team process
 - ❖ Coaching, facilitating, handling disciplinary problems, reviewing team and individual performance, training, and communication

Exhibit 17–8 Specific Team Leadership Roles



Leadership Issues in the 21st Century

- Managing Power

- Legitimate power
 - ❖ The power a leader has as a result of his or her position.
- Coercive power
 - ❖ The power a leader has to punish or control.
- Reward power
 - ❖ The power to give positive benefits or rewards.
- Expert power
 - ❖ The influence a leader can exert as a result of his or her expertise, skills, or knowledge.
- Referent power
 - ❖ The power of a leader that arise because of a person's desirable resources or admired personal traits.

Developing Credibility and Trust

- **Credibility (of a Leader)**
 - The assessment of a leader's honesty, competence, and ability to inspire by his or her followers
- **Trust**
 - Is the belief of followers and others in the integrity, character, and ability of a leader.
 - ❖ **Dimensions of trust:** integrity, competence, consistency, loyalty, and openness.
 - Is related to increases in job performance, organizational citizenship behaviors, job satisfaction, and organization commitment.

Exhibit 17–9 Suggestions for Building Trust

Practice openness.

Be fair.

Speak your feelings.

Tell the truth.

Show consistency.

Fulfill your promises.

Maintain confidences.

Demonstrate competence.

Providing Ethical Leadership

- Ethics are part of leadership when leaders attempt to:
 - Foster moral virtue through changes in attitudes and behaviors.
 - Use their charisma in socially constructive ways.
 - Promote ethical behavior by exhibiting their personal traits of honesty and integrity.
- Moral Leadership
 - Involves addressing the means that a leader uses to achieve goals as well as the moral content of those goals.

Empowering Employees

- **Empowerment**
 - Involves increasing the decision-making discretion of workers such that teams can make key operating decisions in developing budgets, scheduling workloads, controlling inventories, and solving quality problems.
 - Why empower employees?
 - ❖ Quicker responses to problems and faster decisions.
 - ❖ Addresses the problem of increased spans of control by relieving managers to work on other problems.

Cross-Cultural Leadership

- Universal Elements of Effective Leadership

- Vision
- Foresight
- Providing encouragement
- Trustworthiness
- Dynamism
- Positiveness
- Proactiveness



Exhibit 17–10 Selected Cross-Cultural Leadership Findings

- Korean leaders are expected to be paternalistic toward employees.
- Arab leaders who show kindness or generosity without being asked to do so are seen by other Arabs as weak.
- Japanese leaders are expected to be humble and speak frequently.
- Scandinavian and Dutch leaders who single out individuals with public praise are likely to embarrass, not energize, those individuals.
- Effective leaders in Malaysia are expected to show compassion while using more of an autocratic than a participative style.
- Effective German leaders are characterized by high performance orientation, low compassion, low self-protection, low team orientation, high autonomy, and high participation.

Source: Based on J. C. Kennedy, "Leadership in Malaysia: Traditional Values, International Outlook," *Academy of Management Executive*, August 2002, pp. 15–17; F.C. Brodbeck, M. Frese, and M. Javidan, "Leadership Made in Germany: Low on Compassion, High on Performance," *Academy of Management Executive*, February 2002, pp. 16–29; M. F. Peterson and J. G. Hunt, "International Perspectives on International Leadership," *Leadership Quarterly*, Fall 1997, pp. 203–31; R. J. House and R. N. Aditya, "The Social Scientific Study of Leadership: Quo Vadis?" *Journal of Management*, vol. 23, no. 3, (1997), p. 463; and R. J. House, "Leadership in the Twenty-First Century," in A. Howard (ed.), *The Changing Nature of Work* (San Francisco: Jossey-Bass, 1995), p. 442.

Gender Differences and Leadership

- Research Findings

- Males and females use different styles:

- ❖ Women tend to adopt a more democratic or participative style unless in a male-dominated job.
 - ❖ Women tend to use transformational leadership.
 - ❖ Men tend to use transactional leadership.

Exhibit 17–11 Where Female Managers Do Better: A Scorecard

Where Female Managers Do Better: A Scorecard

None of the five studies set out to find gender differences. They stumbled on them while compiling and analyzing performance evaluations.

Skill (Each check mark denotes which group scored higher on the respective studies)

MEN

WOMEN

Motivating Others



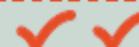
Fostering Communication



Producing High-Quality Work



Strategic Planning



Listening to Others



Analyzing Issues



*In one study, women's and men's scores in these categories were statistically even.

Data: Hagberg Consulting Group, Management Research Group, Lawrence A. Pfaff, Personnel Decisions International Inc., Advanced Teamware Inc.

Source: R. Sharpe, "As Leaders, Women Rule," *BusinessWeek*, November 20, 2000, p. 75.

Basics of Leadership

- Give people a reason to come to work.
- Be loyal to the organization's people
- Spend time with people who do the real work of the organization.
- Be more open and more candid about what business practices are acceptable and proper and how the unacceptable ones should be fixed.

Leadership Can Be Irrelevant!

- **Substitutes for Leadership**

- **Follower characteristics**

- ❖ Experience, training, professional orientation, or the need for independence

- **Job characteristics**

- ❖ Routine, unambiguous, and satisfying jobs

- **Organization characteristics**

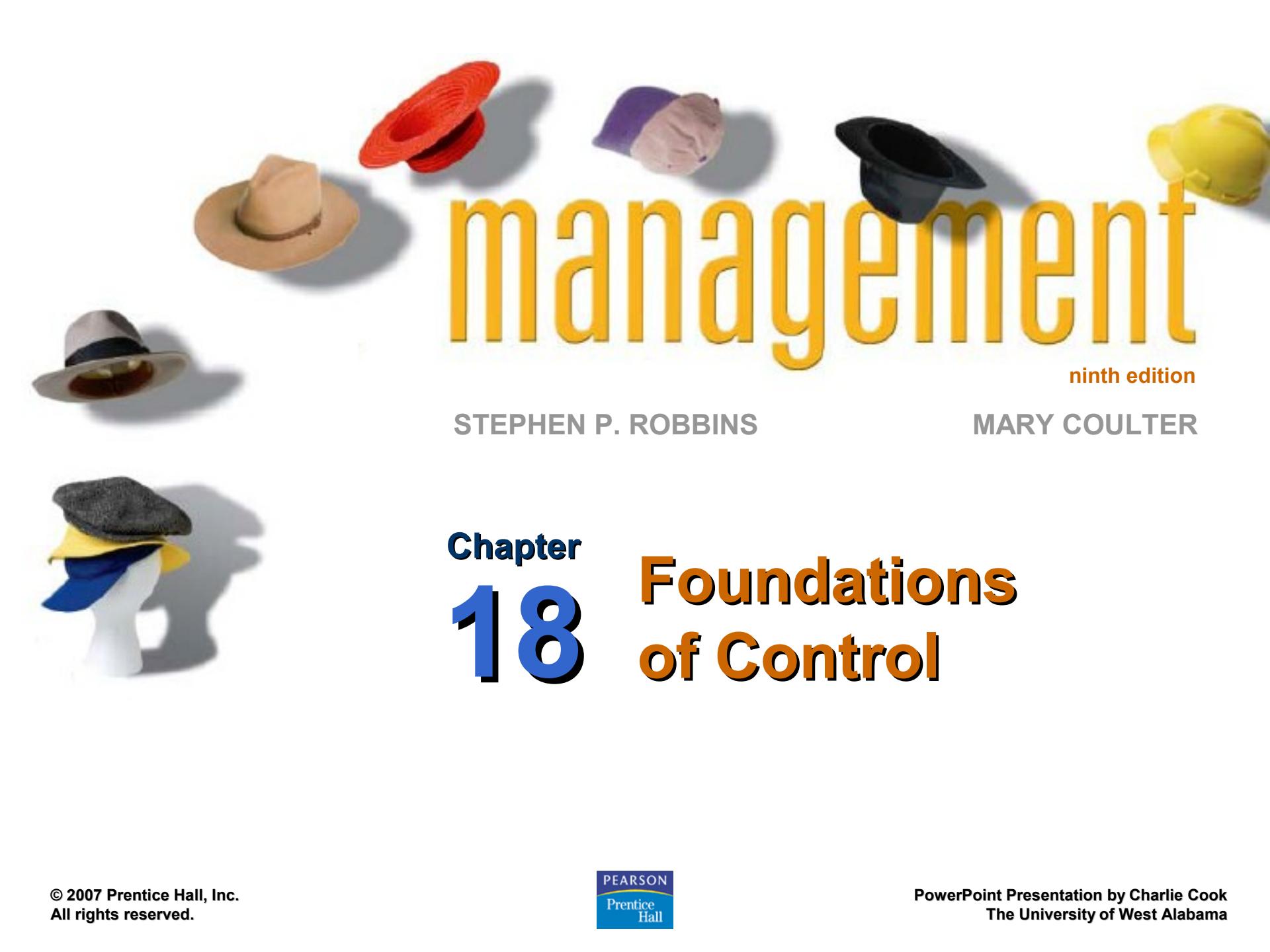
- ❖ Explicit formalized goals, rigid rules and procedures, or cohesive work groups

Terms to Know

- leader
- leadership
- behavioral theories
- autocratic style
- democratic style
- laissez-faire style
- initiating structure
- consideration
- high-high leader
- managerial grid
- Fiedler contingency model
- least-preferred co-worker (LPC) questionnaire
- leader-member relations
- task structure
- position power
- situational leadership theory (SLT)
- readiness
- leader participation model
- path-goal theory
- transactional leaders

Terms to Know (cont'd)

- transformational leaders
- charismatic leader
- visionary leadership
- legitimate power
- coercive power
- reward power
- expert power
- referent power
- credibility
- trust
- empowerment



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Chapter
18

Foundations of Control

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

What Is Control and Why Is It Important?

- Define control.
- Contrast the three approaches to designing control systems.
- Discuss the reasons why control is important.
- Explain the planning-controlling link.

The Control Process

- Describe the three steps in the control process.
- Explain why what is measured is more critical than how it's measured.
- Explain the three courses of action managers can take in controlling.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Controlling Organizational Performance

- Define organizational performance.
- Describe the most frequently used measures of organizational performance.

Tools for Organizational Performance

- Contrast feedforward, concurrent, and feedback controls.
- Explain the types of financial and information controls managers can use.
- Describe how balanced scorecards and benchmarking are used in controlling.

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Contemporary Issues in Control

- **Describe how managers may have to adjust controls for cross-cultural differences.**
- **Discuss the types of workplace concerns managers face and how they can address those concerns.**
- **Explain why control is important to customer interactions.**
- **Discuss what corporate governance is and how it's changing.**

What Is Control?

- **Controlling**
 - The process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant deviations.
- **The Purpose of Control**
 - To ensure that activities are completed in ways that lead to accomplishment of organizational goals.

Designing Control Systems

- Market Control
 - Emphasizes the use of external market mechanisms to establish the standards used in the control system.
 - ❖ External measures: price competition and relative market share
- Bureaucratic Control
 - Emphasizes organizational authority and relies on rules, regulations, procedures, and policies.
- Clan Control
 - Regulates behavior by shared values, norms, traditions, rituals, and beliefs of the firm's culture.

Exhibit 18–1 Characteristics of Three Approaches to Control Systems

Type of Control	Characteristics
Market	Uses external market mechanisms, such as price competition and relative market share, to establish standards used in system. Typically used by organizations whose products or services are clearly specified and distinct and that face considerable marketplace competition.
Bureaucratic	Emphasizes organizational authority. Relies on administrative and hierarchical mechanisms, such as rules, regulations, procedures, policies, standardization of activities, well-defined job descriptions, and budgets to ensure that employees exhibit appropriate behaviors and meet performance standards.
Clan	Regulates employee behavior by the shared values, norms, traditions, rituals, beliefs, and other aspects of the organization's culture. Often used by organizations in which teams are common and technology is changing rapidly.

Why Is Control Important?

- As the final link in management functions:
 - Planning
 - ❖ Controls let managers know whether their goals and plans are on target and what future actions to take.
 - Empowering employees
 - ❖ Control systems provide managers with information and feedback on employee performance.
 - Protecting the workplace
 - ❖ Controls enhance physical security and help minimize workplace disruptions.

Exhibit 18–2 The Planning–Controlling Link



The Control Process

- **The Process of Control**

1. Measuring actual performance.
2. Comparing actual performance against a standard.
3. Taking action to correct deviations or inadequate standards.



Exhibit 18–3 The Control Process



Measuring: How and What We Measure

- **Sources of Information (How)**
 - Personal observation
 - Statistical reports
 - Oral reports
 - Written reports
- **Control Criteria (What)**
 - Employees
 - ❖ Satisfaction
 - ❖ Turnover
 - ❖ Absenteeism
 - Budgets
 - ❖ Costs
 - ❖ Output
 - ❖ Sales

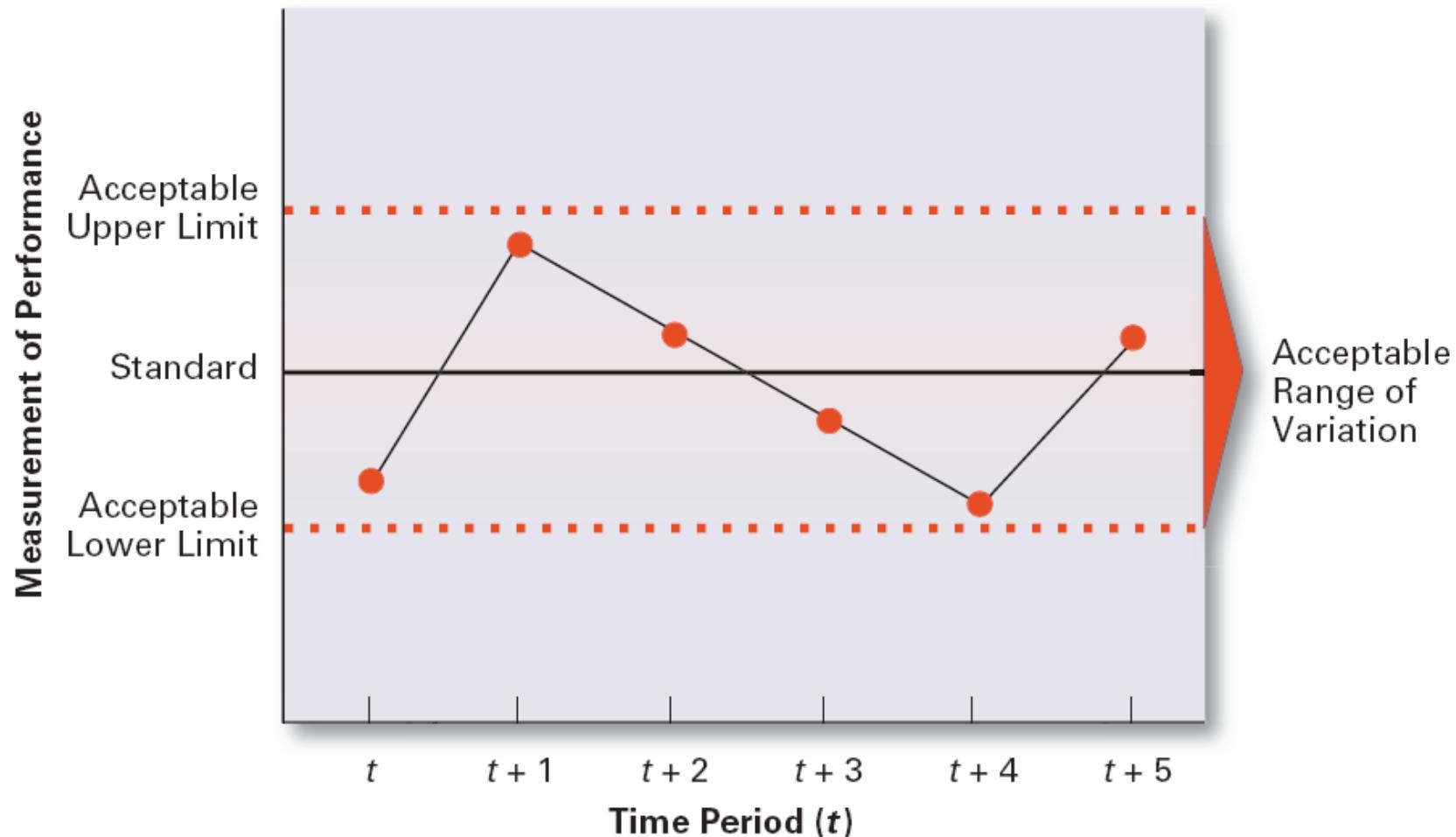
Exhibit 18–4 Common Sources of Information for Measuring Performance

	Advantages	Drawbacks
Personal Observation	<ul style="list-style-type: none">• Get firsthand knowledge• Information isn't filtered• Intensive coverage of work activities	<ul style="list-style-type: none">• Subject to personal biases• Time-consuming• Obtrusive
Statistical Reports	<ul style="list-style-type: none">• Easy to visualize• Effective for showing relationships	<ul style="list-style-type: none">• Provide limited information• Ignore subjective factors
Oral Reports	<ul style="list-style-type: none">• Fast way to get information• Allow for verbal and nonverbal feedback	<ul style="list-style-type: none">• Information is filtered• Information can't be documented
Written Reports	<ul style="list-style-type: none">• Comprehensive• Formal• Easy to file and retrieve	<ul style="list-style-type: none">• Take more time to prepare

Comparing

- Determining the degree of variation between actual performance and the standard.
 - Significance of variation is determined by:
 - ❖ The acceptable range of variation from the standard (forecast or budget).
 - ❖ The size (large or small) and direction (over or under) of the variation from the standard (forecast or budget).

Exhibit 18–5 Defining the Acceptable Range of Variation



**Exhibit 18–6 Sales Performance Figures for July,
Eastern States Distributors**

Brand	Standard	Actual	(hundreds of cases) Over (Under)
Heineken	1,075	913	(162)
Molson	630	634	4
Irish Amber	800	912	112
Victoria Bitter	620	622	2
Labatt's	540	672	132
Corona	160	140	(20)
Amstel Light	225	220	(5)
Dos Equis	80	65	(15)
Tecate	170	286	116
Total cases	4,300	4,464	164

Taking Managerial Action

- Courses of Action
 - “Doing nothing”
 - ❖ Only if deviation is judged to be insignificant.
 - Correcting actual (current) performance
 - ❖ Immediate corrective action to correct the problem at once.
 - ❖ Basic corrective action to locate and to correct the source of the deviation.
 - ❖ **Corrective Actions**
 - Change strategy, structure, compensation scheme, or training programs; redesign jobs; or fire employees

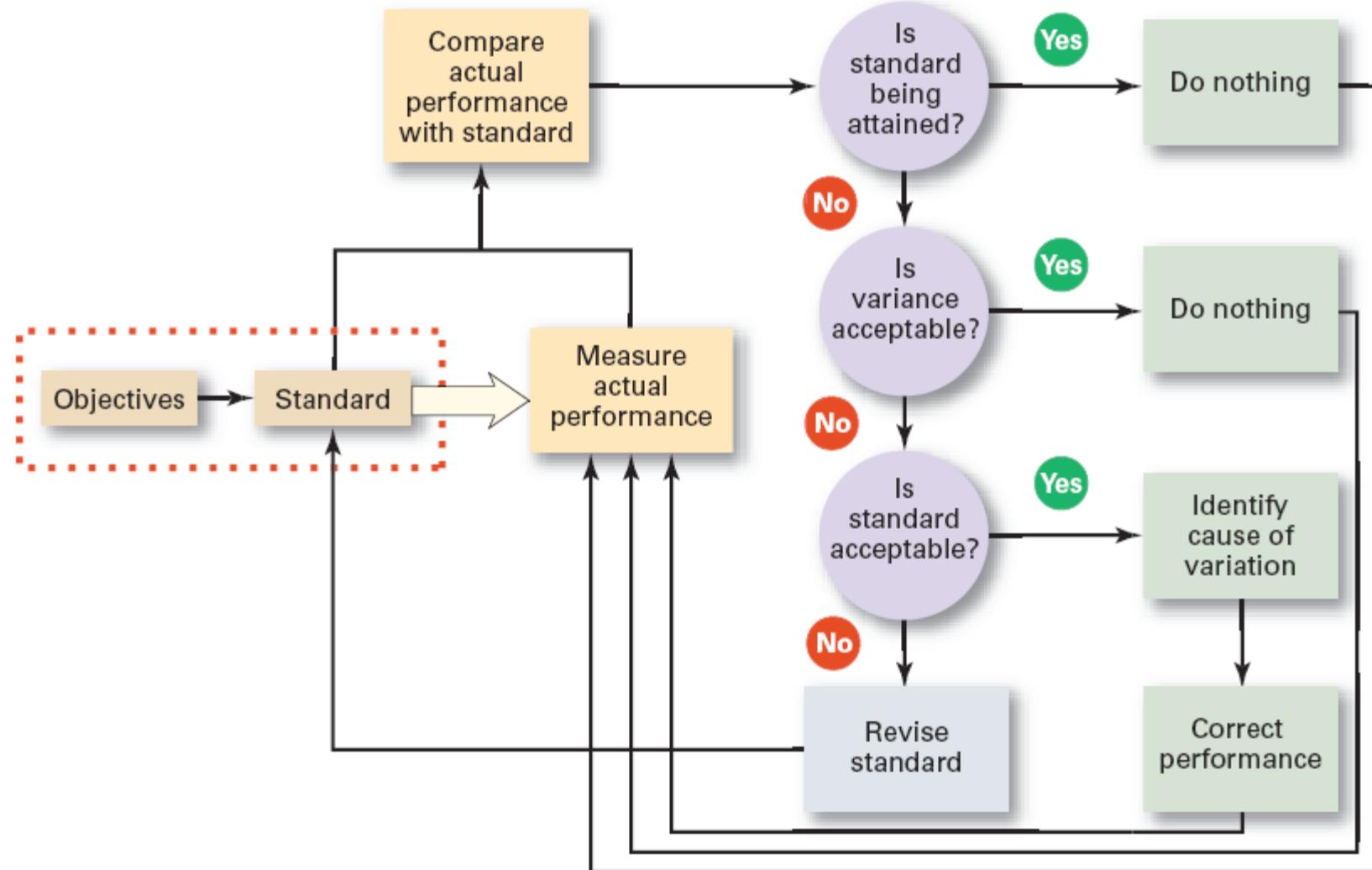
Taking Managerial Action (cont'd)

- Courses of Action (cont'd)

- Revising the standard

- ❖ Examining the standard to ascertain whether or not the standard is realistic, fair, and achievable.
 - Upholding the validity of the standard.
 - Resetting goals that were initially set too low or too high.

Exhibit 18–7 Managerial Decisions in the Control Process



Controlling for Organizational Performance

- **What Is Performance?**
 - The end result of an activity
- **What Is Organizational Performance?**
 - The accumulated end results of all of the organization's work processes and activities.
 - ❖ Designing strategies, work processes, and work activities.
 - ❖ Coordinating the work of employees.



Organizational Performance Measures

- **Organizational Productivity**
 - **Productivity:** the overall output of goods and/or services divided by the inputs needed to generate that output.
 - ❖ Output: sales revenues
 - ❖ Inputs: costs of resources (materials, labor expense, and facilities)
 - Ultimately, productivity is a measure of how efficiently employees do their work.

Organizational Performance Measures

- **Organizational Effectiveness**
 - Measuring how appropriate organizational goals are and how well the organization is achieving its goals.
 - ❖ **Systems resource model**
 - The ability of the organization to exploit its environment in acquiring scarce and valued resources.
 - ❖ **The process model**
 - The efficiency of an organization's transformation process in converting inputs to outputs.
 - ❖ **The multiple constituencies model**
 - The effectiveness of the organization in meeting each constituencies' needs.

Industry and Company Rankings

- **Industry rankings on:**
 - Profits
 - Return on revenue
 - Return on shareholders' equity
 - Growth in profits
 - Revenues per employee
 - Revenues per dollar of assets
 - Revenues per dollar of equity
- **Corporate Culture Audits**
- **Compensation and benefits surveys**
- **Customer satisfaction surveys**

Exhibit 18–8 Popular Industry and Company Rankings

***Fortune* (www.fortune.com)**

100 Best Companies to Work For

Fortune 1000

Fortune 1000 Top Performing Companies

Global 500

America's Most Admired Companies

World's Most Admired Companies

America's Best Wealth Creators

***Industry Week* (www.industryweek.com)**

World's Best Plants

Technology and Innovation Awards
of the Year

Census of Manufacturers

25 Fastest Growing Companies

Industry Week 1000

***BusinessWeek* (www.businessweek.com)**

Standard & Poor's 500

Global 1000

***Forbes* (www.forbes.com)**

Forbes 500

Forbes International 500

500 Top Private Companies

200 Best Small Companies

Customer Satisfaction Indexes

American Customer Satisfaction Index—
University of Michigan Business School
Customer Satisfaction Measurement
Association

Tools for Controlling Organizational Performance

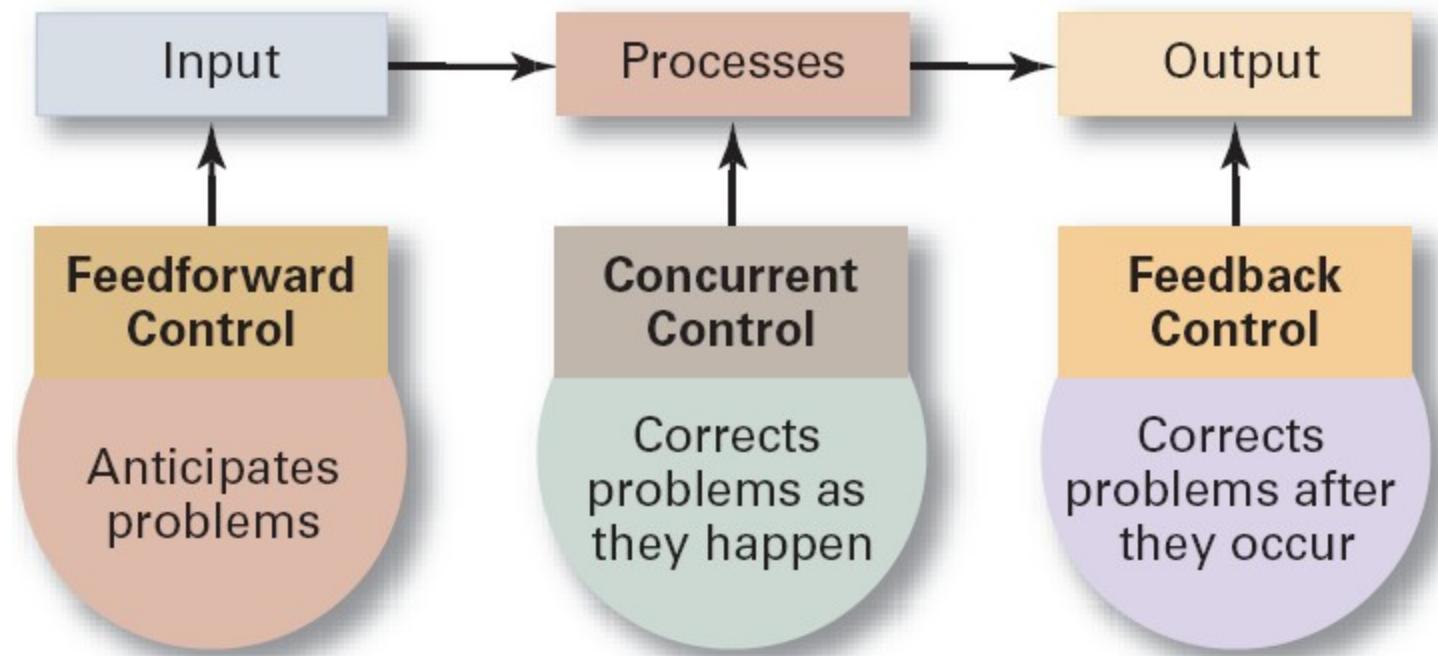
- **Feedforward Control**

- A control that prevents anticipated problems *before* actual occurrences of the problem.
 - ❖ Building in quality through design.
 - ❖ Requiring suppliers conform to ISO 9002.

- **Concurrent Control**

- A control that takes place while the monitored activity is in progress.
 - ❖ **Direct supervision:** management by walking around.

Exhibit 18–9 Types of Control



Tools for Controlling Organizational Performance (cont'd)

- **Feedback Control**
 - A control that takes place after an activity is done.
 - ❖ Corrective action is after-the-fact, when the problem has already occurred.
 - Advantages of feedback controls:
 - ❖ Provide managers with information on the effectiveness of their planning efforts.
 - ❖ Enhance employee motivation by providing them with information on how well they are doing.

Tools for Controlling Organizational Performance: Financial Controls

- **Traditional Controls**

- Ratio analysis
 - ❖ Liquidity
 - ❖ Leverage
 - ❖ Activity
 - ❖ Profitability
- Budget Analysis
 - ❖ Quantitative standards
 - ❖ Deviations

- **Other Measures**

- Economic Value Added (EVA)
- Market Value Added (MVA)

Exhibit 18–10 Popular Financial Ratios

Objective	Ratio	Calculation	Meaning
Liquidity	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Tests the organization's ability to meet short-term obligations
	Acid test	$\frac{\text{Current assets less inventories}}{\text{Current liabilities}}$	Tests liquidity more accurately when inventories turn over slowly or are difficult to sell
Leverage	Debt to assets	$\frac{\text{Total debt}}{\text{Total assets}}$	The higher the ratio, the more leveraged the organization
	Times interest earned	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	Measures how far profits can decline before the organization is unable to meet its interest expenses

Exhibit 18–10 Popular Financial Ratios (cont'd)

Objective	Ratio	Calculation	Meaning
Activity	Inventory turnover	$\frac{\text{Sales}}{\text{Inventory}}$	The higher the ratio, the more efficiently inventory assets are being used.
	Total asset turnover	$\frac{\text{Sales}}{\text{Total assets}}$	The fewer assets used to achieve a given level of sales, the more efficiently management is using the organization's total assets
Profitability	Profit margin on sales	$\frac{\text{Net profit after taxes}}{\text{Total sales}}$	Identifies the profits that various products are generating
	Return on investment	$\frac{\text{Net profit after taxes}}{\text{Total assets}}$	Measures the efficiency of assets to generate profits

Tools for Controlling Organizational Performance: Financial Controls (cont'd)

Other Measures

- Economic Value Added (EVA)
 - ❖ How much value is created by what a company does with its assets, less any capital investments in those assets: *the rate of return earned over and above the cost of capital.*
 - The choice is to use less capital or invest in high-return projects.

Tools for Controlling Organizational Performance: Financial Controls (cont'd)

Other Measures (cont'd)

- Market Value Added (MVA)
 - ❖ The value that the stock market places on a firm's past and expected capital investment projects
 - ❖ If the firm's market value (its stock and debt) exceeds the value of its invest capital (its equity and retained earnings), then managers have created wealth.
- The Practice of Managing Earnings

Controlling Organizational Performance

- **Balanced Scorecard**

- Is a measurement tool that uses goals set by managers in four areas to measure a company's performance:
 - ❖ Financial
 - ❖ Customer
 - ❖ Internal processes
 - ❖ People/innovation/growth assets
- Is intended to emphasize that all of these areas are important to an organization's success and that there should be a balance among them.

Information Controls

- Purposes of Information Controls
 - As a tool to help managers control other organizational activities.
 - ❖ Managers need the right information at the right time and in the right amount.
 - As an organizational area that managers need to control.
 - ❖ Managers must have comprehensive and secure controls in place to protect the organization's important information.

Information Controls

- Management Information Systems (MIS)
 - A system used to provide management with needed information on a regular basis.
 - ❖ Data: an unorganized collection of raw, unanalyzed facts (e.g., unsorted list of customer names).
 - ❖ Information: data that has been analyzed and organized such that it has value and relevance to managers.

Benchmarking of Best Practices

- **Benchmark**
 - The standard of excellence against which to measure and compare.
- **Benchmarking**
 - Is the search for the best practices among competitors or noncompetitors that lead to their superior performance.
 - Is a control tool for identifying and measuring specific performance gaps and areas for improvement.

Exhibit 18–11 Steps to Successfully Implement an Internal Benchmarking Best Practices Program

- 1. Connect best practices to strategies and goals.**
- 2. Identify best practices throughout the organization.**
- 3. Develop best practices reward and recognition systems.**
- 4. Communicate best practices throughout the organization.**
- 5. Create a best practices knowledge-sharing system.**
- 6. Nurture best practices on an ongoing basis.**

Contemporary Issues in Control

- **Cross-Cultural Issues**
 - The use of technology to increase direct corporate control of local operations
 - Legal constraints on corrective actions in foreign countries
 - Difficulty with the comparability of data collected from operations in different countries

Contemporary Issues in Control (cont'd)

- **Workplace Concerns**

- **Workplace privacy versus workplace monitoring:**
 - ❖ E-mail, telephone, computer, and Internet usage
 - ❖ Productivity, harassment, security, confidentiality, intellectual property protection
- **Employee theft**
 - ❖ The unauthorized taking of company property by employees for their personal use.
- **Workplace violence**
 - ❖ Anger, rage, and violence in the workplace is affecting employee productivity.

Exhibit 18–12 **Types of Workplace Monitoring by Employers**

Workplace Computer Use

Monitoring Web site connections	76%
Tracking content, keystrokes, and time spent at keyboard	36%
Store and review employees' computer files	50%
Retain and review e-mail messages	55%

Workplace Phone Use

Block access to 900- and other unauthorized numbers	57%
Monitor time spent on phone and track phone numbers	51%
Tape phone conversations in selected jobs	19%
Record and review all phone calls	3%
Tape or review voice mail	15%

Video Monitoring

Video monitoring to counter theft, violence, and sabotage	51%
Video surveillance of work performance in selected jobs	10%
Video surveillance of work performance in all jobs	6%

Tracking Employee Productivity and Movement (Using GPS or AGP*)

Monitor cell phone	5%
Track company vehicles	8%
Monitor employee ID/smartcards	8%

Physical Security and Access

Smartcard technology	53%
Fingerprint scans	5%
Facial recognition	2%
Iris scans	.5%

Source: American Management Association/ePolicy Institute Research, "2005 Electronic Monitoring & Surveillance Survey," American Management Association.

Exhibit 18–13 Control Measures for Employee Theft or Fraud

Feedforward	Concurrent	Feedback
Careful prehiring screening.	Treat employees with respect and dignity	Make sure employees know when theft or fraud has occurred—not naming names but letting people know this is not acceptable.
Establish specific policies defining theft and fraud and discipline procedures.	Openly communicate the costs of stealing.	Use the services of professional investigators.
Involve employees in writing policies.	Let employees know on a regular basis about their successes in preventing theft and fraud.	Redesign control measures.
Educate and train employees about the policies.	Use video surveillance equipment if conditions warrant.	Evaluate your organization's culture and the relationships of managers and employees.
Have professionals review your internal security controls.	Install "lock-out" options on computers, telephones; and e-mail. Use corporate hot lines for reporting incidences. Set a good example.	<p>Sources: Based on A.H. Bell and D.M. Smith. "Protecting the Company Against Theft and Fraud," <i>Workforce Online</i> (www.workforce.com) December 3, 2000; J.D. Hansen. "To Catch a Thief," <i>Journal of Accountancy</i>, March 2000, pp. 43–46; and J. Greenberg, "The Cognitive Geometry of Employee Theft," in <i>Dysfunctional Behavior in Organizations: Nonviolent and Deviant Behavior</i>, eds. S.B. Bacharach, A. O'Leary-Kelly, J.M. Collins, and R.W. Griffin (Stamford, CT: JAI Press, 1998), pp. 147–93.</p>

Exhibit 18–14 Workplace Violence

Witnessed yelling or other verbal abuse	42%
Yelled at co-workers themselves	29%
Cried over work-related issues	23%
Seen someone purposely damage machines or furniture	14%
Seen physical violence in the workplace	10%
Struck a co-worker	2%

Source: Integra Realty Resources, October-November Survey of Adults 18 and Over, in "Desk Rage." *BusinessWeek*, November 20, 2000, p. 12.

Exhibit 18–15 Control Measures for Deterring or Reducing Workplace Violence

Feedforward	Concurrent	Feedback
Management commitment to functional not dysfunctional, work environments.	MBWA (managing by walking around) to identify potential problems; observe how employees treat and interact with each other.	Communicate openly about incidences and what's being done.
Employee assistance programs (EAP) to help employees with serious behavioral problems.	Allow employees or work groups to "grieve" during periods of major organizational change.	Investigate incidences and take appropriate action.
Organizational policy that any workplace rage, aggression, or violence will not be tolerated.	Be a good role model in how you treat others.	Review company policies and change, if necessary.
Careful prehiring screening.	Use corporate hot lines or some mechanism for reporting and investigating incidences.	
Never ignore threats. Train employees about how to avoid danger if situation arises.	Use quick and decisive intervention. Get expert professional assistance if violence erupts.	
Clearly communicate policies to employees.	Provide necessary equipment or procedures for dealing with violent situations (cell phones, alarm systems, code names or phrases, and so forth).	

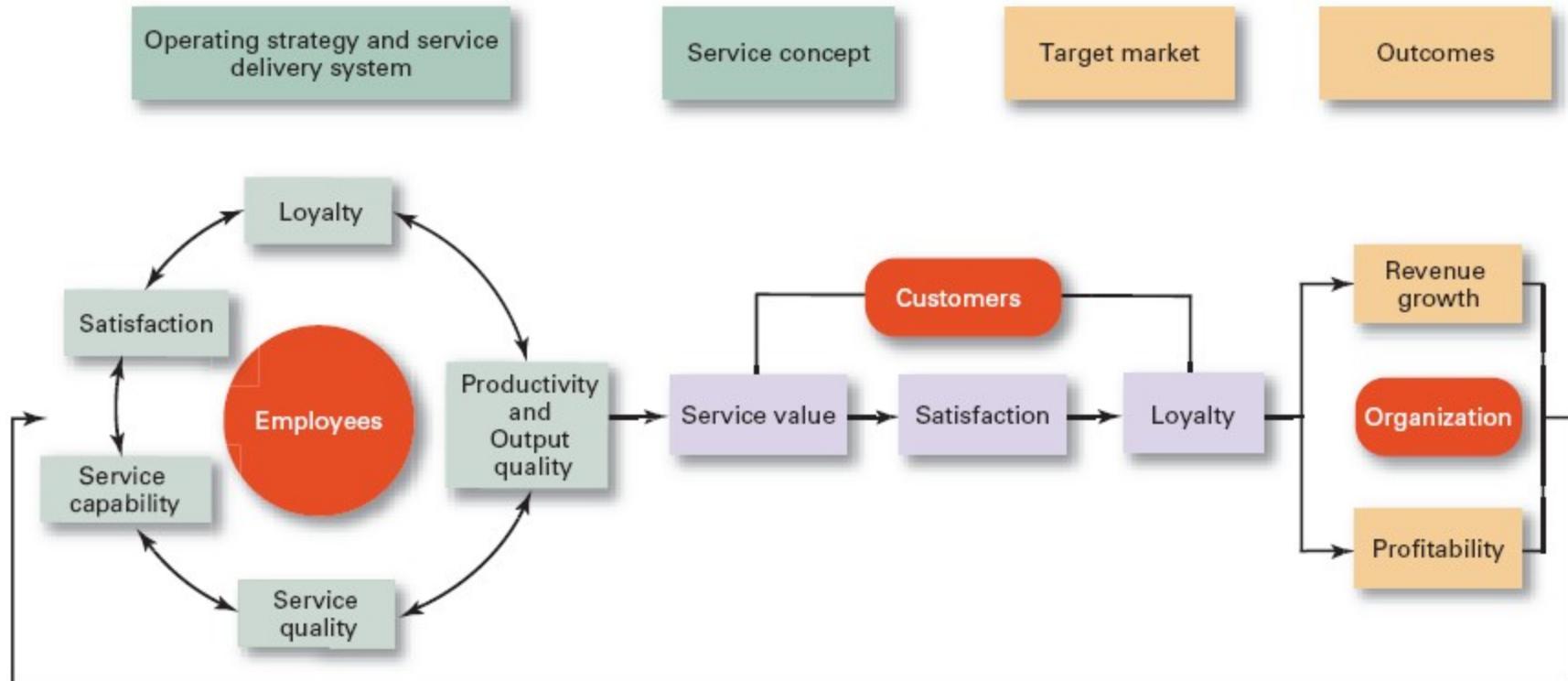
Sources: Based on M. Gorkin, "Five Strategies and Structures for Reducing Workplace Violence," *Workforce Online* (www.workforce.com), December 3, 2000; "Investigating Workplace Violence: Where Do You Start?" *Workforce Online* (www.forceforce.com), December 3, 2000; "Ten Tips on Recognizing and Minimizing Violence," *Workforce Online* (www.workforce.com), December 3, 2000; and "Points to Cover in a Workplace Violence Policy," *Workforce Online* (www.workforce.com), December 3, 2000.

Contemporary Issues in Control (cont'd)

- **Customer Interactions**

- **Service profit chain**
 - ❖ Is the service sequence from employees to customers to profit.
- **Service capability affects service value which impacts on customer satisfaction that, in turn, leads to customer loyalty in the form of repeat business (profit).**

Exhibit 18–16 The Service Profit Chain



Source: Adapted and reprinted by permission of *Harvard Business Review*. An exhibit from "Putting the Service Profit Chain to Work," by J. L. Heskett, T. O. Jones, G. W. Loveman, W. E. Sasser, Jr., and L. A. Schlesinger. March–April 1994: 166. Copyright (c) by the President and Fellows of Harvard College. All rights reserved. See also J. L. Heskett, W. E. Sasser, and L. A. Schlesinger, *The Service Profit Chain* (New York: Free Press, 1997).

Contemporary Issues in Control (cont'd)

- **Corporate Governance**

- The system used to govern a corporation so that the interests of the corporate owners are protected.
 - ❖ Changes in the role of boards of directors
 - ❖ Increased scrutiny of financial reporting (Sarbanes-Oxley Act of 2002)
 - More disclosure and transparency of corporate financial information
 - Certification of financial results by senior management

Terms to Know

- **controlling**
- **market control**
- **bureaucratic control**
- **clan control**
- **control process**
- **range of variation**
- **immediate corrective action**
- **basic corrective action**
- **performance**
- **organizational performance**
- **productivity**
- **organizational effectiveness**
- **feedforward control**
- **concurrent control**
- **management by walking around**
- **feedback control**
- **economic value added (EVA)**
- **market value added (MVA)**

Terms to Know (cont'd)

- management information system (MIS)
- data
- information
- balanced scorecard
- benchmarking
- employee theft
- service profit chain
- corporate governance