

New Era of MANAGEMENT

with CourseMate

Richard L. Daft

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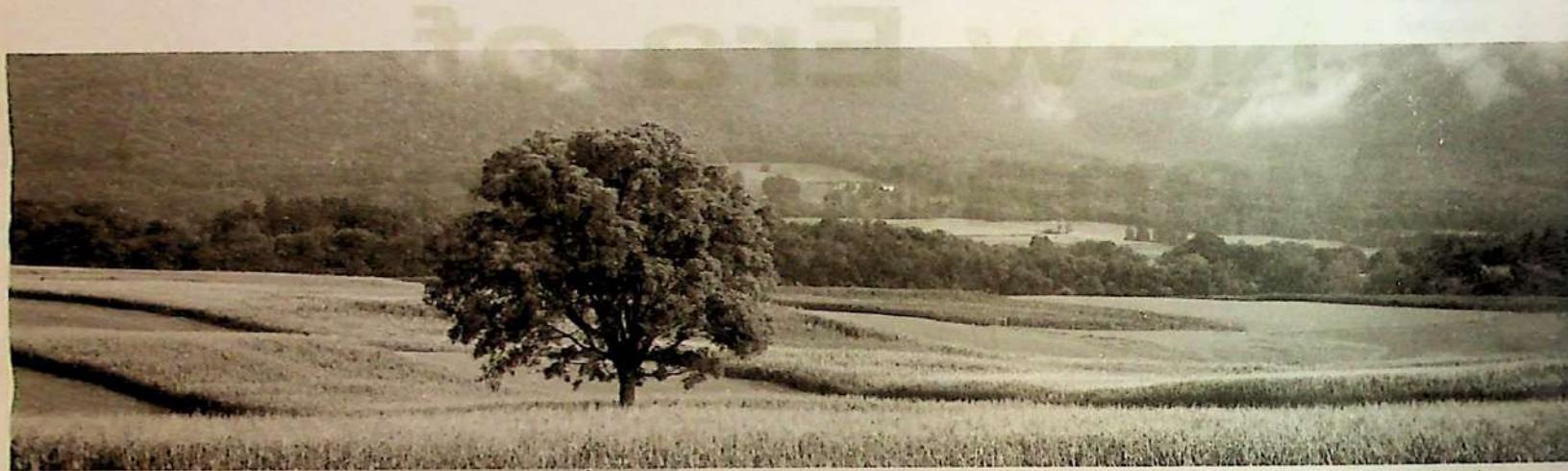
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part 1 : chapter 1

Managing in Turbulent Times



Timothy Hearsum/Jupiter Images

Chapter Outline

- Are You Ready to Be a Manager?
- Why Innovative Management Matters
- The Definition of Management
- The Four Management Functions**

Planning	Organizing
Leading	Controlling
- Organizational Performance
- Management Skills**

Conceptual Skills	Human Skills
Technical Skills	When Skills Fail
- Management Types**

Vertical Differences	Horizontal Differences
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- What Is It Like to Be a Manager?**
 - Making the Leap: Becoming a New Manager
 - Manager Activities Manager Roles
- New Manager Self-Test: Managing Your Time**
- Managing in Small Businesses and Nonprofit Organizations
- State-of-the-Art Management Competencies

Learning Outcomes

After studying this chapter, you should be able to:

1. Describe the four management functions and the type of management activity associated with each.
2. Explain the difference between efficiency and effectiveness and their importance for organizational performance.
3. Describe conceptual, human, and technical skills and their relevance for managers.
4. Describe management types and the horizontal and vertical differences between them.
5. Define ten roles that managers perform in organizations.
6. Appreciate the manager's role in small businesses and nonprofit organizations.
7. Understand the personal challenges involved in becoming a new manager.
8. Discuss the innovative competencies needed to be an effective manager in today's environment.

Are You Ready to Be a Manager?¹

Welcome to the world of management. Are you ready for it? This questionnaire will help you see whether your priorities align with the demands placed on today's managers.

INSTRUCTIONS: Rate each of the following items based on what you think is the appropriate emphasis for that task to your success as a new manager of a department. Your task is to rate the top four priority items as "High-Priority" and the other four as "Low-Priority."



	High-Priority	Low-Priority
1. Spend 50 percent or more of your time in the care and feeding of people.	<hr/> <hr/>	<hr/> <hr/>
2. Make sure that people understand you are in control of the department.	<hr/> <hr/>	<hr/> <hr/>
3. Use lunches to meet and network with peers in other departments.	<hr/> <hr/>	<hr/> <hr/>
4. Implement the changes that you believe will improve department performance.	<hr/> <hr/>	<hr/> <hr/>
5. Spend as much time as possible talking with and listening to subordinates.	<hr/> <hr/>	<hr/> <hr/>
6. Make sure that jobs get out on time.	<hr/> <hr/>	<hr/> <hr/>
7. Reach out to your boss to discuss his or her expectations for you and your department.	<hr/> <hr/>	<hr/> <hr/>
8. Make sure that you set clear expectations and policies for your department.	<hr/> <hr/>	<hr/> <hr/>

SCORING AND INTERPRETATION: All eight items in the list may be important, but the odd-numbered items are considered more important than the even-numbered items for long-term success as a manager. If you checked three or four of the odd-numbered items, consider yourself ready for a management position. A successful new manager discovers that a lot of time has to be spent in the care and feeding of people, including subordinates and colleagues. People who fail in new management jobs often do so because they have poor working relationships or they misjudge management philosophy or cultural values. Developing good relationships in all directions is typically more important than holding on to old work skills or emphasizing control and task outcomes. Successful outcomes typically will occur when relationships are solid. After a year or so in a managerial role, successful people learn that more than half their time is spent networking and building relationships.

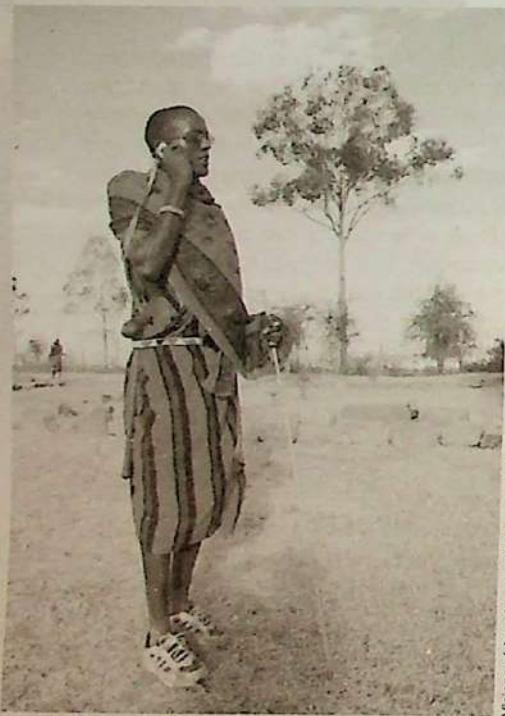
When Steve Jobs died in October 2011, Apple, the company he cofounded in 1976, was the most valuable company in the world in terms of market capitalization. Millions of people are devoted to Apple's innovative products, such as the iPhone and iPad. After Jobs's death, magazines, newspapers, scholarly journals, and Web sites rushed to publish articles about the legendary CEO's legacy and his management style. In his 600-plus-page biography of Jobs, Walter Isaacson calls him "the greatest business executive of our era," and managers around the world began reading the book to tap into the power of Jobs's management ideas.² It seems hard to believe that 26 years earlier, after founding Apple, Jobs had been fired from his own company at the age of 30. During his first 10 years with Apple, Jobs was clearly visionary and innovative, characteristics that he continued to display throughout his lifetime. But he didn't know or care much for the "management" side of the business, and that led to a humiliating and humbling fall and a chance to learn some management lessons that eventually took Jobs back to Apple and produced one of the greatest corporate success stories of all time.

HOT
TOPIC

Take a Moment

What makes a good manager? Go to the Small Group Breakout on page 30 that pertains to the qualities and characteristics of effective and ineffective managers.

Concept Connection



Visions of America, LLC/Alamy Limited

In Kenya, an emerging economy, Safaricom is one of several new companies providing affordable mobile telephone service to the region. The company's **innovative managers** search for better ways to serve customers and expand the business. In 2012, Safaricom was awarded a Global Mobile Award for developing a mobile app that allows its customers to use their cell phones to purchase clean drinking water.

For most people, being a manager doesn't come naturally. Steve Jobs had both positive and negative qualities as a manager, but over the course of his career, he learned how to coordinate and lead people effectively to accomplish amazing results. One surprise for many people when they first step into a management role is that they are much less in control of things than they expected to be. The nature of management is to motivate and coordinate others to cope with diverse and far-reaching challenges. Many new managers expect to have power, to be in control, and to be personally responsible for departmental outcomes. However, managers depend on subordinates more than the reverse, and they are evaluated on the work of other people rather than on their own achievements. Managers set up the systems and conditions that help other people perform well.

In the past, many managers did exercise tight control over employees. But the field of management is undergoing a revolution that asks managers to do more with less, to engage employees' hearts and minds as well as their physical energy, to see change rather than stability as natural, and to inspire vision and cultural values that allow people to create a truly collaborative and productive workplace. This textbook introduces and explains the process of management and the changing ways of thinking about the world that are critical for managers. By reviewing the actions of some successful and not-so-successful managers, you will learn the fundamentals of management. By the end of this chapter, you will already recognize some of the skills that managers use to keep organizations on track, and you will begin to understand how managers can achieve astonishing results through people. By the end of this book, you will understand the fundamental management skills for planning, organizing, leading, and controlling a department or an entire organization.

Why Innovative Management Matters

"By inventing Twitter, Jack may have well brought down dictators in North Africa and the Middle East," said Virgin Group CEO Richard Branson.³ He was talking about Jack Dorsey, one of the cofounders of the microblogging service Twitter, which had more than 140 million active users and 340 million "tweets" a day in early 2012. As Branson's comment reflects, tweeting isn't just about gossiping or showing off. It's used for all sorts of activities, from organizing protests and spreading the word about political turbulence or natural disasters to marketing products and gathering customer feedback.⁴ Jack Dorsey's other company, Square, founded in 2010, may eventually have even greater impact and influence. Square started with one product—a simple credit card reader that can be plugged into an iPhone and allow anyone to accept credit card payments. Today, more than a million small businesses and individuals use Square to process credit cards, and Dorsey's team is looking for how to expand into Latin America, Asia, and Europe. Square is also creating a variety of other products and services and is growing rapidly.⁵

Much of the success of Twitter and Square can be attributed to managers' effectiveness at innovation. Dorsey refers to new initiatives at Square as "resets" because they aim to be so groundbreaking that they reset the nature of the financial world. "Everything we do is about getting people to be more open, more creative, more courageous," says Dorsey. Square quickly zoomed to No. 5 on *Fast Company's* list of the world's most innovative companies.⁶

Why does innovative management matter? Innovations in products, services, management systems, production processes, corporate values, and other aspects of the organization are what keep companies growing, changing, and thriving. Without innovation, no company can survive over the long run. Industries, technologies, economies, governments, and societies are in constant flux, and managers are responsible for helping their organizations navigate through the unpredictable with flexibility and innovation.⁷ Events such as tumultuous global economies; the meltdown of the housing and finance industries in the United States; volatile oil prices and a devastating oil spill on the Gulf Coast; sweeping government changes; disasters such as an earthquake and tsunami in Japan and the resulting accidents at the Fukushima Daiichi nuclear power plant; continuing threats of terrorism; and global health scares have confirmed for managers the folly of managing for stability. The growing clout and expertise of companies in developing countries, particularly China and India, also have many Western managers worried. In such a turbulent and hypercompetitive global environment, managers must help their companies innovate more—and more quickly—than ever.

People can learn to manage innovatively. Interestingly, some hard-nosed business executives have turned to a study of a surprising example—the Grateful Dead rock band—for a lesson or two.

HOT TOPIC

Who said, "[in an information economy] the best way to raise demand for your product is to give it away"? Perhaps Mark Zuckerberg, founder of Facebook? Maybe Sergey Brin or Larry Page, cofounders of Google?

Actually, those words were written by Grateful Dead lyricist John Perry Barlow in a 1994 issue of *Wired* magazine, long before most people were even thinking about "Internet business models." The Dead were famous for allowing fans to tape their shows, giving up a major source of revenue in potential record sales but dramatically widening their fan base in the process—and those fans spent plenty of money on concert tickets, merchandise, and so forth, not to mention records.

Far from being lackadaisical about their job, Dead members always treated it as a business, incorporating early on and establishing a board of directors that included people from all levels of the organization. They pioneered numerous ideas and practices that were later embraced by corporations. One example was their decision to focus intensely on their most loyal fan base and find ways to create and deliver superior customer value. Even more interesting is how, in a pre-Facebook world, the band found innovative ways to stay in touch with fans and foster a "community of interest" that defied distance. Decades before the Internet and social networking sites, intense bonds of friendship and loyalty often developed among Deadheads living thousands of miles apart.

Barry Barnes, a business professor who lectures to business leaders about the Grateful Dead, says the band's ability to think and behave innovatively at all times is a lesson for today's managers. The band thrived for decades, through bad times as well as good. "If you're going to survive this economic downturn," Barnes says, "you better be able to turn on a dime. The Dead were exemplars."⁸

Innovation has become the new imperative, despite the need for companies to control costs in today's economy. In a recent survey of corporate executives in Asia, North America, Europe, and Latin America, 80 percent agreed that "innovation is more important than cost-reduction for long-term success."⁹ Throughout this text, we will spotlight various companies that reflect managers' ability to think and act innovatively, as the Grateful Dead did. In addition, Chapter 11 discusses innovation and change in detail. First, let's begin our adventure in the world of management by learning some basics about what it means to be a manager.

Innovative Way

The Grateful Dead

The Definition of Management

Every day, managers solve difficult problems, turn organizations around, and achieve astonishing performances. To be successful, every organization needs good managers.

What do managers actually do? The late famed management theorist Peter Drucker, often credited with creating the modern study of management, summed up the job of the manager by specifying five tasks, as outlined in Exhibit 1.1.¹⁰ In essence, managers set goals, organize activities, motivate and communicate, measure performance, and develop people. These five manager activities apply not only to top executives such as Mark Zuckerberg at Facebook, Alan Mulally at Ford Motor Company, and Ursula Burns at Xerox, but also to the manager of a restaurant in your hometown, the leader of an airport security team, a supervisor at a Web hosting service, or the director of sales and marketing for a local business.

The activities outlined in Exhibit 1.1 fall into four core management functions: planning (setting goals and deciding activities), organizing (organizing activities and people), leading (motivating, communicating with, and developing people), and controlling (establishing targets and measuring performance). Depending on their job situation, managers perform numerous and varied tasks, but they all can be categorized under these four primary functions. Thus, our definition of management is as follows:

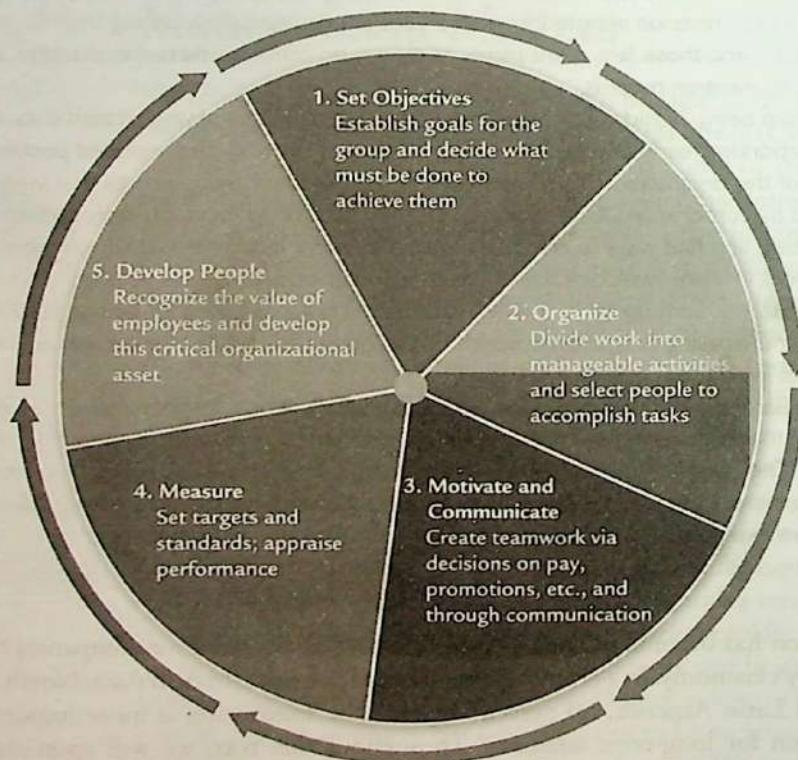
Management is the attainment of organizational goals in an effective and efficient manner through planning, organizing, leading, and controlling organizational resources. This definition includes two important ideas: (1) the four functions of planning, organizing,

“Management means, in the last analysis, the substitution of thought for brawn and muscle, of knowledge for folklore and superstition, and of cooperation for force. . . .”

— PETER DRUCKER, MANAGEMENT EXPERT

EXHIBIT 1.1

What Do Managers Do?



SOURCE: Based on "What Do Managers Do?" The Wall Street Journal Online, <http://guides.wsj.com/management/developing-a-leadership-style/what-do-managers-do/> (accessed August 11, 2010), article adapted from Alan Murray, *The Wall Street Journal Essential Guide to Management* (New York: Harper Business, 2010).

leading, and controlling, and (2) the attainment of organizational goals in an effective and efficient manner. Let's first look at the four primary management functions. Later in this chapter, we'll discuss organizational effectiveness and efficiency, as well as the multitude of skills that managers use to perform their jobs successfully.

Remember This

- Managers get things done by coordinating and motivating other people.
- Management often is a different experience from what people expect.
- Innovative management is critical in today's turbulent world.
- The success of Twitter and Square can be attributed to the effectiveness of its innovative managers.
- **Management** is defined as the attainment of organizational goals in an effective and efficient manner through planning, organizing, leading, and controlling organizational resources.

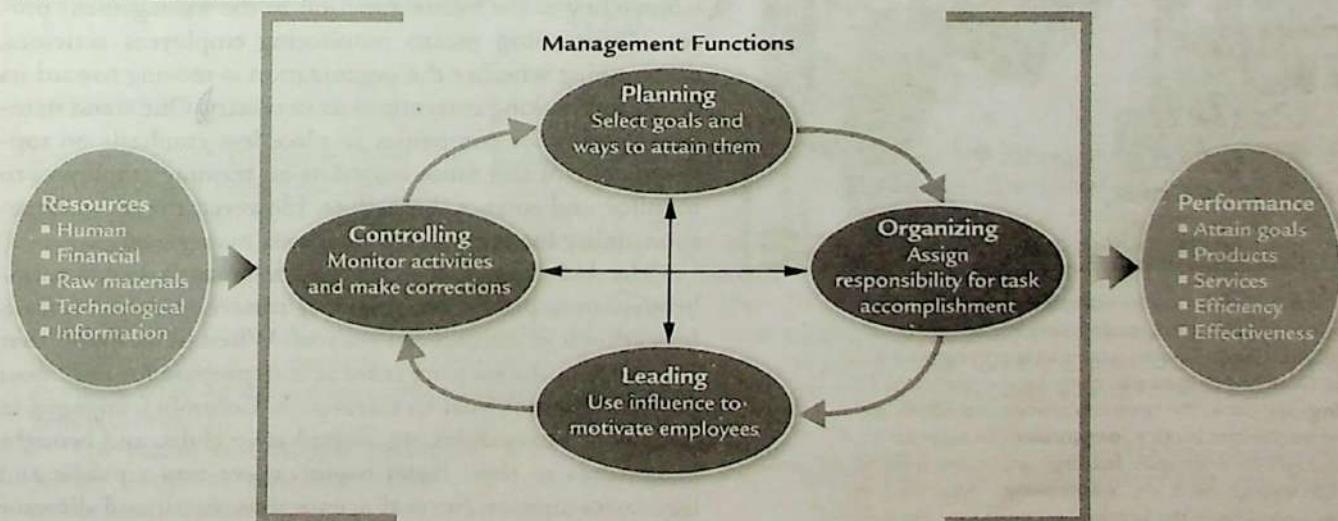
The Four Management Functions

Exhibit 1.2 illustrates the process of how managers use resources to attain organizational goals through the functions of planning, organizing, leading, and controlling. Chapters of this book are devoted to the multiple activities and skills associated with each function, as well as to the environment, global competitiveness, and ethics that influence how managers perform these functions.

PLANNING

Planning means identifying goals for future organizational performance and deciding on the tasks and use of resources needed to attain them. In other words, managerial planning defines where the organization wants to be in the future and how to get there. A good example of planning comes from General Electric (GE), where managers have sold divisions such as plastics, insurance, and media to focus company resources on four key business areas: energy, aircraft engines, health care, and financial services. GE used to relocate senior executives every few years to different divisions so that they developed broad,

EXHIBIT 1.2 The Process of Management



general expertise. In line with the strategic refocusing, the company now will keep people in their business units longer so they gain a deeper understanding of products and customers within each of the four core businesses.¹¹

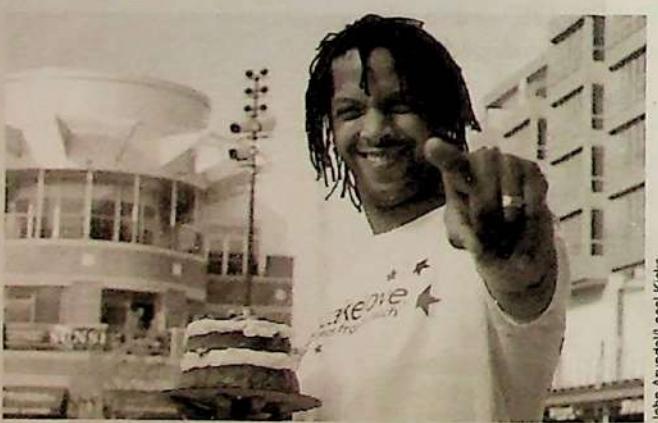
ORGANIZING

Organizing typically follows planning and reflects how the organization tries to accomplish the plan. **Organizing** involves assigning tasks, grouping tasks into departments, delegating authority, and allocating resources across the organization. In recent years, organizations as diverse as IBM, the Catholic Church, Estée Lauder, and the Federal Bureau of Investigation (FBI) have undergone structural reorganization to accommodate their changing plans. Organizing is a key task for Oprah Winfrey as she strives to turn around her struggling start-up cable network, OWN. She took over as CEO of the company, repositioned some executives and hired new ones, and cut jobs to reduce costs and streamline the company. She is hoping the structural changes will bring a lean, entrepreneurial approach that will get OWN on solid ground. Winfrey said "I prided myself on leanness," referring to the early days of her TV talk show. "The opposite was done here."¹²

LEADING

Leading is the use of influence to motivate employees to achieve organizational goals. Leading means creating a shared culture and values, communicating goals to people throughout the organization, and infusing employees with the desire to perform at a high level. As CEO of Chrysler Group, Sergio Marchionne spends about two weeks a month in Michigan meeting with executive teams from sales, marketing, and industrial operations to talk about his plans and motivate people to accomplish ambitious goals. Marchionne, who spends half his time in Italy running Fiat, rejected the 15th-floor executive suite at Chrysler headquarters so he could provide more hands-on leadership from an office close to the engineering center.¹³ One doesn't have to be a top manager of a big corporation to be an exceptional leader. Many managers working quietly in both large and small organizations around the world provide strong leadership within departments, teams, nonprofit organizations, and small businesses.

Concept Connection



John Arundel/Local Kicks

Warren Brown, a lawyer turned entrepreneur, finds that as the owner of CakeLove, a specialty bakery chain in the Washington, D.C., area, his job involves all four management functions. Once he's charted the course for the operation (**planning**) and put all the necessary policies, procedures, and structural mechanisms in place (**organizing**), he supports and encourages his employees (**leading**) and makes sure that nothing falls through the cracks (**controlling**). "After doing the leadership kind of being the locomotive, I stand back and then I'm the caboose," says Brown.

CONTROLLING

Controlling is the fourth function in the management process. **Controlling** means monitoring employees' activities, determining whether the organization is moving toward its goals, and making corrections as necessary. One trend in recent years is for companies to place less emphasis on top-down control and more emphasis on training employees to monitor and correct themselves. However, the ultimate responsibility for control still rests with managers.

The U.S. Secret Service agency recently became embroiled in a public relations nightmare, partly due to a breakdown of managerial control. When news broke that members of the security team sent to prepare for President Barack Obama's visit to Cartagena, Colombia, engaged in a night of heavy drinking, visited strip clubs, and brought prostitutes to their hotel rooms, there was a public and legislative uproar. Several agents were fired, and director Mark Sullivan and other managers were called before a

Senate subcommittee to explain the breakdown in control. The widespread investigation has brought other allegations of agent misconduct and “morally repugnant behavior” to light. One response from managers has been to create stricter rules of conduct, rules that apply even when agents are off duty.¹⁴

HOT TOPIC

Remember This

- ✓ Managers perform a wide variety of activities that fall within four primary management functions.
- Planning is the management function concerned with defining goals for future performance and how to attain them.
- Organizing involves assigning tasks, grouping tasks into departments, and allocating resources.

- Leading means using influence to motivate employees to achieve the organization’s goals.
- Controlling is concerned with monitoring employees’ activities, keeping the organization on track toward meeting its goals and making corrections as necessary.
- The U.S. Secret Service agency prostitution scandal can be traced partly to a breakdown of management control.

Organizational Performance

The second part of our definition of management is the attainment of organizational goals in an efficient and effective manner. Management is so important because organizations are so important. In an industrialized society where complex technologies dominate, organizations bring together knowledge, people, and raw materials to perform tasks that no individual could do alone. Without organizations, how could technology be provided that enables us to share information around the world in an instant; electricity be produced from huge dams and nuclear power plants; and millions of songs, videos, and games be available for our entertainment at any time and place? Organizations pervade our society, and managers are responsible for seeing that resources are used wisely to attain organizational goals.

Our formal definition of an **organization** is a social entity that is goal directed and deliberately structured. **Social entity** means being made up of two or more people. **Goal directed** means designed to achieve some outcome, such as make a profit (Walmart), win



Green Power

Local Impact

Logistics giant **Deutsche Post DHL Group** planned for corporate social responsibility with sustainability at the *local* level. Deutsche Post DHL Group’s commitment to social responsibility is reflected in its three pillars: Go Green (climate protection), Go Help (disaster relief), and Go Teach (education). Each pillar in this corporate plan is indicative of broad goals—such as a 30 percent reduction in CO₂ emissions by 2020—that are customized to fit local needs and cultures.

For example, DHL has 38 locations in Thailand, where Buddhist teachings about caring for one another lend themselves to helping and teaching the

local population. By pinpointing local needs and issues, DHL planned site-specific strategies, such as efficient lighting and the reduction of air conditioner demand in Thailand’s hot climate, and the installation of global positioning satellite (GPS) systems to minimize fuel consumption. In addition, DHL Thailand asks potential business partners to buy into the company’s Go Green philosophy, reflecting a giant leap in sustainability at the local level.

Source: David Ferguson, “CSR in Asian Logistics: Operationalisation within DHL (Thailand),” *Journal of Management Development* 30, no. 10 (2011): 985–999.

pay increases for members (AFL-CIO), meet spiritual needs (United Methodist Church), or provide social satisfaction (a college sorority). *Deliberately structured* means that tasks are divided, and responsibility for their performance is assigned to organization members. This definition applies to all organizations, including both profit and nonprofit. Small, offbeat, and nonprofit organizations are more numerous than large, visible corporations—and just as important to society.

Based on our definition of management, the manager's responsibility is to coordinate resources in an effective and efficient manner to accomplish the organization's goals. Organizational **effectiveness** is the degree to which the organization achieves a *stated goal*, or succeeds in accomplishing what it tries to do. Organizational effectiveness means providing a product or service that customers value. Organizational **efficiency** refers to the amount of resources used to achieve an organizational goal. It is based on how much raw material, money, and people are necessary for producing a given volume of output. Efficiency can be calculated as the amount of resources used to produce a product or service. Efficiency and effectiveness can both be high in the same organization. Managers at Illumination Entertainment, the film production company behind *Dr. Seuss' The Lorax*, continually look for ways to increase efficiency while also meeting the company's goal of producing creative and successful animated films.

Innovative Way

Illumination Entertainment

You can't quite make a blockbuster movie on a dime, but Christopher Meledandri is out to prove that strict cost controls and hit animated films aren't mutually exclusive. Most computer-generated animated films cost at least \$100 million, with some budgets pushing \$150 million. In contrast, Illumination Entertainment made the hit film *Despicable Me* for only \$69 million. The budget for *Hop* came in at a mere \$63 million. And the company produced its third blockbuster, *Dr. Seuss' The Lorax*, for \$70 million—less than the movie brought in at the box office on its opening weekend.

Managers at the company use many approaches to increase efficiency. For example, when making *Despicable Me*, they decided to eliminate details such as animal fur, which the audience couldn't see on the screen. Other details that were extremely costly to render in computer graphics but that weren't central to the story were also cut, saving the detail work for sets that were used repeatedly. The company paid big bucks for the voice of Steve Carell, but it hired other vocal talent with less star power; a practice that managers follow for all their films. They also seek out first-time directors and young, enthusiastic, less-experienced animators, who often cost less than half what a more experienced artist commands. Organizational details also contribute to efficiency—Meledandri keeps layers of the hierarchy to a minimum so that decisions can be made fast and movies don't languish for years in development, eating up money. Offices are in a low-rent area behind a cement plant rather than being housed in sumptuous surroundings.

Illumination Entertainment is quickly becoming the envy of Hollywood. Moviegoing in general is down, but animated family films are hot. And Illumination has had some of the hottest ones going. Peter Chernin, former president of News Corporation, said of Meledandri: "It is rare to find people whose business sense is as strong as their creative sense." Meledandri and his management team are using their business sense to run an efficient operation, and their creative instincts to put money in the right places to produce popular, often critically acclaimed animated films.¹⁵

So far, Illumination Entertainment has managed to adhere to its efficient, low-cost model as well as be highly effective in meeting its goals. Meledandri is committed to keeping things "lean and mean" so that costs don't creep up over time and require harsh cost slashing measures later on. All managers have to pay attention to costs, but severe cost cutting to improve efficiency can sometimes hurt organizational effectiveness. The ultimate responsibility of managers is to achieve high **performance**, which is the attainment of organizational goals by using resources in an efficient *and* effective manner. Consider what happened at

music company EMI. Weak sales led managers to focus on financial efficiency, which successfully trimmed waste and boosted operating income. However, the efficiencies damaged the company's ability to recruit new artists, which are vital to record companies, and also led to internal turmoil that caused some longtime acts like the Rolling Stones to leave the label. Thus, the company's overall performance suffered. Managers are struggling to find the right balance between efficiency and effectiveness to get EMI back on the right track.¹⁶

Remember This

- An organization is a social entity that is goal directed and deliberately structured.
- Good management is important because organizations contribute so much to society.
- Efficiency pertains to the amount of resources—raw materials, money, and people—used to produce a desired volume of output.
- Effectiveness refers to the degree to which the organization achieves a stated goal.
- Performance is defined as the organization's ability to attain its goals by using resources in an efficient and effective manner.
- Managers at Illumination Entertainment are concerned both with keeping costs low (efficiency) and producing animated films such as *The Lorax* that are critically and financially successful (effectiveness).

Management Skills

A manager's job requires a range of skills. Although some management theorists propose a long list of skills, the necessary skills for managing a department or an organization can be placed in three categories: conceptual, human, and technical.¹⁷ As illustrated in Exhibit 1.3, the application of these skills changes dramatically when a person is promoted to management. Although the degree of each skill that is required at different levels of an organization may vary, all managers must possess some skill in each of these important areas to perform effectively.

CONCEPTUAL SKILLS

Conceptual skill is the cognitive ability to see the organization as a whole system and the relationships among its parts. Conceptual skill involves knowing where one's team fits into the total organization and how the organization fits into the industry, the community, and

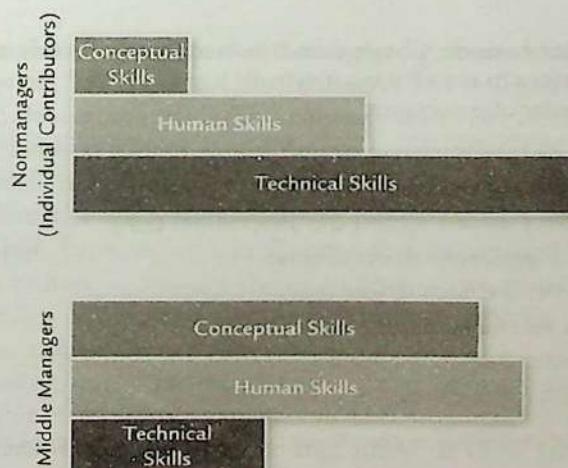


EXHIBIT 1.3

Relationship of Conceptual, Human, and Technical Skills to Management

Concept Connection



Brandy Baker/Detroit News/PSG/Newscom

Holding degrees in both physics and economics, entrepreneur Elon Musk certainly possesses his share of **technical skills**. He designed and created the first viable electric car—the Tesla roadster—as well as the Web-based payment service PayPal and a spacecraft that will enable private citizens to travel to outer space. But it is his stellar **conceptual skills** that allow him to lead the innovative companies that are making these products and services available to people worldwide.

the broader business and social environment. It means the ability to *think strategically*—to take the broad, long-term view—and to identify, evaluate, and solve complex problems.¹⁸

Conceptual skills are needed by all managers, but especially for managers at the top. Many of the responsibilities of top managers, such as decision making, resource allocation, and innovation, require a broad view. For example, Ursula Burns, who in 2009 became the first African American woman to lead a major U.S. corporation, needs superb conceptual skills to steer Xerox through the tough economy and the rapidly changing technology industry. Sales of copiers and printers have remained flat, prices have declined, and Xerox is battling stronger competitors in a consolidating industry. To keep the company thriving, Burns needs a strong understanding not only of the company, but also of shifts in the industry and the larger environment.¹⁹

HUMAN SKILLS

Human skill is the manager's ability to work with and through other people and to work effectively as a group member. Human skill is demonstrated in the way a manager relates to other people, including the ability to motivate, facilitate, coordinate, lead, communicate, and resolve conflicts. Human skills are essential for frontline managers who work with employees directly on a daily basis.²⁰ However, human skills are increasingly important for managers at all levels and in all types of organizations.

Even at a company such as Google that depends on technical expertise, human skills are considered essential for managers. Google analyzed performance reviews and feedback surveys to find out what makes a good manager of technical people and found that technical expertise ranked dead last among a list of eight desired manager qualities, as shown in Exhibit 1.4. The exhibit lists eight effective behaviors of good managers. Notice that almost all of them relate to human skills, such as communication, coaching, and teamwork. People want managers who listen to them, build positive relationships, and show an interest in their lives and careers.²² A recent survey comparing the importance of managerial skills today with those from the late 1980s found a decided increase in the role of skills for building relationships with others.²³

EXHIBIT 1.4

Google's Rules: Eight Good Behaviors for Managers

To know how to build better managers, Google executives studied performance reviews, feedback surveys, and award nominations to see what qualities made a good manager. Here are the "Eight Good Behaviors" they found, in order of importance:

1. Be a good coach.
2. Empower your team and don't micromanage.
3. Express interest in team members' success and personal well-being.
4. Don't be a sissy; Be productive and results-oriented.
5. Be a good communicator and listen to your team.
6. Help your employees with career development.
7. Have a clear vision and strategy for the team.
8. Have key technical skills so you can help advise the team.

SOURCE: Google's Quest to Build a Better Boss, by Adam Bryant, published March 12, 2011 in the New York Times. Courtesy of Google, Inc.

TECHNICAL SKILLS

Technical skill is the understanding of and proficiency in the performance of specific tasks. Technical skill includes mastery of the methods, techniques, and equipment involved in specific functions such as engineering, manufacturing, or finance. Technical skill also includes specialized knowledge, analytical ability, and the competent use of tools and techniques to solve problems in that specific discipline. Technical skills are particularly important at lower organizational levels. Many managers get promoted to their first management jobs by having excellent technical skills. However, technical skills become less important than human and conceptual skills as managers move up the hierarchy. Top managers with strong technical skills sometimes have to learn to step back so others can do their jobs effectively. David Sacks, founder and CEO of Yammer, designed the first version of the product himself, but now the company has 200 employees and a dozen or so product managers and design teams. Sacks used to “walk around and look over the designers’ shoulders to see what they were doing,” but says that habit prevented some people from doing their best work.²⁴

WHEN SKILLS FAIL

Everyone has flaws and weaknesses, and these shortcomings become most apparent under conditions of rapid change, uncertainty, or crisis.²⁵ Consider how Tony Hayward, a geologist by training, handled the BP Deepwater Horizon crisis in the Gulf of Mexico that ended his career as CEO and further damaged BP’s reputation. Until the spring of 2010, Hayward had been praised for leading a successful turnaround at the oil giant. Yet, after an oil rig drilling a well for BP exploded in April, killing 11 workers and sending hundreds of millions of gallons of oil spewing into the Gulf of Mexico, Hayward faltered in his role as a crisis leader. His ill-advised comment that he wanted the crisis over as much as anyone because he “wanted his life back” showed an insensitivity and lack of diplomacy that roiled the public. Hayward’s poor handling of the crisis eventually led to calls for his ouster, and he resigned in July 2010.²⁶

During turbulent times, managers really have to stay on their toes and apply all their skills and competencies in a way that benefits the organization and its stakeholders—employees, customers, investors, the community, and so forth. In recent years, numerous highly publicized examples have shown what happens when managers fail to apply their skills effectively to meet the demands of an uncertain, rapidly changing world. Ethical and financial scandals have left people cynical about business managers and even less willing to overlook mistakes.

Crises and examples of corporate deceit and greed grab the headlines, but many more companies falter or fail less spectacularly. Managers fail to listen to customers, are unable to motivate employees, or can’t build a cohesive team. For example, the reputation of Netflix went from “beloved icon of innovation to just another big, bad company ripping off customers” because managers didn’t listen. Reed Hastings and other top executives couldn’t help but hear the angry complaints from customers when they decided to increase prices and split the company’s mail-order and streaming businesses at the same time, causing users to have to manage their accounts in two places. However, managers clearly weren’t listening, as the company pushed forward with its plans despite growing customer frustration and resentment.²⁷

Exhibit 1.5 shows the top ten factors that cause managers to fail to achieve desired results, based on a survey of managers in U.S. organizations operating in rapidly changing business environments.²⁸ Notice that many of these factors are due to poor human skills, such as the inability to develop good work relationships, a failure to clarify

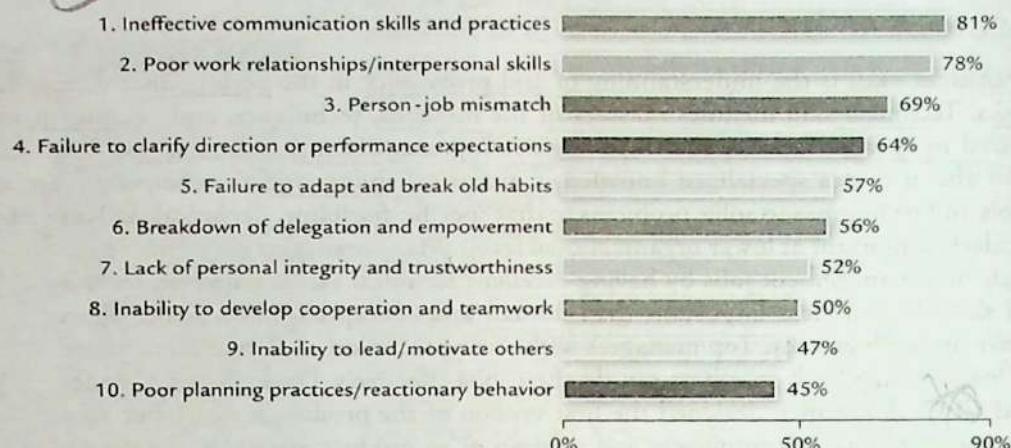
Take a Moment

Complete the Experiential Exercise on pages 29–30 that pertains to management skills. Reflect on the strength of your preferences among the three types of skills and the implications for you as a manager.

HOT TOPIC

EXHIBIT 1.5

Top Causes of Manager Failure



SOURCE: Adapted from Clinton O. Longenecker, Mitchell J. Neubert, and Laurence S. Fink, "Causes and Consequences of Managerial Failure in Rapidly Changing Organizations," *Business Horizons* 50 (2007): 145–155, Table 1, with permission from Elsevier.

direction and performance expectations, or an inability to create cooperation and teamwork. The number one reason for manager failure is ineffective communication skills and practices, cited by 81 percent of managers surveyed. Especially in times of uncertainty or crisis, if managers do not communicate effectively, including listening to employees and customers and showing genuine care and concern, organizational performance and reputation suffer.

Remember This

- Managers have complex jobs that require a range of abilities and skills.
- **Conceptual skill** is the cognitive ability to see the organization as a whole and the relationship among its parts.
- **Human skill** refers to a manager's ability to work with and through other people and to work effectively as part of a group.
- **Technical skill** is the understanding of and proficiency in the performance of specific tasks.
- The two major reasons that managers fail are poor communication and poor interpersonal skills.
- A manager's weaknesses become more apparent during stressful times of uncertainty, change, or crisis.

Management Types

Managers use conceptual, human, and technical skills to perform the four management functions of planning, organizing, leading, and controlling in all organizations—large and small, manufacturing and service, profit and nonprofit, traditional and Internet-based. But not all managers' jobs are the same. Managers are responsible for different departments, work at different levels in the hierarchy, and meet different requirements for achieving high performance. Twenty-five-year-old Daniel Wheeler is a first-line supervisor in his first management job at Del Monte Foods, where he is directly involved in promoting products, approving packaging sleeves, and organizing people to host sampling events.²⁹ Kevin Kurtz is a middle manager at Lucasfilm, where he works with employees to develop marketing campaigns for some of the entertainment company's hottest films.³⁰ And Domenic Antonellis is CEO of the New England Confectionary Co. (Necco), the company that makes those tiny pastel candy hearts stamped with phrases such as "Be Mine" and "Kiss Me."³¹ All three are managers and must contribute to planning, organizing, leading, and controlling their organizations—but in different amounts and ways.

VERTICAL DIFFERENCES

An important determinant of the manager's job is the hierarchical level. Exhibit 1.6 illustrates the three levels in the hierarchy. A study of more than 1,400 managers examined how the manager's job differs across these three hierarchical levels and found that the primary focus changes at different levels.³² For first-level managers, the main concern is facilitating individual employee performance. Middle managers, though, are concerned less with individual performance and more with linking groups of people, such as allocating resources, coordinating teams, or putting top management plans into action across the organization. For top-level managers, the primary focus is monitoring the external environment and determining the best strategy to be competitive.

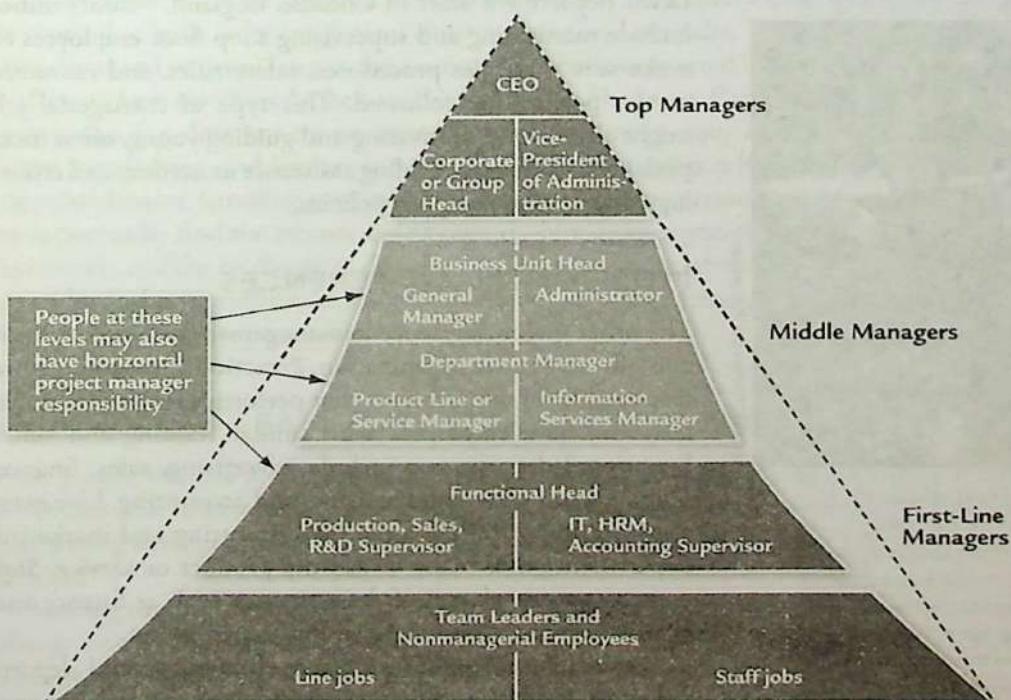
Let's look in more detail at differences across hierarchical levels. **Top managers** are at the top of the hierarchy and are responsible for the entire organization. They have titles such as president, chairperson, executive director, CEO, and executive vice president. Top managers are responsible for setting organizational goals, defining strategies for achieving them, monitoring and interpreting the external environment, and making decisions that affect the entire organization. They look to the long-term future and concern themselves with general environmental trends and the organization's overall success. Top managers are also responsible for communicating a shared vision for the organization, shaping corporate culture, and nurturing an entrepreneurial spirit that can help the company innovate and keep pace with rapid change.³³

Middle managers work at middle levels of the organization and are responsible for business units and major departments. Examples of middle managers are department head, division head, manager of quality control, and director of the research lab. Middle managers typically have two or more management levels beneath them. They are responsible for implementing the overall strategies and policies defined by top managers. Middle managers generally are concerned with the near future, rather than with long-range planning.

The middle manager's job has changed dramatically over the past two decades. Many organizations improved efficiency by laying off middle managers and slashing middle

EXHIBIT 1.6

Management Levels in the Organizational Hierarchy



management levels. Traditional pyramidal organization charts were flattened to allow information to flow quickly from top to bottom and decisions to be made with greater speed. In addition, technology has taken over many tasks once performed by middle managers, such as monitoring performance and creating reports.³⁴ Exhibit 1.6 illustrates the shrinking middle management.

Yet even as middle management levels have been reduced, the middle manager's job has taken on a new vitality. Research shows that middle managers play a crucial role in driving innovation and enabling organizations to respond to rapid shifts in the environment.³⁵ As Ralph Stayer, CEO of Johnsonville Sausage, said, "Leaders can design wonderful strategies, but the success of the organization resides in the execution of those strategies. The people in the middle are the ones who make it work."³⁶ A study by Nicholas Bloom and John Van Reenen seems to support Stayer's observation. In an experiment with textile factories in India, improved middle management practices were introduced into 20 factories in India, and the results were compared to factories that did not improve management procedures. After just four months of training in better management methods, the 20 factories cut defects by 50 percent, boosted productivity and output, and improved profits by \$200,000 a year.³⁷

Middle managers' status also has escalated because of the growing use of teams and projects. A **project manager** is responsible for a temporary work project that involves the participation of people from various functions and levels of the organization, and perhaps from outside the company as well. Many of today's middle managers work with a variety of projects and teams at the same time, some of which cross geographical and cultural boundaries as well as functional ones.

First-line managers are directly responsible for the production of goods and services. They are the first or second level of management and have such titles as supervisor, line manager, section chief, and office manager. They are responsible for teams and non-management employees. Their primary concern is the application of rules and procedures to achieve efficient production, provide technical assistance, and motivate subordinates. The time horizon at this level is short, with the emphasis on accomplishing day-to-day goals. For example,

Alistair Boot manages the menswear department for a John Lewis department store in Cheadle, England.³⁸ Boot's duties include monitoring and supervising shop floor employees to make sure that sales procedures, safety rules, and customer service policies are followed. This type of managerial job might also involve motivating and guiding young, often inexperienced workers; providing assistance as needed; and ensuring adherence to company policies.

Concept Connection



AFP PHOTO/Paul BUCK/Newscom

Father and son Don (left) and Donnie (right) Nelson have both held the position of **general manager** for the Dallas Mavericks of the NBA. In 1997, when Don Nelson took over as general manager and head coach of the Mavericks, the basketball team was in a freefall. Donnie joined his father the next year as assistant coach to help build the team. They were rewarded for their efforts in 2003 when the team broke through with a dynamic defense. Donnie moved into the general manager position in 2005 when his father stepped down and has enjoyed overseeing the Mavericks as they won the NBA Championship in 2011, as well as their division titles in both 2007 and 2010.

HORIZONTAL DIFFERENCES

The other major difference in management jobs occurs horizontally across the organization. **Functional managers** are responsible for departments that perform a single functional task and have employees with similar training and skills. Functional departments include advertising, sales, finance, human resources, manufacturing, and accounting. **Line managers** are responsible for the manufacturing and marketing departments that make or sell the product or service. **Staff managers** are in charge of departments, such as finance and human resources, that support line departments.

General managers are responsible for several departments that perform different functions. A general manager is responsible for a self-contained division, such as a Nordstrom department store or a Honda assembly plant, and for

all the functional departments within it. Project managers also have general management responsibility because they coordinate people across several departments to accomplish a specific project.

Remember This

- There are many types of managers, based on their purpose and location in an organization.
- A **top manager** is one who is at the apex of the organizational hierarchy and is responsible for the entire organization.
- **Middle managers** work at the middle level of the organization and are responsible for major divisions or departments.
- A **project manager** is a manager who is responsible for a temporary work project that involves people from various functions and levels of the organization.
- Most new managers are **first-line managers**—managers who are at the first or second level of the hierarchy and are directly responsible for overseeing groups of production employees.
- A **functional manager** is responsible for a department that performs a single functional task, such as finance or marketing.
- **General managers** are responsible for several departments that perform different functions, such as the manager of a Macy's department store or a Ford automobile factory.

What Is It Like to Be a Manager?

"Despite a proliferation of management gurus, management consultants, and management schools, it remains murky to many of us what managers actually do and why we need them in the first place," wrote Ray Fisman, a Columbia Business School professor.³⁹ Unless someone has actually performed managerial work, it is hard to understand exactly what managers do on an hour-by-hour, day-to-day basis. One answer to the question of what managers actually do to plan, organize, lead, and control was provided by Henry Mintzberg, who followed managers around and recorded all their activities.⁴⁰ He developed a description of managerial work that included three general characteristics and ten roles. These characteristics and roles, discussed in detail later in this section, have been supported by other research.⁴¹

Researchers also have looked at what managers *like* to do. Both male and female managers across five different countries report that they most enjoy activities such as leading others, networking, and leading innovation. Activities managers like least include controlling subordinates, handling paperwork, and managing time pressures.⁴² Many new managers in particular find the intense time pressures of management, the load of administrative paperwork, and the challenge of directing others to be quite stressful as they adjust to their new roles and responsibilities. Indeed, the initial leap into management can be one of the scariest moments in a person's career.

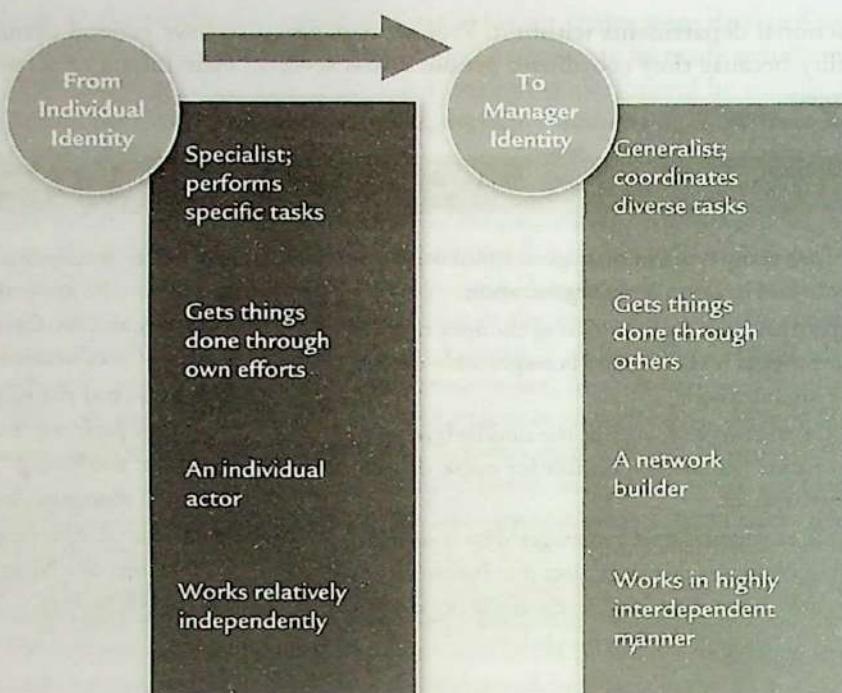
MAKING THE LEAP: BECOMING A NEW MANAGER

Many people who are promoted into a manager position have little idea what the job actually entails and receive little training about how to handle their new role. It's no wonder that, among managers, first-line supervisors tend to experience the most job burnout and attrition.⁴³

Making the shift from individual contributor to manager is often tricky. Mark Zuckerberg, whose company, Facebook, went public a week before he turned 28 years old, provides an example. In a sense, the public has been able to watch as Zuckerberg "grows up" as a manager. He was a strong individual performer in creating the social media platform and forming the company, but he fumbled with day-to-day management, such as interactions with employees and communicating with people both inside and outside

EXHIBIT 1.7

Making the Leap from Individual Performer to Manager



SOURCE: Based on Exhibit 1.1, "Transformation of Identity," in Linda A. Hill, *Becoming a Manager: Mastery of a New Identity*, 2d ed. (Boston, MA: Harvard Business School Press, 2003), p. 6.

Facebook. Zuckerberg was smart enough to hire seasoned managers, including former Google executive Sheryl Sandberg, and cultivate advisors and mentors who have coached him in areas where he is weak. He also shadowed David Graham at the offices of The Post Company (publisher of *The Washington Post*) for four days to try to learn what it is like to manage a large organization. Now that Facebook is a public company, Zuckerberg will be watched more closely than ever to see if he has what it takes to be a manager of a big public corporation.⁴⁴

Harvard professor Linda Hill followed a group of 19 managers over the first year of their managerial careers and found that one key to success is to recognize that becoming a manager involves more than learning a new set of skills. Rather, becoming a manager means a profound transformation in the way people think of themselves, called *personal identity*, which includes letting go of deeply held attitudes and habits and learning new ways of thinking.⁴⁵ Exhibit 1.7 outlines the transformation from individual performer to manager. Recall our earlier discussion of the role of manager as the person who builds systems rather than doing specific tasks. The individual performer is a specialist and a "doer." His or her mind is conditioned to think in terms of performing specific tasks and activities as expertly as possible. The manager, on the other hand, has to be a generalist and learn to coordinate a broad range of activities. Whereas the individual performer strongly identifies with his or her specific tasks, the manager has to identify with the broader organization and industry.

In addition, the individual performer gets things done mostly through his or her own efforts and develops the habit of relying on self rather than others. The manager, though, gets things done through other people. Indeed, one of the most common mistakes that new managers make is wanting to do all the work themselves, rather than delegating to others and developing others' abilities.⁴⁶ Hill offers a reminder that, as a manager, you must "be an instrument to get things done in the organization by working with and through others, rather than being the one doing the work."⁴⁷

Another problem for many new managers is that they expect to have greater freedom to do what they think is best for the organization. In reality, though, managers

Take a Moment

Can you make a personal transformation from individual performer to manager, accomplishing work by engaging and coordinating other people? Look back at your results on the questionnaire at the beginning of this chapter to see how your priorities align with the demands placed on a manager.

find themselves hemmed in by interdependencies. Being a successful manager means thinking in terms of building teams and networks and becoming a motivator and organizer within a highly interdependent system of people and work. Although the distinctions may sound simple in the abstract, they are anything but. In essence, becoming a manager means becoming a new person and viewing oneself in a completely new way.

Many new managers have to make the transformation in a "trial by fire," learning on the job as they go, but organizations are beginning to be more responsive to the need for new manager training. The cost to organizations of losing good employees who can't make the transition is greater than the cost of providing training to help new managers cope, learn, and grow. In addition, some organizations use great care in selecting people for managerial positions, including ensuring that each candidate understands what management involves and really wants to be a manager.

MANAGER ACTIVITIES

Most new managers are unprepared for the variety of activities that managers routinely perform. One of the most interesting findings about managerial activities is how busy managers are and how hectic the average workday can be.

Adventures in Multitasking

Managerial activity is characterized by variety, fragmentation, and brevity.⁴⁸ The widespread and voluminous nature of a manager's tasks leaves little time for quiet reflection. A recent study by a team from the London School of Economics and Harvard Business School found that the time CEOs spend working alone averages a mere six hours a week. The rest of their time is spent in meetings, on the phone, traveling, and talking with others inside and outside the organization.⁴⁹

Managers shift gears quickly. In his study, Mintzberg found that the average time a top executive spends on any one activity is less than nine minutes, and another survey indicates that some first-line supervisors average one activity every 48 seconds!⁵⁰ Significant crises are interspersed with trivial events in no predictable sequence. Every manager's job is similar in its diversity and fragmentation to what *Workforce Management* described as a typical day in the life of human resources (HR) manager Kathy Davis:⁵¹

- 6:55 A.M.—Arrives at work early to begin investigating a complaint of sexual harassment at one of the factories, but as she's walking to her office, she bumps into someone carrying a picket sign that reads "Unfair Hiring! Who Needs HR?" Spends a few minutes talking with the young man, who is a temp that she had let go due to sloppy work.
- 7:10 A.M.—Finds the factory shift supervisor and a security staff member already waiting outside her door to discuss the sexual harassment complaint.
- 7:55 A.M.—Sue, a member of Kathy's team who has just arrived and is unaware of the meeting, interrupts to let Kathy know there is someone picketing in the hallway outside her office and the CEO wants to know what's going on.
- 8:00 A.M.—Alone at last, Kathy calls the CEO and explains the picketing situation, and then she begins her morning routine. Checking voice mail, she finds three messages that she must respond to immediately, and she passes four others to members of her team. She begins checking e-mail but is interrupted again by Sue, who reminds her they have to review the recent HR audit so that the company can respond promptly and avoid penalties.
- 9:15 A.M.—As she is reviewing the audit, Kathy gets a call from manager Pete Channing, asking if she's sent the offer letter to a prospective hire. "Don't send it," Pete said, "I've changed my mind." Weeks of interviewing and background checks, and now Pete wants to start over!

Take@Moment

How will you make the transition to a new manager's position and effectively manage your time to keep up with the hectic pace? Complete the New Manager Self-Test on page 20 to see how good you are at time management.

New Manager Self-Test

Managing Your Time

Instructions: Think about how you normally handle tasks during a typical day at work or school. Read each item and check whether it is Mostly True or Mostly False for you.

	Mostly True	Mostly False		
1. I frequently take on too many tasks.	_____	_____	7. My workspace and paperwork are well organized.	_____
2. I spend too much time on enjoyable but unimportant activities.	_____	_____	8. I am good at record keeping.	_____
3. I feel that I am in excellent control of my time.	_____	_____	9. I make good use of waiting time.	_____
4. Frequently during the day, I am not sure what to do next.	_____	_____	10. I am always looking for ways to increase task efficiency.	_____
5. There is little room for improvement in the way I manage my time.	_____	_____		
6. I keep a schedule for events, meetings, and deadlines.	_____	_____		

7. My workspace and paperwork are well organized.

8. I am good at record keeping.

9. I make good use of waiting time.

10. I am always looking for ways to increase task efficiency.

Scoring and Interpretation: For questions 3 and 5–10, give yourself one point for each Mostly True answer. For questions 1, 2, and 4, give yourself one point for each Mostly False answer. Your total score pertains to the overall way you use time. Items 1–5 relate to taking mental control over how you spend your time. Items 6–10 pertain to some mechanics of good time management. Good mental and physical habits make effective time management much easier. Busy managers have to learn to control their time. If you scored 8 or higher, your time-management ability is good. If your score is 4 or lower, you may want to reevaluate your time-management practices if you aspire to be a manager. How important is good time management to you? Read the Manager's Shoptalk box on page 22 for ideas to improve your time management skills.

- 11:20 A.M.—Kathy is getting to the end of her critical e-mail list when she hears a commotion outside her door and finds Linda and Sue arguing. “This report IT did for us is full of errors,” Linda says, “but Sue says we should let it go.” Kathy agrees to take a look at the IT department’s report and discovers that there are only a few errors, but they have critical implications.
- 12:25 P.M.—As she’s nearing the end of the IT report, Kathy’s e-mail pings an “urgent” message from a supervisor informing her that one of his employees will be absent from work for a few weeks “while a felony morals charge is worked out.” This is the first she’s heard about it, so she picks up the phone to call the supervisor.
- 1:20 P.M.—Time for lunch—finally. She grabs a sandwich at a local supermarket and brings one back for the picketer, who thanks her and continues his march.
- 2:00 P.M.—Meets with CEO Henry Luker to review the audit and IT reports, discuss changes to the company’s 401(k) plan, and talk about ideas for reducing turnover.
- 3:00 P.M.—Rushes back to her office to grab her keys so that she can drive to a meeting with the manufacturing facilities manager, who has asked Kathy to “shadow” him and share ideas about training and skills development.

- 3:15 P.M.—As she gets out of her car at the facility, Kathy runs into a man who had attended a supervision training course a few months earlier. He tells her that the class really helped him—there are fewer misunderstandings, and the staff seems to respect him more.
- 3:30 P.M.—Arrives right on time and spends the next couple of hours observing and asking questions, talking to employees to learn about the problems and obstacles they face.
- 5:40 P.M.—All is quiet back in the HR department, but there's a message from Sue that Kathy has an appointment first thing tomorrow morning with two women who had gotten into a fight in the elevator. Sighing, Kathy returns to her investigation of the sexual harassment complaint that she had begun at 7:00 that morning.

Life on Speed Dial

The manager performs a great deal of work at an unrelenting pace.⁵² Managers' work is fast paced and requires great energy. Most top executives routinely work at least 12 hours a day and spend 50 percent or more of their time traveling.⁵³ Calendars are often booked months in advance, but unexpected disturbances erupt every day. Mintzberg found that the majority of executives' meetings and other contacts are ad hoc, and even scheduled meetings are typically surrounded by other events such as quick phone calls, scanning of e-mail, or spontaneous encounters. During time away from the office, executives catch up on work-related reading, paperwork, phone calls, and e-mail. Technology, such as e-mail, text messaging, cell phones, and laptops, intensifies the pace. Brett Yormark, the National Basketball Association (NBA)'s youngest CEO (of the New Jersey Nets), typically responds to about 60 messages before he even shaves and dresses for the day, and employees are accustomed to getting messages that Yormark has zapped to them in the wee hours of the morning.⁵⁴

The fast pace of a manager's job is illustrated by Heather Coin, manager of the Sherman Oaks, California, branch of The Cheesecake Factory. Coin arrives at work about 9:30 A.M. and checks the financials for how the restaurant performed the day before. Next comes a staff meeting and various personnel duties. Before and during the lunch shift, she's pitching in with whatever needs to be done—making salads in the kitchen, expediting the food, busing the tables, or talking with guests. After lunch, from 3:00 to 4:30 P.M., Heather takes care of administrative duties, paperwork, or meetings with upper management, media, or community organizations. At 4:30, she holds a shift-change meeting to ensure a smooth transition from the day crew to the night crew. Throughout the day, Heather also mentors staff members, which she considers the most rewarding part of her job. After the evening rush, she usually heads for home about 10 P.M., the end of another 12½-hour day.⁵⁵

Where Does a Manager Find the Time?

With so many responsibilities and so many competing demands on their time, how do managers cope? *The Wall Street Journal's "Lessons in Leadership"* video series asked CEOs of big companies how they managed their time and found that many of them carve out time just to think about how to manage their time.⁵⁶ Time is a manager's most valuable resource, and one characteristic that identifies successful managers is that they know how to use time effectively to accomplish the important things first and the less important things later.⁵⁷ **Time management** refers to using techniques that enable you to get more done in less time and with better results, be more relaxed, and have more time to enjoy your work and your life. New managers in particular often struggle with the increased workload, the endless paperwork, the incessant meetings, and the constant interruptions that come with a management job. Learning to manage their time effectively is one of the greatest challenges that new managers face. This chapter's Manager's Shoptalk box offers some tips for time management.

Manager's

ShopTalk

Time Management Tips for New Managers

Becoming a manager is considered by most people to be a positive, forward-looking career move and, indeed, life as a manager offers appealing aspects. However, it also holds many challenges, not the least of which is the increased workload and the difficulty of finding the time to accomplish everything on one's expanded list of duties and responsibilities. The following classic time management techniques can help you eliminate major time-wasters in your daily routines.

- **Keep a To-Do List.** If you don't use any other system for keeping track of your responsibilities and commitments, at the very least you should maintain a "To Do" list that identifies all the things you need to do during the day. Although the nature of management means that new responsibilities and shifting priorities occur frequently, it's a fact that people accomplish more with a list than without one.
- **Remember Your ABCs.** This is a highly effective system for prioritizing tasks or activities on your To Do list:
 - An "A" item is something highly important. It *must* be done, or you'll face serious consequences.
 - A "B" item is a *should do*, but consequences will be minor if you don't get it done.
 - "C" items are things that would be nice to get done, but there are no consequences at all if you don't accomplish them.
 - "D" items are tasks that you can delegate to someone else.

- **Do a Daily Review and Look-Ahead.** Spend 10–15 minutes each evening reviewing the day and then thinking ahead to the next day. Reviewing what worked well and what didn't will increase your awareness of your behavior and reduce your bad habits the next day. Then, look ahead and plan what you want to accomplish the next day. Some experts propose that every minute spent in planning saves 10 minutes in execution.
- **Do One Thing at a Time.** Multitasking has become the motto of the early twenty-first century, but too much multitasking is a time waster. Research has shown that multitasking *reduces* rather than enhances productivity. The authors of one study suggest that an inability to focus on one thing at a time could reduce efficiency by 20 to 40 percent. Even for those whose job requires numerous brief activities, the ability to concentrate fully on each one (sometimes called *spotlighting*) saves time. Give each task your full attention, and you'll get more done and get it done better, too.

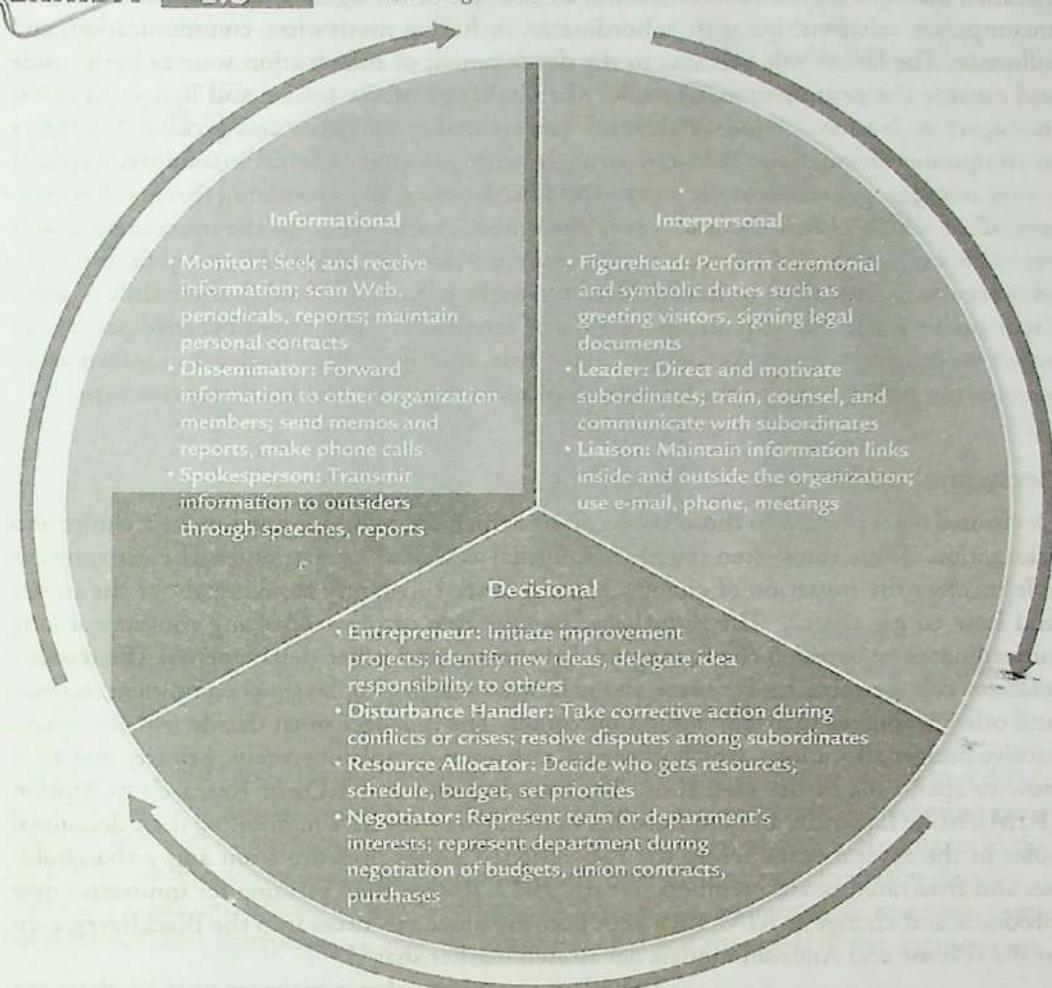
Sources: Based on information in Pamela Dodd and Doug Sundheim, *The 25 Best Time Management Tools & Techniques* (Ann Arbor, MI: Peak Performance Press, Inc., 2005); Brian Tracy, *Eat That Frog: 21 Great Ways to Stop Procrastinating and Get More Done in Less Time* (San Francisco: Berrett-Koehler, 2002); Joshua S. Rubinstein, David E. Meyer, and Jeffrey E. Evans, "Executive Control of Cognitive Processes in Task Switching," *Journal of Experimental Psychology: Human Perception and Performance* 27, no. 4 (August 2001): 763–797; and Sue Shellenbarger, "Multitasking Makes You Stupid: Studies Show Pitfalls of Doing Too Much at Once," *The Wall Street Journal* (February 27, 2003): D1.

MANAGER ROLES

Mintzberg's observations and subsequent research indicate that diverse manager activities can be organized into ten roles.⁵⁸ A role is a set of expectations for a manager's behavior. Exhibit 1.8 describes activities associated with each of the roles. These roles are divided into three conceptual categories: informational (managing by information), interpersonal (managing through people), and decisional (managing through action). Each role represents activities that managers undertake to ultimately accomplish the functions of planning, organizing, leading, and controlling. Although it is necessary to separate the components of the manager's job to understand the different roles and activities of a manager, it is important to remember that the real job of management isn't practiced as a set of independent parts; all the roles interact in the real world of management.

EXHIBIT 1.8

Ten Manager Roles



SOURCE: Adapted from Henry Mintzberg, *The Nature of Managerial Work* (New York: Harper & Row, 1973), pp. 92–93; and Henry Mintzberg, "Managerial Work Analysis from Observation," *Management Science* 18 (1971), B97–B110.

Informational Roles

Informational roles describe the activities used to maintain and develop an information network. General managers spend about 75 percent of their time communicating with other people. The *monitor* role involves seeking current information from many sources. The manager acquires information from others and scans written materials to stay well informed. The *disseminator* and *spokesperson* roles are just the opposite: The manager transmits current information to others, both inside and outside the organization, who can use it. Steve Jobs of Apple was a master of the *spokesperson* role when introducing new Apple products to the public, and employees and the media have been watching to see if new CEO Tim Cook can match his predecessor's proficiency. Cook has a distinctly different style from Jobs, less passionate and more controlled, but the comments about his first appearance as *spokesperson* for Apple at the 2012 "D: All Things Digital" conference were generally positive.⁵⁹

Interpersonal Roles

Interpersonal roles pertain to relationships with others and are related to the human skills described earlier. The *figurehead* role involves handling ceremonial and symbolic activities for the department or organization. The manager represents the organization in his or her formal managerial capacity as the head of the unit. The presentation of employee awards by



HOT TOPIC

a branch manager for Commerce Bank is an example of the figurehead role. The *leader* role encompasses relationships with subordinates, including motivation, communication, and influence. The *liaison* role pertains to the development of information sources both inside and outside the organization. Consider the challenge of the leader and liaison roles for managers at National Foods, Pakistan's largest maker of spices and pickles. Managers in companies throughout Pakistan struggle with growing political instability, frequent power outages, government corruption and inefficiency, and increasing threats of terrorism, all of which makes the leader role even more challenging. "In the morning, I assess my workers," says Sajjad Farooqi, a supervisor at National Foods. If Farooqi finds people who are too stressed out or haven't slept the night before, he changes their shift or gives them easier work. Farooqi also pays a lot of attention to incentives because people are under so much pressure. As for the liaison role, managers have to develop information sources not only related to the business, but related to safety and security concerns.⁶⁰

Decisional Roles

Decisional roles pertain to those events about which the manager must make a choice and take action. These roles often require conceptual as well as human skills. The *entrepreneur* role involves the initiation of change. Managers are constantly thinking about the future and how to get there.⁶¹ The *disturbance handler* role involves resolving conflicts among subordinates or between the manager's department and other departments. The *resource allocator* role pertains to decisions about how to assign people, time, equipment, money, and other resources to attain desired outcomes. The manager must decide which projects receive budget allocations, which of several customer complaints receive priority, and even how to spend his or her own time. The founders and co-CEOs of Research in Motion (RIM), Mike Lazaridis and Jim Balsillie, were not very effective in fulfilling their decisional roles in the several years before the two resigned under pressure from angry shareholders and frustrated board members in early 2012. Rather than pushing for innovative new products and change at RIM, they kept pouring more resources into the BlackBerry, even as the iPhone and Android models devastated market share.⁶²

Concept Connection



COURTESY OF SBTVCOM

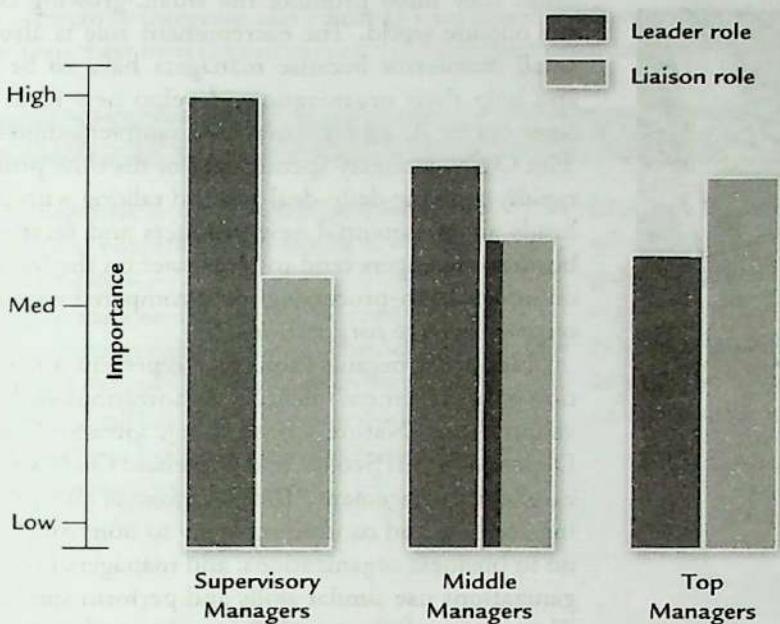
Small business owners often assume multiple management roles. Here, Susan Solovic (right), founder and CEO of sbtv.com, an Internet news and information site for small business, functions as a **spokesperson** in an interview with Phoenix anchor Tess Rafols of KTVK. When Solovic develops new ideas for sbtv.com, she functions as an **entrepreneur**, while she fills the **monitor** role when she keeps an eye on current trends that might benefit her evolving company and the small businesses her channel serves.

The relative emphasis that a manager puts on these ten roles depends on a number of factors, such as the manager's position in the hierarchy, natural skills and abilities, type of organization, or departmental goals to be achieved. For example, Exhibit 1.9 illustrates the varying importance of the leader and liaison roles as reported in a survey of top-, middle-, and lower-level managers. Note that the importance of the leader role typically declines, while the importance of the liaison role increases, as a manager moves up the organizational hierarchy.

Other factors, such as changing environmental conditions, also may determine which roles are more important for a manager at any given time. Robert Dudley, who took over as CEO of troubled oil giant BP after Tony Hayward was forced out due to mishandling the Deepwater Horizon crisis, has found informational roles and decisional roles at the top of his list as he has personally worked to repair relationships with U.S. government officials, mend fences with local communities, carve a path toward restoring the company's reputation, and take steps to prevent such a disastrous event from ever happening again.⁶³ Managers stay alert to needs both within and outside the organization to determine which roles are most critical at various times. A top manager may regularly put more emphasis on the roles of spokesperson, figurehead, and negotiator, but the emergence of new competitors may

EXHIBIT 1.9

Hierarchical Levels and Importance of Leader and Liaison Roles



SOURCE: Based on information from A. I. Kraut, P.R. Pedigo, D. D. McKenna, and M. D. Dunnette, "The Role of the Manager: What's Really Important in Different Management Jobs," *Academy of Management Executive* 3 (1989), 286–293.

require more attention to the monitor role, or a severe decline in employee morale and direction may mean that the CEO has to put more emphasis on the leader role. A marketing manager may focus on interpersonal roles because of the importance of personal contacts in the marketing process, whereas a financial manager may be more likely to emphasize decisional roles such as resource allocator and negotiator. Despite these differences, all managers carry out informational, interpersonal, and decisional roles to meet the needs of the organization.

Remember This

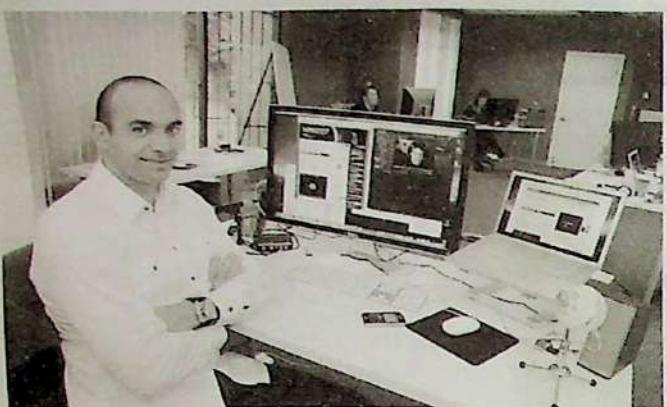
- Becoming a new manager requires a shift in thinking from being an individual performer to playing an interdependent role of coordinating and developing others.
- Because of the interdependent nature of management, new managers often have less freedom and control than they expect to have.
- The job of a manager is highly diverse and fast-paced, so managers need good time management skills.
- A **role** is a set of expectations for one's behavior.
- Managers at every level perform ten roles, which are grouped into informational roles, interpersonal roles, and decisional roles.
- After the death of Steve Jobs, Tim Cook has taken over the role of *spokesperson* for introducing new products at Apple.

Managing in Small Businesses and Nonprofit Organizations

Small businesses are growing in importance. Hundreds of small businesses open every month, but the environment for small business today is highly complicated. Chapter 6 provides detailed information about managing in small businesses and entrepreneurial startups.

One interesting finding is that managers in small businesses tend to emphasize roles different from those of managers in large corporations. Managers in small companies often

Concept Connection



WENN/ISIP/Newscom

Despite having launched and sold several successful start-ups already, San Francisco-based **small business** owner Loic Le Meur is still a hands-on kind of manager. His daily blog about the blogosphere and the web in general is read by hundreds of thousands of people worldwide, and he is the chief organizer behind Europe's largest annual tech conference, LeWeb.

their activities toward earning money for the company, whereas managers in nonprofits direct their efforts toward generating some kind of social impact. The characteristics and needs of nonprofit organizations created by this distinction present unique challenges for managers.⁶⁶

Financial resources for nonprofit organizations typically come from government appropriations, grants, and donations rather than from the sale of products or services to customers. In businesses, managers focus on improving the organization's products and services to increase sales revenues. In nonprofits, however, services are typically provided to nonpaying clients, and a major problem for many organizations is securing a steady stream of funds to continue operating. Nonprofit managers, committed to serving clients with limited resources, must focus on keeping organizational costs as low as possible.⁶⁷ Donors generally want their money to go directly to helping clients rather than for overhead costs. If nonprofit managers can't demonstrate a highly efficient use of resources, they might have a hard time securing additional donations or government appropriations. Although the Sarbanes-Oxley Act (the 2002 corporate governance reform law) doesn't apply to nonprofits, for example, many are adopting its guidelines, striving for greater transparency and accountability to boost credibility with constituents and be more competitive when seeking funding.⁶⁸

In addition, because nonprofit organizations do not have a conventional *bottom line*, managers often struggle with the question of what constitutes results and effectiveness. It is easy to measure dollars and cents, but the metrics of success in nonprofits are much more ambiguous. Managers have to measure intangibles such as "improve public health," "make a difference in the lives of the disenfranchised," or "increase appreciation for the arts." This intangible nature also makes it more difficult to gauge the performance of employees and managers. An added complication is that managers often depend on volunteers and donors who cannot be supervised and controlled in the same way that a business manager deals with employees. Many people who move from the corporate world to a nonprofit are surprised to find that the work hours are often longer and the stress greater than in their previous management jobs.⁶⁹

The roles defined by Mintzberg also apply to nonprofit managers, but these may differ somewhat. We might expect managers in nonprofit organizations to place more emphasis on the roles of spokesperson (to "sell" the organization to donors and the public), leader (to build a mission-driven community of employees and volunteers), and resource allocator (to distribute government resources or grant funds that are often assigned top-down).

see their most important role as that of spokesperson because they must promote the small, growing company to the outside world. The entrepreneur role is also critical in small businesses because managers have to be innovative and help their organizations develop new ideas to remain competitive. At LivingSocial, for example, founder and CEO Tim O'Shaughnessy spends a lot of his time promoting the rapidly growing daily-deal site and talking with department heads about potential new products and services.⁶⁴ Small-business managers tend to rate lower on the leader role and on information-processing roles, compared with their counterparts in large corporations.

Nonprofit organizations also represent a major application of management talent.⁶⁵ Organizations such as the Salvation Army, Nature Conservancy, Greater Chicago Food Depository, Girl Scouts, and Cleveland Orchestra all require excellent management. The functions of planning, organizing, leading, and controlling apply to nonprofits just as they do to business organizations, and managers in nonprofit organizations use similar skills and perform similar activities.

The primary difference is that managers in businesses direct

Managers in all organizations—large corporations, small businesses, and nonprofit organizations—carefully integrate and adjust the management functions and roles to meet challenges within their own circumstances and keep their organizations healthy.

Remember This

- Good management is just as important for small businesses and nonprofit organizations as it is for large corporations.
- Managers in these organizations adjust and integrate the various management functions, activities, and roles to meet the unique challenges they face.
- Managers in small businesses often see their most important roles as being a *spokesperson* for the business and acting as an *entrepreneur*.
- Managers in nonprofit organizations direct their efforts toward generating some kind of social impact rather than toward making money for the organization.
- Nonprofit organizations don't have a conventional bottom line, so managers often struggle with what constitutes effectiveness.

State-of-the-Art Management Competencies

In recent years, rapid environmental shifts have caused a fundamental transformation in what is required of effective managers. Technological advances and the rise of virtual work, global market forces, and shifting employee and customer expectations have led to a decline in organizational hierarchies and more empowered workers, which calls for a new approach to management that may be quite different from managing in the past.⁷⁰ Exhibit 1.10 shows the shift from the traditional management approach to the new management competencies that are effective in today's environment.

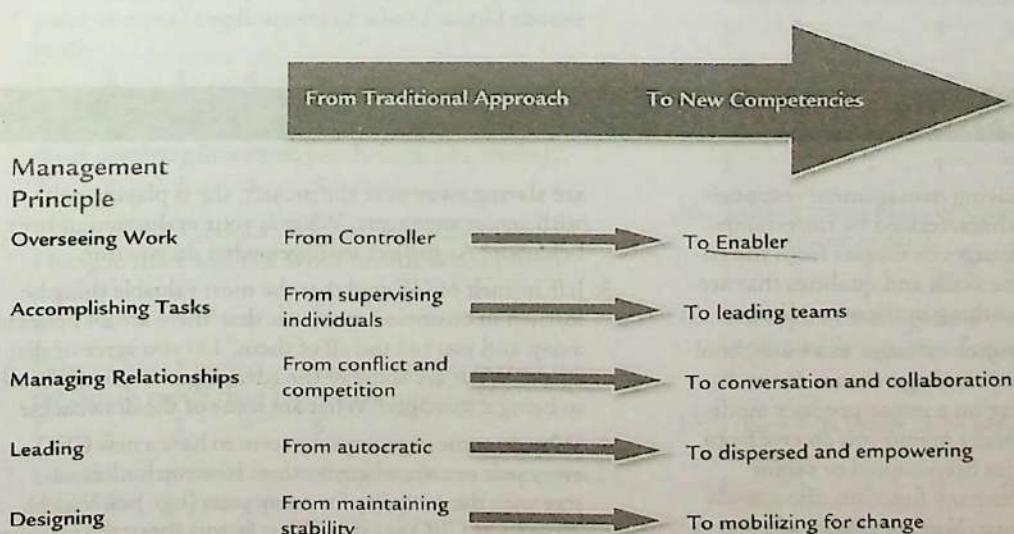
Instead of being a *controller*, today's effective manager is an *enabler* who helps people do and be their best. Managers help people get what they need, remove obstacles, provide learning opportunities, and offer

"I was once a command-and-control guy, but the environment's different today. I think now it's a question of making people feel they're making a contribution."

—JOSEPH J. PLUMERI, CHAIRMAN AND CEO OF WILLIS GROUP HOLDINGS

EXHIBIT 1.10

State-of-the-Art Management Competencies for Today's World



Take A Moment

Read the Ethical Dilemma for Chapter 1 on page 62 that pertains to managing in the new workplace. Think about what you would do and why to begin understanding how you will solve thorny management problems.

feedback, coaching, and career guidance. Instead of “management by keeping tabs,” they employ an empowering leadership style. Much work is done in teams rather than by individuals, so team leadership skills are crucial. People in many organizations work at scattered locations, so managers can’t monitor behavior continually. In addition, managers sometimes are coordinating the work of people who aren’t under their direct control, such as those in partner organizations, sometimes even working with competitors. Managing relationships based on authentic conversation and collaboration is essential for successful outcomes. In addition, today’s best managers are “future-facing.” That is, they design the organization and culture for creativity, adaptation, and innovation rather than maintaining the status quo. Today’s world is constantly changing, and success depends on innovation and continuous improvement.

One manager who exemplifies the new management competencies is Vineet Nayar, CEO of India’s HCL, with 80,000 employees and operations in more than 25 countries. When he took over as CEO, HCL was a traditional, hierarchical, command-and-control workplace, but Nayar shifted the mindset to treat employees like customers. He is always on the lookout to upgrade management competencies to serve employees and help them do their jobs better. When HCL needed to cut expenses by \$100 million due to the global recession, managers asked the employees to come up with ideas for cutting costs without issuing massive layoffs.⁷¹ The shift to a new way of managing isn’t easy for traditional managers who are accustomed to being “in charge,” making all the decisions, and knowing where their subordinates are and what they’re doing at every moment.

Even more changes and challenges are on the horizon for organizations and managers. This is an exciting and challenging time to be entering the field of management. Throughout this book, you will learn much more about the new workplace, about the new and dynamic roles managers are playing in the twenty-first century, and about how you can be an effective manager in a complex, ever-changing world.

Remember This

- Turbulent environmental forces have caused a significant shift in the competencies required for effective managers.
- Traditional management competencies could include a command-and-control leadership style, a focus on individual tasks, and standardizing procedures to maintain stability.
- New management competencies include the ability to be an enabler rather than a controller, using an empowering leadership style, encouraging collaboration, leading teams, and mobilizing for change and innovation.
- Vineet Nayar, CEO of India’s HCL, illustrates many of the new management competencies.

ch1: Discussion Questions

1. How do you feel about having management responsibilities in today’s world, characterized by uncertainty, ambiguity, and sudden changes or threats from the environment? Describe some skills and qualities that are important to managers working in these conditions.
2. Assume that you are a project manager at a biotechnology company, working with managers from research, production, and marketing on a major product modification. You notice that every memo you receive from the marketing manager has been copied to senior management. At every company function, she spends time talking to the big shots. You are also aware that sometimes when you and the other project members are slaving away over the project, she is playing golf with senior managers. What is your evaluation of her behavior? As project manager, what do you do?
3. Jeff Immelt of GE said that the most valuable thing he learned in business school was that “there are 24 hours in a day, and you can use all of them.” Do you agree or disagree? What are some of the advantages to this approach to being a manager? What are some of the drawbacks?
4. Why do some organizations seem to have a new CEO every year or two, whereas others have top leaders who stay with the company for many years (e.g., Jack Welch’s 20 years as CEO at GE)? What factors about the manager or about the company might account for this difference?

5. Think about Toyota's highly publicized safety problems. One observer said that a goal of efficiency had taken precedent over a goal of quality within Toyota. Do you think managers can improve both efficiency and effectiveness simultaneously? Discuss. How do you think Toyota's leaders should respond to the safety situation?
6. You are a bright, hard-working, entry-level manager who fully intends to rise up through the ranks. Your performance evaluation gives you high marks for your technical skills, but low marks when it comes to people skills. Do you think people skills can be learned, or do you need to rethink your career path? If people skills can be learned, how would you go about doing it?
7. If managerial work is characterized by variety, fragmentation, and brevity, how do managers perform basic management functions such as planning, which would seem to require reflection and analysis?
8. A college professor told her students, "The purpose of a management course is to teach students about management, not to teach them to be managers." Do you agree or disagree with this statement? Discuss.
9. Discuss some of the ways that organizations and jobs have changed over the past ten years. What changes do you anticipate over the next ten years? How might these changes affect the manager's job and the skills that a manager needs to be successful?
10. How might the teaching of a management course be designed to help people make the transition from individual performer to manager in order to prepare them for the challenges they will face as new managers?

ch1: Apply Your Skills: Experiential Exercise

Management Aptitude Questionnaire

Rate each of the following questions according to the following scale:

- ① I am never like this.
- ② I am rarely like this.
- ③ I am sometimes like this.
- ④ I am often like this.
- ⑤ I am always like this.

1. When I have a number of tasks or homework to do, I set priorities and organize the work around deadlines.

1 2 3 4 5

2. Most people would describe me as a good listener.

1 2 3 4 5

3. When I am deciding on a particular course of action for myself (such as hobbies to pursue, languages to study, which job to take, special projects to be involved in), I typically consider the long-term (three years or more) implications of what I would choose to do.

1 2 3 4 5

4. I prefer technical or quantitative courses rather than those involving literature, psychology, or sociology.

1 2 3 4 5

5. When I have a serious disagreement with someone, I hang in there and talk it out until it is completely resolved.

1 2 3 4 5

6. When I have a project or assignment, I really get into the details rather than the "big picture" issues.

1 2 3 4 5

7. I would rather sit in front of my computer than spend a lot of time with people.

1 2 3 4 5

8. I try to include others in activities or discussions.
- 1 2 3 4 5
9. When I take a course, I relate what I am learning to other courses I took or concepts I learned elsewhere.
- 1 2 3 4 5
10. When somebody makes a mistake, I want to correct the person and let her or him know the proper answer or approach.
- 1 2 3 4 5
11. I think it is better to be efficient with my time when talking with someone, rather than worry about the other person's needs, so that I can get on with my real work.
- 1 2 3 4 5
12. I have a long-term vision of career, family, and other activities and have thought it over carefully.
- 1 2 3 4 5
13. When solving problems, I would much rather analyze some data or statistics than meet with a group of people.
- 1 2 3 4 5
14. When I am working on a group project and someone doesn't pull a fair share of the load, I am more likely to complain to my friends rather than confront the slacker.
- 1 2 3 4 5
15. Talking about ideas or concepts can get me really enthusiastic or excited.
- 1 2 3 4 5
16. The type of management course for which this book is used is really a waste of time.
- 1 2 3 4 5
17. I think it is better to be polite and not hurt people's feelings.
- 1 2 3 4 5
18. Data and things interest me more than people.
- 1 2 3 4 5

Scoring and Interpretation

Subtract your scores for questions 6, 10, 14, and 17 from the number 6, and then add the total points for the following sections:

1, 3, 6, 9, 12, 15 Conceptual skills total score _____

2, 5, 8, 10, 14, 17 Human skills total score _____

4, 7, 11, 13, 16, 18 Technical skills total score _____

These skills are three of the skills needed to be a good manager. Ideally, a manager should be strong (though not necessarily equal) in all three. Anyone noticeably weaker in any of these skills should take courses and read to build up that skill. For further background on the three skills, please refer to the explanation on page 13.

ch1: Apply Your Skills: Small Group Breakout

Your Best and Worst Managers

Step 1. On your own, think of two managers that you have had—the best and the worst. The managers could be anyone who served as an authority figure over you, including an instructor, a boss at work, a manager of a student organization, a leader of a student group, a coach, a volunteer committee in a nonprofit organization, and so on. Think carefully about the specific behaviors that made each manager the best or the worst and write down what that manager did.

The best manager I ever had did the following:

The worst manager I ever had did the following:

Step 2. Divide into groups of four to six members. Each person should share his or her experiences, one at a time. Write on a sheet or whiteboard separate lists of best manager and worst manager behaviors.

Step 3. Analyze the two lists. What themes or patterns characterize “best” and “worst” manager behaviors? What are the key differences between the two sets of behaviors?

Step 4. What lessons does your group learn from its analysis? What advice or “words of wisdom” would you give managers to help them be more effective?

ch1: Endnotes

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part 2 : chapter 3

Corporate Culture and the Environment



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Chapter Outline

- The External Environment
 - General Environment
 - Task Environment
- The Organization–Environment Relationship
 - Environmental Uncertainty
 - Adapting to the Environment
- The Internal Environment:
Corporate Culture
 - Symbols Slogans
 - Stories Ceremonies
 - Heroes
- Types of Culture
 - Adaptability Involvement
 - Culture Culture
 - Achievement Consistency
 - Culture Culture
- New Manager Self-Test: Cultural Preference
- Shaping Corporate Culture for Innovative Response
- Managing the High-Performance Culture
- Cultural Leadership

Learning Outcomes

After studying this chapter, you should be able to:

1. Define an organizational ecosystem and how the general and task environments affect an organization's ability to thrive.
2. Explain the strategies that managers use to help organizations adapt to an uncertain or turbulent environment.
3. Define corporate culture and give organizational examples.
4. Explain organizational symbols, stories, heroes, slogans, and ceremonies and their relationship to corporate culture.
5. Describe four types of cultures and how corporate culture relates to the environment.
6. Define a cultural leader and explain the tools that a cultural leader uses to create a high-performance culture.

Are You Fit for Managerial Uncertainty?¹

INSTRUCTIONS: Do you approach uncertainty with an open mind? Think back to how you thought or behaved during a time of uncertainty when you were in a formal or informal leadership position. Please answer whether each of the following items was Mostly True or Mostly False in that circumstance.



	Mostly True	Mostly False
1. Enjoyed hearing about new ideas even when trying to meet a deadline.	_____	_____
2. Welcomed unusual viewpoints of others, even if we were working under pressure.	_____	_____
3. Made it a point to attend industry trade shows and company events.	_____	_____
4. Specifically encouraged others to express opposing ideas and arguments.	_____	_____
5. Asked "dumb" questions.	_____	_____
6. Always offered comments on the meaning of data or issues.	_____	_____
7. Expressed a controversial opinion to bosses and peers.	_____	_____
8. Suggested ways of improving my and others' ways of doing things.	_____	_____

SCORING AND INTERPRETATION: Give yourself one point for each item that you marked as Mostly True. If you scored less than 5, you might want to start your career as a manager in a stable rather than an unstable environment. A score of 5 or above suggests a higher level of mindfulness and a better fit for a new manager in an uncertain environment.

In an organization in a highly uncertain environment, everything seems to be changing. In that case, an important quality for a new manager is "mindfulness," which includes the qualities of being open-minded and an independent thinker. In a stable environment, a manager with a closed mind may perform okay because much work can be done in the same old way. In an uncertain environment, even a new manager needs to facilitate new thinking, new ideas, and new ways of working. A high score on the preceding items suggests higher mindfulness and a better fit with an uncertain environment.

Most managers don't pop on a crash helmet and fire-resistant Nomex suit to guide an organization through tumultuous change. But when Toyota Motor Corporation's president, Akio Toyoda, faced a series of calamities during his first few years as president, he tapped into his skills as a certified test car driver—high endurance, precise steering, and strong mental focus—to lead Toyota to a surprising rebound. In 2011, Toyota toppled from its number one position as the world's largest automaker to third, behind General Motors and Volkswagen, after suffering the effects of a global recession, the recall of 8 million vehicles, and a deadly tsunami in Japan. Within the organization, storms were also brewing. Toyota's tortuous bureaucracy slowed decision-making and response times. Plus, Toyota had lost touch with its customers. Toyota's growth had been underpinned by "quality, dependability, and reliability," but customers also wanted style and design, and they were flocking to Hyundai, which had seized design leadership.²

These environmental factors—both external and internal—served as wake-up calls for a company that had grown complacent. Akio Toyoda's response was to upend the corporate culture and create a more responsive organization—one that could navigate with ease through even subtle environmental shifts. This chapter explores in detail components of

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the external environment and how they affect the organization. The chapter also examines a major part of the organization's internal environment—corporate culture. Corporate culture is both shaped by the external environment and shapes how managers respond to changes in the external environment.

The External Environment

“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.”

— CHARLES DARWIN (1809–1882), NATURALIST

The environmental changes that shook Toyota's leadership position in the auto industry—a global recession, natural disasters, and changing customer needs—were part of its external organizational environment. The external **organizational environment** includes all elements existing outside the boundary of the organization that have the potential to affect the organization.³ The environment includes competitors, resources, technology, and economic conditions that influence the organization. It does not include those events so far removed from the organization that their impact is not perceived.

The organization's external environment can be conceptualized further as having two components: general and task environments, as illustrated in Exhibit 3.1.⁴ The **general environment** affects organizations indirectly. It includes social, economic, legal-political, international, natural, and technological factors that influence all organizations about equally. Changes in federal regulations or an economic recession are part of the organization's general environment. These events do not directly change day-to-day operations, but they do affect all organizations eventually. The **task environment** is closer

to the organization and includes the sectors that conduct day-to-day transactions with the organization and directly influence its basic operations and performance. It is generally considered to include competitors, suppliers, customers, and the labor market.

A new view of the environment argues that organizations are now evolving into business ecosystems. An **organizational ecosystem** is a system formed by the interaction among a community of organizations in the environment. An ecosystem includes organizations in all the sectors of the task and general environments that provide the resource and information transactions, flows, and linkages necessary for an organization to thrive.⁵ For example, Apple's ecosystem includes hundreds of suppliers and millions of customers for the products that it produces across several industries, including consumer electronics, Internet services, mobile phones, personal computers, and entertainment.⁶

The organization also has an **internal environment**, which includes the elements within the organization's boundaries. The internal environment is composed of current employees, management, and especially corporate culture, which defines employee behavior in the internal environment and how well the organization will adapt to the external environment.

EXHIBIT 3.1

Dimensions of the Organization's General, Task, and Internal Environments

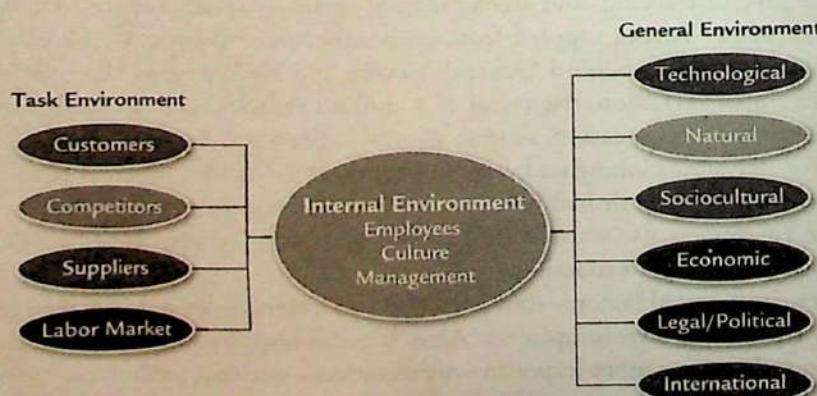


Exhibit 3.1 illustrates the relationship among the general, task, and internal environments. As an open system, the organization draws resources from the external environment and releases goods and services back to it. We will now discuss the two components of the external environment in more detail. Then we will discuss corporate culture, the key element in the internal environment. Other aspects of the internal environment, such as structure and technology, will be covered in later chapters of this book.

GENERAL ENVIRONMENT

The dimensions of the general environment include international, technological, sociocultural, economic, legal-political, and natural.

International

In his book *The World Is Flat*, Thomas Friedman challenges managers to view global markets as a level playing field where geographical divisions are irrelevant.⁷ A flat world, Friedman argues, creates opportunities for companies to expand into global markets and build a global supply chain. As managers plan for expansion into global markets, they have to consider the **international dimension** of the external environment, which includes events originating in foreign countries, as well as new opportunities for U.S. companies in other countries. The international environment provides new competitors, customers, and suppliers and shapes social, technological, and economic trends as well.

Consider the mixed results Starbucks experienced as it expanded into European markets. Starbucks fans packed stores in Germany and the United Kingdom, for example, but sales and profits in the company's French stores were disappointing. In fact, after eight years operating 63 stores, Starbucks never turned a profit in France. What international factors could be hindering the company's success in France? First, a sluggish economy and Europe's debt crisis hurt sales. Plus, Starbucks faced high rent and labor costs in France, which eroded profits. The company was also slow to tailor the Starbucks experience to the French café culture. Whereas a New Yorker might grab a paper cup of coffee to go, the French prefer to linger over a large, ceramic mug of coffee with friends in a café-style environment. To respond to these challenges, Starbucks launched a multimillion-dollar campaign in France that includes an upscale makeover of stores, with more seating and customized beverages and blends that appeal to local tastes.⁸

As geographic boundaries dissolve and opportunities in developing economies like China increase, more companies are finding advantages in the global marketplace. For example, Coca-Cola's CEO Muhtar Kent predicts that the China division will double its sales of Coke products, helping meet Kent's goal of doubling Coke's overall business by 2020. "China will be Coke's largest market," Kent promises. "I can't give you a time, but it will happen."⁹ With more companies establishing a competitive presence in China, managers working in that country recognize that their competitive success begins with their ability to build personal relationships and emotional bonds with their Chinese contacts. The Manager's Shoptalk offer tips for creating successful business relationships in China.

Technological

The **technological dimension** of the general environment includes scientific and technological advancements in a specific industry, as well as in society at large.

Concept Connection



Changes in the **technological dimension** of the environment have enabled H&R Block to expand its services, as well as its marketing practices, on the Web. Because managers discovered customers were uncomfortable with spelling out their tax problems on Facebook and Twitter, H&R Block uses those sites to direct customers to a Q&A Web page, where people can find answers to common questions or reach specially trained employees who field unique questions.

Manager's

Shoptalk

Creating Guanxi in China

With its low labor costs and huge potential market, China is luring thousands of U.S. companies in search of growth opportunities. Yet University of New Haven's Usha C. V. Haley recently found that only one-third of multinationals doing business in China have actually turned a profit. One reason many Western businesses fall short of expectations, experts agree, is that they fail to grasp the centuries-old concept of *guanxi* that lies at the heart of Chinese culture.

At its simplest level, *guanxi* is a supportive, mutually beneficial connection between two people. Eventually, those personal relationships are linked together into a network, and it is through networks like this that business gets done. Anyone considering doing business in China should keep in mind the following basic rules:

- Business is always personal. It is impossible to translate "Don't take it so personally—it's only business" into Chinese. Western managers tend to believe that if they conclude a successful transaction, a good business relationship will follow. The development of a personal relationship is an added bonus, but it is not really necessary when it comes to getting things done. In the Chinese business world, however, a personal relationship must be in place before managers even consider entering a business transaction. Western managers doing business in China should cultivate personal relationships—both during and outside business hours. Accept any and all social invitations—for drinks, a meal, or even a potentially embarrassing visit to a karaoke bar, which some Chinese businessmen consider an important part of solidifying good business relationships.
- Don't skip the small talk. Getting right down to business and bypassing the small talk during a meeting might feel like an efficient use of time to an American manager. To the Chinese, however, this approach neglects the all-important work of forging an emotional bond. Be aware that

the real purpose of your initial meetings with potential business partners is to begin building a relationship, so keep your patience if the deal that you are planning to discuss never even comes up—there's always tomorrow.

- Remember that relationships are not short-term. The work of establishing and nurturing *guanxi* relationships in China is never done. Western managers must put aside their usual focus on short-term results and recognize that it takes a long time for foreigners to be accepted into a *guanxi* network. Often, foreign companies must prove their trustworthiness and reliability over time. For example, firms that weathered the political instability that culminated in the 1989 student protests in Tiananmen Square found it much easier to do business afterward.
- Make contact frequently. Some experts recommend hiring ethnic Chinese staff members and then letting them do the heavy lifting of relationship building. Others emphasize that Westerners themselves should put plenty of time and energy into forging links with Chinese contacts; those efforts will pay off because the contacts can smooth the way by tapping into their own *guanxi* networks. Whatever the strategy, contact should be frequent and personal. In addition, be sure to keep careful track of the contacts that you make. In China, any and all relationships are bound to be important at some point in time.

Sources: Michelle Dammon Loyalka, "Before You Set Up Shop in China," part of the "Doing Business in China" special report, *BusinessWeek Online*, January 4, 2006, www.businessweek.com/smallbiz/content/jan2006/sb20060104_466114.htm (accessed January 6, 2006); Los Angeles Chinese Learning Center, "Chinese Business Culture," <http://chinese-school.netfirms.com/guanxi.html>; Beijing British Embassy, "Golden Hints for Doing Business in China," <http://chinese-school.netfirms.com/goldenhints.html>; and Emily Flitter, "Faux Pas: With Karaoke, a Deal in China for a Song," *The Wall Street Journal Online*, June 9, 2008, <http://online.wsj.com/article/SB121268021240548769.html> (accessed September 24, 2012).

In recent years, as the economic recovery in the United States sputtered forward, managers began buying equipment and software that could enable them to accomplish more work with fewer employees. Motivated by temporary tax breaks and historically low interest rates, companies boosted spending on machines and software but were slow to put employees back on the payroll, leading to a "jobless recovery." Instead of hiring more workers, for example, companies such as Cincinnati-based Sunny Delight Beverages Company invested in technology to make operations faster and more productive. In fact, since the

U.S. economy began growing again in 2009, spending on equipment and software has surged 31 percent. On the other hand, private-sector jobs have grown just 1.4 percent over the same span.¹⁰

Advances in technology drive competition and help innovative companies gain market share. They also have the potential to transform consumer expectations of an entire industry. Driven by the popularity of e-readers, Barnes & Noble is reinventing its traditional bookstore image with a new digital strategy that managers hope will help it compete with rivals Amazon, Apple, and Google on the digital book front. With its renewed focus as a seller of downloads, reading devices, and apps, and a market share of 27 percent of the e-book market, Barnes & Noble is using its brick-and-mortar bookstores to introduce customers to its Nook e-readers and build e-book audiences.¹¹

Sociocultural

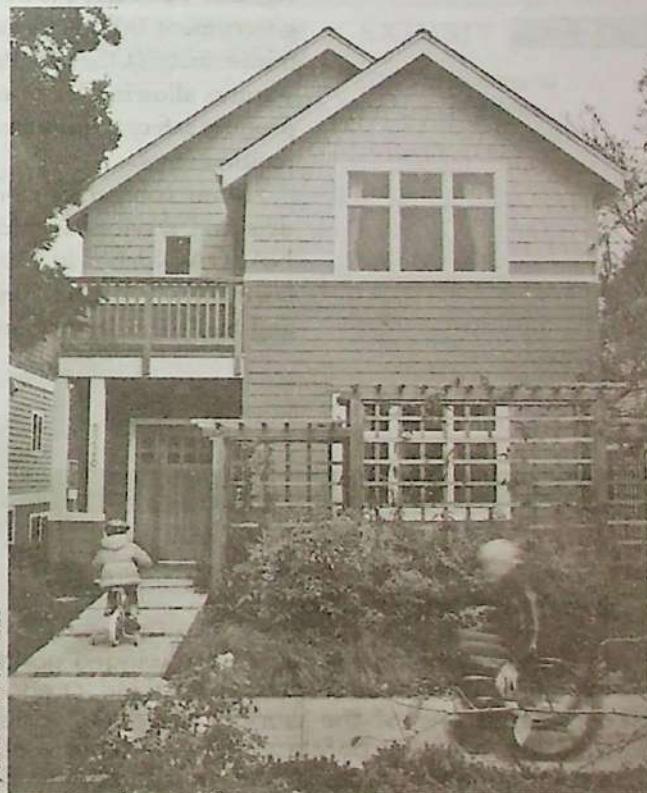
The sociocultural dimension of the general environment represents the demographic characteristics as well as the norms, customs, and values of the general population. Important sociocultural characteristics are geographical distribution and population density, age, and education levels. Today's demographic profiles are the foundation of tomorrow's workforce and consumers. By understanding these profiles and addressing them in the organization's business plans, managers prepare their organizations for long-term success. Smart managers may want to consider how the following sociocultural trends are changing the consumer and business landscape:

1. A new generation of technologically-savvy consumers, often called the *Connected Generation* or *Generation C*, has intimately woven technology into every aspect of their lives. Their primary digital devices (PDDs) shape the way they communicate, shop, travel, and earn college credits. Generation C (typically defined as people born after 1990) will make up 40 percent of the population in the United States and Europe by 2020 and will constitute the largest cohort of consumers worldwide.¹²
2. As the U.S. population continues to age, organizations are rushing to create senior-friendly products and services. Currently, the U.S. population includes 78 million baby boomers, and roughly one-third will be 62 years old or older by 2013.¹³ Organizations realize that it makes good business sense to create products and services for this aging population.
3. The most recent U.S. census data show that more than half of all babies born in 2011 were members of minority groups, the first time that has happened in U.S. history. Hispanics, African Americans, Asians, and other minorities in 2011 represented 50.4 percent of births. The nation's growing diversity has huge implications for business. "Children are in the vanguard of this transition," says Kenneth Johnson, a demographer at the University of New Hampshire's Carsey Institute.¹⁴

Economic

The economic dimension represents the general economic health of the country or region in which the organization operates. Consumer purchasing power, the unemployment rate,

Concept Connection



Jay Clendenin/Aurora Photos

Shrewd home builders are responding to shifts in the **sociocultural dimension**. Aging baby boomers have been a mainstay of the housing market during the economic downturn, and what they want are smaller houses designed with features to help them stay in their own homes as long as possible. For example, this award-winning Green Lake Residence in Seattle, Washington, designed by Emory Baldwin of ZAI, Inc., offers an efficient, adaptable plan that includes no-step entries and closets stacked on top of each other that can be converted into an elevator shaft if necessary.

and interest rates are part of an organization's economic environment. Because organizations today are operating in a global environment, the economic dimension has become exceedingly complex and creates enormous uncertainty for managers. The global economic environment will be discussed in more detail in the next chapter.

In the United States, many industries, such as banking, are finding it difficult to make a comeback despite the slowly rebounding economy. Consider KeyCorp, one of the nation's largest banking-based financial services organizations. As the economy struggles forward, KeyCorp reports an uneven turnaround, with a mix of both good and bad news. While KeyCorp faces a reduction in total assets, a drop in revenue, and a decline in the profit margin in the lending business, it also reports fewer delinquent loans and strong demand from corporate customers for new loans. With banks stretching from Alaska to Maine, KeyCorp has benefited from geographic diversity because some regions of the United States rebounded faster than others. "As we are in economic recovery . . . our business model, our size, our geographic diversity is an advantage," said Beth Mooney, KeyCorp's CEO. "Conventional wisdom five years ago would have said differently."¹⁵

Legal-Political

The legal-political dimension includes government regulations at the local, state, and federal levels, as well as political activities designed to influence company behavior. The U.S. political system encourages capitalism, and the government tries not to over-regulate business. However, government laws do specify rules of the game. The federal government influences organizations through the Occupational Safety and Health Administration (OSHA), Environmental Protection Agency (EPA), fair trade practices, libel statutes allowing lawsuits against business, consumer protection and privacy legislation, product safety requirements, import and export restrictions, and information and labeling requirements.

Many companies work closely with national lawmakers, educating them about products and services and legislation's impact on their business strategies. Long before its NASDAQ debut in May 2012, Facebook had been quietly befriending the nation's top lawmakers. Facebook hired former political aides with access to top leaders in both parties and had them lead training sessions on using Facebook to communicate with voters. In



Green Power

Reaching Mythical Proportions

In Greek mythology, Nike was the winged goddess of victory. With headquarters in Portland, Oregon—considered one of the world's "greenest" cities—Nike Inc. has a corporate culture centered around a commitment to victory, both on the athletic field and as one of the top 100 most sustainable corporations. Some companies give a nod to sustainability by reducing toxins, but Nike goes further. The company's predictive tool, the Considered Design Index, monitors the total environmental impact of the running shoe production cycle, scoring everything from fabric to reducing waste.

Victory in sustainability also means influencing other companies. Nike CSR staff spearheaded GreenX-change, which brought together companies to explore opportunities, share information, and keep abreast of trends and issues. As Nike's sustainability influence grows, its cultural mantra reflects the winged deity: "There is no finish line for environmental efforts—we can always go further."

Sources: Marc J. Epstein, Adriana Rejc Buhovac, and Kristi Yuthas, "Why Nike Kicks Butt in Sustainability," *Organizational Dynamics* 39 (2010): 353–356; and "Sustainable Business at Nike, Inc.," Nike corporate Web site, <http://nikeinc.com/pages/responsibility> (accessed July 24, 2012).

addition, Facebook stepped up its lobbying efforts and set up a political action committee. "It's smart advocacy 101," said Rey Ramsey, CEO of TechNet, an industry group that includes Facebook. "It starts with giving people an education. Then you start explaining more of your business model. What you ultimately want is for a legislator to understand the consequences of their actions."¹⁶

Natural

In response to pressure from environmental advocates, organizations have become increasingly sensitive to the Earth's diminishing natural resources and the environmental impact of their products and business practices. As a result, the natural dimension of the external environment is growing in importance. The natural dimension includes all elements that occur naturally on Earth, including plants, animals, rocks, and resources such as air, water, and climate. Protection of the natural environment is emerging as a critical policy focus around the world. Governments are increasingly under pressure to explain their performance on pollution control and natural resource management. Nations with the best environmental performance, along with some comparison countries, are listed in Exhibit 3.2. Note that the top performer is Switzerland, which gets most of its power from renewable sources—hydropower and geothermal energy.

The natural dimension is different from other sectors of the general environment because it has no voice of its own. Influence on managers to meet needs in the natural

EXHIBIT 3.2

2012 Environmental Performance Index

Rank	Country	Score
1	Switzerland	76.69
2	Latvia	70.37
3	Norway	69.92
4	Luxembourg	69.2
5	Costa Rica	69.03
6	France	69
7	Austria	68.92
8	Italy	68.9
9	Sweden	68.82
10	United Kingdom	68.82
11	Germany	66.91
12	Slovakia	66.62
13	Iceland	66.28
14	New Zealand	66.05
15	Albania	65.85
37	Canada	58.41
49	United States	56.59
116	China	42.24
125	India	36.23
132	Iraq	25.32

SOURCE: 2012 Environmental Performance Index; Yale Center for Environmental Law and Policy, Yale University, <http://epi.yale.edu/epi2012/rankings>; and Center for International Earth Science Information Network, Columbia University.

Note: The scores for each country are based on 25 performance indicators covering both environmental public health and ecosystem vitality, such as air pollution and greenhouse gas emissions.

Concept Connection

Whether they are motivated by a desire to preserve natural resources, to impress their customers with their social responsibility, or to comply with new legislation, many companies are looking for ways to treat the **natural environment** better. Some are doing it by switching to renewable energy sources, while others are trying to reduce pollution. Promoting the use of cloth carrying bags like these is just one example of how retailers can help minimize the amount of trash going into the world's landfills.



HOT TOPIC

Remember This

- The **organizational environment**, consisting of both general and task environments, includes all elements existing outside the boundary of the organization that have the potential to affect the organization.
- An **organizational ecosystem** includes organizations in all the sectors of the task and general environments that provide the resource and information transactions, flows, and linkages necessary for an organization to thrive.
- The **general environment** indirectly influences all organizations within an industry and includes five dimensions.
- The **task environment** includes the sectors that conduct day-to-day transactions with the organization and directly influence its basic operations and performance.
- The **international dimension** of the external environment represents events originating in foreign countries, as well as opportunities for U.S. companies in other countries.
- The **technological dimension** of the general environment includes scientific and technological advances in society.
- The **sociocultural dimension** includes demographic characteristics, norms, customs, and values of a population within which the organization operates.
- The **economic dimension** represents the general economic health of the country or region in which the organization operates.
- The **legal-political dimension** includes government regulations at the local, state, and federal levels, as well as political activities designed to influence company behavior.
- The **internal environment** includes elements within the organization's boundaries, such as employees, management, and corporate culture.
- The **natural dimension** includes all elements that occur naturally on Earth, including plants, animals, rocks, and natural resources such as air, water, and climate.

environment may come from other sectors, such as government regulation, consumer concerns, the media, competitors' actions, or even employees.¹⁷ For example, environmental groups advocate various action and policy goals that include reduction and cleanup of pollution, development of renewable energy resources, reduction of greenhouse gases such as carbon dioxide, and sustainable use of scarce resources such as water, land, and air. The oil spill in the Gulf of Mexico in 2010 brought environmental issues to the forefront. Months after a BP-Transocean rig at the Deepwater Horizon oil well exploded, hundreds of thousands of gallons of oil were still flowing into open water each day, adding to the millions of gallons already contaminating the water and beaches along the coast in Louisiana, Mississippi, Alabama, and Florida, and threatening the region's fish, birds, turtles, and vegetation. "One of the last pristine, most biologically diverse coastal habitats in the country is about to get wiped out," said Felicia Coleman, who directs the Florida State University Coastal and Marine Laboratory. "And there's not much we can do about it." The effects of the devastating spill are likely to continue for dozens of years.¹⁸

TASK ENVIRONMENT

As described earlier, the task environment includes those sectors that have a direct working relationship with the organization, among them customers, competitors, suppliers, and the labor market.

Customers

Those people and organizations in the environment that acquire goods or services from the organization are **customers**. As recipients of the organization's output, customers are important because they determine the organization's success. Organizations have to be responsive to marketplace changes. The Hershey Company, which practically invented modern candy with its popular Hershey's bars and Hershey's Kisses, experienced serious losses in profits, market share, and stakeholder confidence after failing to understand customers' tastes. Hershey assumed that customers would embrace its dizzying array of Hershey's Kisses featuring different types of chocolate (milk, dark, and white), different fillings (caramel, peanut butter, and truffle), different flavors (orange, mint, and cherry), and with or without nuts. Instead, people saw a confusing tangle of flavors, and retailers were unhappy trying to find shelf space for all these varieties. With sales and profits sagging, Hershey refocused its efforts to understand its customers' desires, needs, and tastes better. Hershey then aligned its management teams in a strategic focus to meet those needs. The resulting turnaround and focus on customer needs have rescued the company and restored its luster.¹⁹

Competitors

Organizations in the same industry or type of business that provide goods or services to the same set of customers are referred to as **competitors**. Competitors are constantly battling for loyalty from the same group of customers. For example, managers at Target realized customers were scoping out merchandise in Target stores and later buying it at lower prices from Amazon. This procedure, known as "showrooming," means that customers check out products in stores and then buy them cheaper online, which hurts the bottom lines of traditional retailers such as Target. In response to this new trend, Target managers immediately began pushing suppliers to offer products that were exclusively available at Target, as well as expanding the number of items available at Target.com. Walmart also felt the pinch of showrooming and started promoting the convenience of in-store pickups for online orders—many available the same day they are purchased.²⁰

Suppliers

Suppliers provide the raw materials that the organization uses to produce its output. A candy manufacturer, for example, may use suppliers from around the globe for ingredients such as cocoa beans, sugar, and cream. A *supply chain* is a network of multiple businesses and individuals that are connected through the flow of products or services. For Toyota, the supply chain includes over 500 global parts suppliers organized by a production strategy called *just-in-time (JIT)*.²¹ JIT improves an organization's return on investment, quality, and efficiency because much less money is invested in idle inventory. In the 1970s, the Japanese taught U.S. companies how to boost profit by keeping inventories lean through JIT. "Instead of months' worth of inventory, there are now days and even hours of inventory," says Jim Lawton, head of supply management solutions at consultant Dun & Bradstreet. Lawton points out that there is a downside, however—one that became dramatically clear after a March 2011 earthquake in Japan: "If supply is disrupted, as in this situation, there's nowhere to get product."²²

The recent crisis in Japan revealed the fragility of today's JIT supply chains. A powerful earthquake triggered massive tsunami waves and caused the second-worst nuclear disaster in history, at the Fukushima power plant along the Pacific coastline. Japanese parts suppliers for the global auto industry were shut down, disrupting production at auto factories around the world. "Even a missing \$5 part can stop an assembly line," said

HOT TOPIC

a Morgan Stanley representative.²³ Because of this natural disaster, Toyota's production was down 800,000 vehicles—10 percent of its annual output. Most organizations aren't willing to boost inventory to minimize risks of supply-chain disruptions. Boosting inventory even slightly to provide a cushion against disruptions can cost big companies millions of dollars. "I don't see any of us moving away from a very disciplined supply-chain management," says Ford Motor Co. finance chief Lewis Booth.²⁴

Labor Market

The **labor market** represents people in the environment who can be hired to work for the organization. Every organization needs a supply of trained, qualified personnel. Unions, employee associations, and the availability of certain classes of employees can influence the organization's labor market. Labor market forces affecting organizations right now include (1) the growing need for computer-literate knowledge workers; (2) the necessity for continuous investment in human resources through recruitment, education, and training to meet the competitive demands of the borderless world; and (3) the effects of international trading blocs, automation, outsourcing, and shifting facility locations on labor dislocations, creating unused labor pools in some areas and labor shortages in others.

Changes in these various sectors of the general and task environments can create tremendous challenges, especially for organizations operating in complex, rapidly changing industries. Costco Wholesale Corporation, with warehouses throughout the world, is an example of an organization operating in a highly complex environment.

Innovative Way

Costco Wholesale Corporation

Costco Wholesale Corporation, a no-frills, self-service warehouse club, operates an international chain of membership warehouses offering a limited selection of products at reduced prices. Costco's business model focuses on maintaining its image as a pricing authority, consistently providing the most competitive prices. "Everything we do is to provide goods and services to the customer at a lower price," said Jim Sinegal, CEO and founder. Costco warehouses are designed to operate efficiently and to communicate value to members. The warehouse decor—high ceilings, metal roofs, exposed trusses—keeps costs low and contributes to the perception that Costco is for serious shoppers seeking serious bargains. Other strategies for keeping prices low include offering only 3,600 unique products at a time (Walmart offers over 100,000) and negotiating low prices with suppliers. Only about a quarter of sales come from outside the United States, but same store sales in overseas markets have been growing about four times faster than those in the United States. Costco plans to expand its customer base by delving further into the Asian markets, where consumer spending and growth is higher than mature U.S. and European markets. Costco's complex environment is illustrated in Exhibit 3.3.

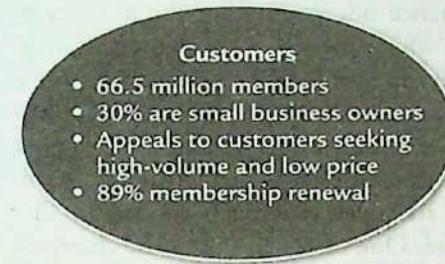
Costco's biggest competitive advantage is its workforce. "Costco compensates employees very well, well above the industry in terms of wages and benefits," says R. J. Hottovely, a retail analyst at Morningstar. "When retailers are cutting health benefits, Costco employees don't have to worry about that," he says. The happiness and morale of employees is often overlooked in the retail industry, but not at Costco. Thanks to its good treatment of workers, Costco has one of the lowest turnovers in the retail industry (only 6 percent), and it earns \$530,000 of revenue per employee.²⁵

Remember This

- **Customers** are part of the task environment and include people and organizations that acquire goods or services from the organization.
- **Competitors** are organizations within the same industry or type of business that vie for the same set of customers.
- Traditional stores such as Target and Walmart are competing with online retailers such as Amazon and Zappos.
- **Suppliers** provide the raw materials the organization uses to produce its output.
- The **labor market** represents the people available for hire by the organization.

EXHIBIT 3.3

The External Environment
of Costco Wholesale
Corporation

Task Environment**Costco Wholesale Corporation****General Environment****Technological****Natural****Sociocultural****Economic****Legal/Political****International**

The Organization-Environment Relationship

Why do organizations care so much about factors in the external environment? The reason is that the environment creates uncertainty for organization managers, and they must respond by designing the organization to adapt to the environment.

ENVIRONMENTAL UNCERTAINTY

Uncertainty means that managers do not have sufficient information about environmental factors to understand and predict environmental needs and changes.²⁶ As indicated in Exhibit 3.4, environmental characteristics that influence uncertainty are the number of factors that affect the organization and the extent to which those factors change. Managers at a large multinational like Costco must deal with thousands of factors in the external environment that create uncertainty. When external factors change rapidly, the organization experiences high uncertainty; examples are telecommunications and aerospace firms, computer and electronics companies, and Internet organizations. When MySpace's audience plummeted 27 percent in 2010, managers struggled to identify the factors that were upending this fledgling social media service. One factor included the changing tastes of fickle social media customers, which are difficult to predict. When Facebook provided a better customer experience and a simple Google-like interface, customers left MySpace in droves. In fact, MySpace lost 9 million customers between 2009 and 2010. "MySpace was like a big party, and then the party moved on," said Michael J. Wolf, the former president of Viacom's MTV Networks and managing partner at media consulting firm Activate.²⁷

When an organization deals with only a few external factors and these factors are relatively stable, such as those affecting soft-drink bottlers or food processors, managers experience low uncertainty and can devote less attention to external issues.

Take a Moment

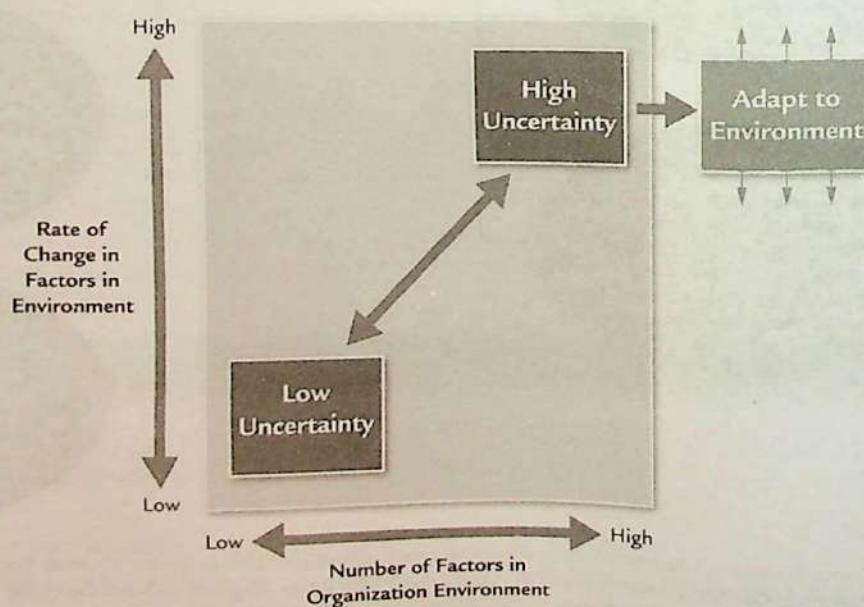
Refer to your score on the opening questionnaire to see how well you might adapt as a new manager in an uncertain environment.

ADAPTING TO THE ENVIRONMENT

Environmental changes may evolve unexpectedly, such as shifting customer tastes for social media sites, or they may occur violently, such as the devastating Japanese earthquake and tsunami. The level of turbulence created by an environmental shift will determine the type

EXHIBIT 3.4

The External Environment and Uncertainty



of response that managers must make in order for the organization to survive. Managers continuously scan the business horizon for both subtle and dramatic environmental changes, also called *strategic issues*, and identify those that require strategic responses. **Strategic issues** are “events or forces either inside or outside an organization that are likely to alter its ability to achieve its objectives.” As environmental turbulence increases, strategic issues emerge more frequently.²⁸ Managers use several strategies to adapt to these strategic issues, including boundary-spanning roles, interorganizational partnerships, and mergers or joint ventures.

Boundary-Spanning Roles

Boundary-spanning roles link to and coordinate the organization with key elements in the external environment. Boundary spanners serve two purposes for the organization: They detect and process information about changes in the environment, and they represent the organization’s interests to the environment.²⁹ As an example of boundary-spanning, General Electric spends \$39.3 million on political lobbying to influence government officials to take actions that positively affect the company’s business performance. GE’s political lobbyists serve to span the boundary between the organization and the government, a critical aspect of the external environment.³⁰

Another approach to boundary spanning is the use of *business intelligence*, which results from using sophisticated software to search through large amounts of internal and external data to spot patterns, trends, and relationships that might be significant. For example, Verizon uses business intelligence software to monitor customer interactions and fix problems almost immediately.³¹ Business intelligence is related to the growing area of boundary spanning known as *competitive intelligence (CI)*, which refers to activities to get as much information as possible about one’s rivals.³² Visa has an employee who searches the Web for two hours each day for insights on MasterCard and other competitors. Harley-Davidson hires an outside research firm to search through massive amounts of data and reveal patterns that help decipher and predict competitors’ actions.³³

Boundary spanning is an increasingly important task in organizations because environmental shifts can happen quickly in today’s world. Managers need good information about their competitors, customers, and other elements of the environment to make good decisions. Thus, the most successful companies involve everyone in boundary-spanning activities.

Interorganizational Partnerships

With tough global competition, constantly changing technology, and shifting government regulations, few companies can compete effectively unless they join with other firms in various partnerships. Organizations around the world are embedded in complex networks of confusing relationships—collaborating in some markets, competing fiercely in others. The number of corporate alliances has been increasing at a rate of 25 percent annually, and many of those have been between competitors.³⁴ For example, in the auto industry, Ford and General Motors (GM) compete fiercely, but the two joined together to develop a six-speed transmission. Hyundai, Chrysler, and Mitsubishi jointly run the Global Engine Manufacturing Alliance to build four-cylinder engines. Volvo is now owned by Zhejiang Geely Holding Group of China, but it maintains an alliance with its previous owner, Ford, to supply engines and certain other components.³⁵ In a partnership, each organization both supports and depends on the others for success, and perhaps for survival, but that doesn’t mean they don’t still compete fiercely in certain areas.³⁶

Managers in partnering organizations shift from an adversarial orientation to a partnership orientation. The new paradigm, shown in Exhibit 3.5, is based on trust and the ability of partners to work out equitable solutions to conflicts so that everyone profits from the relationship. Managers work to reduce costs and add value to both sides, rather than trying to get all the benefits for their own company. The new model is also characterized by

Take A Moment

Read the Ethical Dilemma for Chapter 3 on page 196 that pertains to competitive intelligence (CI). Do you have the courage to risk your job by challenging the boss’s inappropriate use of confidential information?

EXHIBIT 3.5

The Shift to a Partnership Paradigm

From Adversarial Orientation	→ To Partnership Orientation
<ul style="list-style-type: none"> • Suspicion, competition, arm's length • Price, efficiency, own profits • Information and feedback limited • Lawsuits to resolve conflict • Minimal involvement and up-front investment • Short-term contracts • Contracts limit the relationship 	<ul style="list-style-type: none"> • Trust, value added to both sides • Equity, fair dealing, everyone profits • E-business links to share information and conduct digital transactions • Close coordination; virtual teams and people onsite • Involvement in partner's product design and production • Long-term contracts • Business assistance goes beyond the contract

a high level of information sharing, including e-business links for automatic ordering, payments, and other transactions. In addition, person-to-person interaction provides corrective feedback and solves problems. People from other companies may be on site, or they may participate in virtual teams to enable close coordination. Partners are frequently involved in one another's product design and production, and they are committed for the long term. It is not unusual for business partners to help one another, even outside of what is specified in the contract.³⁷

Mergers and Joint Ventures

A step beyond strategic partnerships is for companies to become involved in mergers or joint ventures to reduce environmental uncertainty. A frenzy of merger and acquisition activity both in the United States and internationally in recent years is an attempt by organizations to cope with the tremendous volatility of the environment.³⁸ A merger occurs when two or more organizations combine to become one. When managers saw sales of Corn Flakes

Concept Connection ◀◀◀

Already the largest drugstore chain in the United States, Walgreens decided to expand its business through a major acquisition in 2011. The company paid nearly \$400 million to purchase the online health and beauty care product retailer Drugstore.com. Mergers and acquisitions are one way organizations adapt to an uncertain environment.

Michael Loccisano/Getty Images Entertainment/Getty Images



and Rice Krispies fall flat as price-conscious consumers chose generic, private-label cereals instead, Kellogg bought Pringles from Procter & Gamble (P&G) in May 2012 to bolster its foreign snacks divisions. Growth for Kellogg, as well as for rivals PepsiCo and Frito-Lay, is in snack foods in foreign markets. "We're not happy with our performance the last couple of years," says Kellogg CEO John A. Bryant. "We have to keep bringing new foods to consumers and delighting them, because if we stand still, people catch up." With the merger, Kellogg gains not only a snack that is already hugely popular internationally, but also a group of P&G merchandisers that understand global markets.³⁹

A **joint venture** involves a strategic alliance or program by two or more organizations. A joint venture typically occurs when a project is too complex, expensive, or uncertain for one firm to handle alone. Sikorsky Aircraft and Lockheed Martin, for example, teamed up to bid on a new contract for a fleet of Marine One helicopters. The joint venture would have Sikorsky building the helicopters and Lockheed Martin providing the vast array of specialized systems that each one uses. Although the two companies have previously competed to build presidential helicopters, they joined together to be more competitive against rivals such as Boeing, Bell Helicopters, and Finmeccanica SpA's Agusta Westland.⁴⁰ Joint ventures are on the rise as companies strive to keep pace with rapid technological change and compete in the global economy.

2

ENVIRONMENT

Remember This

- When external factors change rapidly, the organization experiences high uncertainty.
- **Strategic issues** are events and forces that alter an organization's ability to achieve its goals. As environmental turbulence increases, strategic issues emerge more frequently.
- **Boundary-spanning roles** link to and coordinate the organization with key elements in the external environment.
- **Interorganizational partnerships** reduce boundaries and increase collaboration with other organizations.
- A **merger** occurs when two or more organizations combine to become one.
- A **joint venture** is a strategic alliance or program by two or more organizations.
- Sikorsky Aircraft and Lockheed Martin teamed up to bid on a new contract for Marine One helicopters.

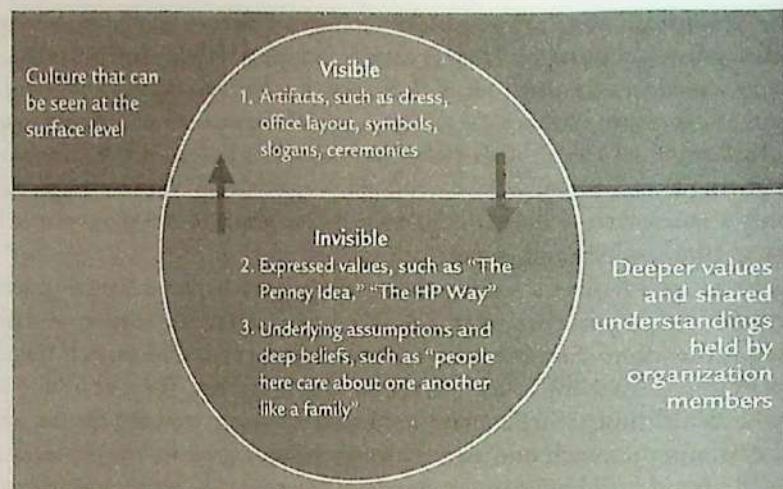
The Internal Environment: Corporate Culture

The internal environment within which managers work includes corporate culture, production technology, organization structure, and physical facilities. Of these, corporate culture surfaces as extremely important to competitive advantage. The internal culture must fit the needs of the external environment and company strategy. When this fit occurs, highly committed employees create a high-performance organization that is tough to beat.⁴¹

Most people don't think about culture; it's just "how we do things around here" or "the way things are here." However, managers have to think about culture because it typically plays a significant role in organizational success. Organizational culture has been defined and studied in many and varied ways. For the purposes of this chapter, we define **culture** as the set of key values, beliefs, understandings, and norms shared by members of an organization.⁴² The concept of culture helps managers understand the hidden, complex aspects of organizational life. Culture is a pattern of shared values and assumptions about how things are done within the organization. This pattern is learned by members as they cope with external and internal problems and taught to new members as the correct way to perceive, think, and feel.

EXHIBIT 3.6

Levels of Corporate Culture

**Take a Moment**

Complete the Small Group Breakout on pages 95–96 that deals with identifying cultural norms.

HOT TOPIC

Although strong corporate cultures are important, they can also sometimes promote negative values and behaviors. When the actions of top leaders are unethical, for instance, the entire culture can become contaminated. Consider what happened at News Corporation, a corporate giant with a lucrative string of media properties all over the world. Rupert Murdoch, chairman and CEO, has been accused of frequently applying unethical, sometimes seedy tactics in his business dealings. In addition, Murdoch has allegedly used "blunt force" spending to cover up unscrupulous tactics and silence critics with multimillion dollar payoffs. "Bury your mistakes," Murdoch was fond of saying.⁴³ But he couldn't bury the scandal that rocked the organization after journalists working for News Corporation newspapers allegedly hacked private voice-mail messages and offered bribes to police in the pursuit of hot scoops. Journalists went so far as to hack the voice mail of a murdered 13-year-old girl, Milly Dowler, while she was still listed as missing.⁴⁴ As this example illustrates, the values and behaviors of top leaders have the potential to shape significantly the decisions made by employees throughout the organization. Mark Lewis, the lawyer for the family of the murdered girl, pointed out: "This is not just about one individual, but about the culture of an organization."⁴⁵

Culture can be analyzed at two levels, as illustrated in Exhibit 3.6.⁴⁶ At the surface level are visible artifacts, which include things such as manner of dress, patterns of behavior, physical symbols, organizational ceremonies, and office layout. Visible artifacts are all the things one can see, hear, and observe by watching members of the organization. At a deeper, less obvious level are values and beliefs, which are not observable but can be discerned from how people explain and justify what they do. Members of the organization hold some values at a conscious level. These values can be interpreted from the stories, language, and symbols that organization members use to represent them.

Some values become so deeply embedded in a culture that members are no longer consciously aware of them. These basic, underlying assumptions and beliefs are the essence of culture and subconsciously guide behavior and decisions. In some organizations, a basic assumption might be that people are essentially lazy and will shirk their duties whenever possible; thus, employees are closely supervised and given little freedom and colleagues are frequently suspicious of one another. More enlightened organizations operate on the basic assumption that people want to do a good job; in these organizations, employees are given more freedom and responsibility and colleagues trust one another and work cooperatively. At the Zappos Family of companies, a culture of well-being and happiness has been instrumental in the growth of this successful online retailer.

Zappos.com, an online retail site best known for its wide selection of shoes and its free shipping, boldly proclaims its unique culture in an offbeat set of ten core values. CEO Tony Hsieh believes that these values illustrate the company's innovative culture and demonstrate its ultimate business goal—*cultivating happiness*. Hsieh's management theory goes like this: If you create a work culture that fosters well-being, good practices and (eventually) good profits will naturally flow out of the operation. So far, his theory is producing outstanding business results. Zappos.com, Inc. is raking in \$1 billion worth of annual gross sales, and employees widely report that their work is exciting and challenging. "We really buy into the idea that the better we treat each other, the better we'll all be able to treat our customers," says Rebecca Ratner, director of human resources.

Hsieh knows firsthand how important a strong, positive culture is when it comes to employee and customer happiness. Before Zappos, he had experienced the joyless grind of working in a job that had no meaning, where technical skill was all that mattered. Hsieh decided to write the book *Delivering Happiness* to document his journey from "chasing profits to chasing passion," the life lessons he has learned, and how those lessons have been applied at Zappos. Here are some key points for business leaders:

- *Get the right values.* Zappos has a set of 10 core values that include "Create fun and a little weirdness"; "Deliver WOW through service"; "Embrace and drive change"; "Be adventurous, creative, and open-minded"; "Pursue growth and learning"; and "Be humble." But Hsieh didn't dictate the values from on high. He sent an e-mail to all employees asking them what values should guide the company. The responses were discussed, condensed, and combined to come up with the final list.
- *Get the right people.* Zappos does two sets of interviews when hiring new employees. The first focuses on relevant experience, professional and technical skills, and the ability to work with the team. The second focuses purely on culture fit. There are questions for each of the core values, such as "How weird are you?" People are carefully selected to fit the Zappos culture, even if that means rejecting people with stronger technical skills.
- *Make culture a top priority.* All employees attend a four-week training session and commit the core values to memory. At the end of training, they're offered \$2,000 to resign if they believe that they aren't a good fit with the culture. Every year, Zappos puts out a *Culture Book*, in which employees share their own stories about what the Zappos culture means to them.⁴⁷

The Zappos Family of companies has created a unique culture that is reflected in its core values. Fundamental values are demonstrated in organizations through symbols, stories, heroes, slogans, and ceremonies.

SYMBOLS

A **symbol** is an object, act, or event that conveys meaning to others. Symbols can be considered a rich, nonverbal language that vibrantly conveys the organization's important values concerning how people relate to one another and interact with the environment.⁴⁸ Mindy Grossman, CEO of HSN Inc., found that something as simple as an office chair can be symbolic. When Grossman became HSN's eighth CEO in ten years, she inherited a downtrodden workforce. During her first few months, Grossman learned as much about the business as possible. "As I grew to understand the business, it became clear that it was fundamentally broken. To fix it, I needed to dramatically alter the company's culture," she said. Part of the cultural transformation included improving the work environment, which had dirty offices full of broken-down office furniture and clutter. "I looked around and realized we had 40 different kinds of office chairs. So I bought several thousand Herman Miller Aeron chairs," said Grossman. She received over 100 e-mails expressing appreciation on the day they were delivered.⁴⁹ For Grossman, the new office chairs were an important symbol of a new company value of caring for employees.

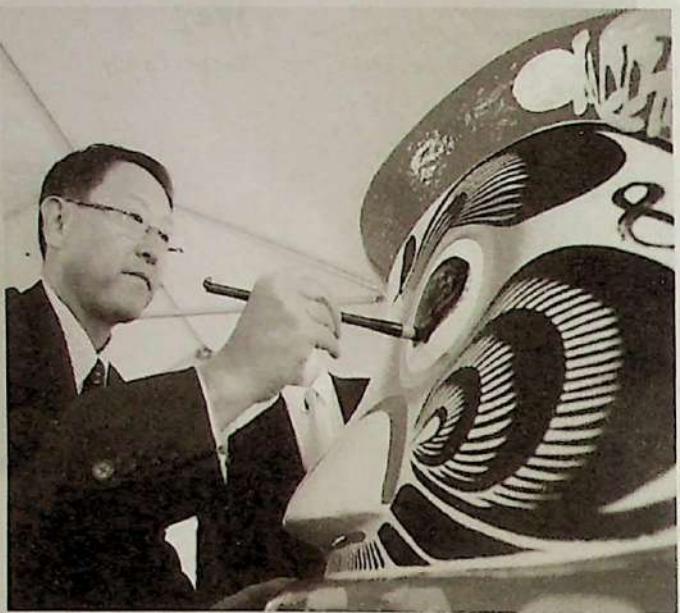
Innovative Way Zappos Family

2

ENVIRONMENT

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Concept Connection



REUTERS/J. Mazzulski

Toyota's handling of its 2010 recall crisis drove some observers to characterize Toyota's **corporate culture** as parochial. Critics attributed the company's reticence to go public with its quality problems to its deep roots in Japanese culture, in which airing dirty linen in public is impolite. However, the Toyota culture has also been historically linked with a powerful commitment to quality, which enabled the company, under the leadership of president and CEO Akio Toyoda (pictured here painting an eye on a traditional Japanese doll), to return to its previous strong market position within a couple of years.

Jobs exemplified the creativity, innovation, risk-taking, and boundary-breaking thinking that made the company famous.⁵² When Jobs's health began to fail, Apple's board began considering replacements who could sustain the fertile culture that Jobs created. They chose Tim Cook, who long had served as second-in-command. Cook now cultivates a culture that reflects the values and behaviors of Apple's hero, Steve Jobs. "Apple has a culture of excellence that is, I think, so unique and so special. I'm not going to witness or permit the change of it," he said.⁵³

SLOGANS

A **slogan** is a phrase or sentence that succinctly expresses a key corporate value. Many companies use a slogan or saying to convey special meaning to employees. For example, Disney uses the slogan "The happiest place on earth." The Ritz-Carlton adopted the slogan, "Ladies and gentlemen taking care of ladies and gentlemen" to demonstrate its cultural commitment to take care of both employees and customers. "We're in the service business, and service comes only from people. Our promise is to take care of them, and provide a happy place for them to work," said general manager Mark DeCocinis, who manages the Portman Hotel in Shanghai, recipient of the "Best Employer in Asia" award for three consecutive years.⁵⁴ Cultural values can also be discerned in written public statements, such as corporate mission statements or other formal statements that express the core values of the organization. The mission statement for Hallmark Cards, for example, emphasizes values of excellence, ethical and moral conduct in all relationships, business innovation, and corporate social responsibility.⁵⁵

STORIES

A **story** is a narrative based on true events and is repeated frequently and shared among organizational employees. Stories paint pictures that help symbolize the firm's vision and values and help employees personalize and absorb them.⁵⁰ A frequently told story at UPS concerns an employee who, without authorization, ordered an extra Boeing 737 to ensure timely delivery of a load of Christmas packages that had been left behind in the holiday rush. As the story goes, rather than punishing the worker, UPS rewarded his initiative. By telling this story, UPS workers communicate that the company stands behind its commitment to worker autonomy and customer service.⁵¹

HEROES

A **hero** is a figure who exemplifies the deeds, character, and attributes of a strong culture. Heroes are role models for employees to follow. Heroes with strong legacies may continue to influence a culture even after they are gone. Many people have wondered if the culture that Steve Jobs created at Apple would be sustained after his death in 2011.

CEREMONIES

A **ceremony** is a planned activity at a special event that is conducted for the benefit of an audience. Managers hold ceremonies to provide dramatic examples of company values. Ceremonies are special occasions that reinforce valued accomplishments, create a bond among people by allowing them to share an important event, and anoint and celebrate heroes.⁵⁶ In a ceremony to mark its 20th anniversary, Southwest Airlines rolled out a specialty plane called the "Lone Star One," which had the Texas state flag painted on it to signify the company's start in Texas. Later, when the National Basketball Association (NBA) chose Southwest Airlines as the league's official airline, Southwest launched another specialty plane, the "Slam Dunk One," colored blue and orange with a large basketball painted on the nose of the plane. Today, ten specialty planes celebrate significant milestones in Southwest's history and demonstrate key cultural values.⁵⁷

Remember This

- Organizational **culture** is the set of key values, beliefs, understandings, and norms shared by members of an organization.
- A **symbol** is an object, act, or event that conveys meaning to others.
- A **story** is a narrative based on true events and is repeated frequently and shared among organizational employees.
- A **hero** is a figure who exemplifies the deeds, character, and attributes of a strong culture.
- Steve Jobs is a hero at Apple, representing the creativity, risk taking, and striving for excellence that define the company's culture.
- A **slogan**, such as Disney's "The happiest place on earth," succinctly expresses a key corporate value.
- Managers hold **ceremonies**, planned activities at special events, to reinforce company values.

Types of Culture

A big influence on internal corporate culture is the external environment. Cultures can vary widely across organizations; however, organizations within the same industry often reveal similar cultural characteristics because they are operating in similar environments.⁵⁸ The internal culture should embody what it takes to succeed in the environment. If the external environment requires extraordinary customer service, the culture should encourage good service; if it calls for careful technical decision making, cultural values should reinforce managerial decision making.

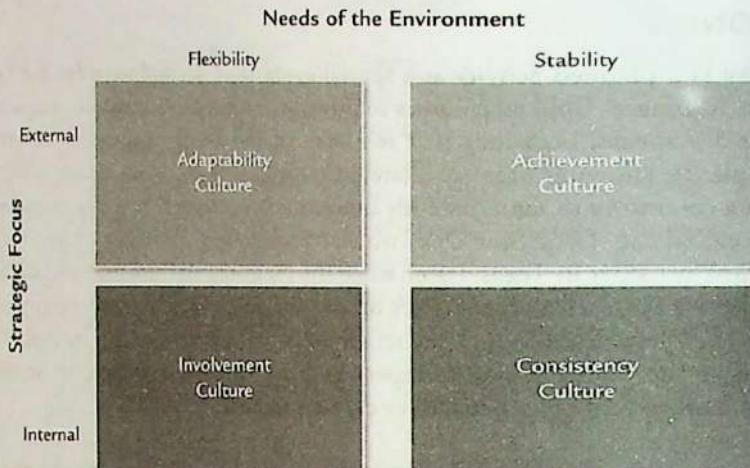
In considering what cultural values are important for the organization, managers consider the external environment, as well as the company's strategy and goals. Studies suggest that the right fit between culture, strategy, and the environment is associated with four categories or types of culture, as illustrated in Exhibit 3.7. These categories are based on two dimensions: (1) the extent to which the external environment requires flexibility or stability, and (2) the extent to which a company's strategic focus is internal or external. The four categories associated with these differences are adaptability, achievement, involvement, and consistency.⁵⁹

ADAPTABILITY CULTURE

The **adaptability culture** emerges in an environment that requires fast response and high-risk decision making. Managers encourage values that support the company's ability to rapidly detect, interpret, and translate signals from the environment into new behaviors.

EXHIBIT 3.7

Four Types of Corporate Culture



SOURCES: Based on D.R. Denison and A.K. Mishra, "Toward a Theory of Organizational Culture and Effectiveness," *Organization Science* 6, no. 2 (March–April 1995): 204–223; R. Hooijberg and F. Petrock, "On Cultural Change: Using the Competing Values Framework to Help Leaders Execute a Transformational Strategy," *Human Resource Management* 32, no. 1 (1993): 29–50; and R.E. Quinn, *Beyond Rational Management: Mastering the Paradoxes and Competing Demands of High Performance* (San Francisco: Jossey-Bass, 1988).

Employees have the autonomy to make decisions and act freely to meet new needs, and responsiveness to customers is highly valued. Managers also actively create change by encouraging and rewarding creativity, experimentation, and risk taking. Lush Cosmetics, a fast-growing maker of shampoos, lotions, and bath products made from fresh ingredients such as mangoes and avocados, provides a good example of an adaptability culture. A guiding motto at the company is "We reserve the right to make mistakes." Founder and CEO Mark Constantine is passionately devoted to change and encourages employees to break boundaries, experiment, and take risks. The company kills off one-third of its product line every year to offer new and offbeat products.⁶⁰ Other companies in the cosmetics industry, as well as those involved in electronics, e-commerce, and fashion, often use an adaptability culture because they must move quickly to respond to rapid changes in the environment.

ACHIEVEMENT CULTURE

The achievement culture is suited to organizations concerned with serving specific customers in the external environment, but without the intense need for flexibility and rapid change. This results-oriented culture values competitiveness, aggressiveness, personal initiative, cost cutting, and willingness to work long and hard to achieve results. An emphasis on winning and achieving specific ambitious goals is the glue that holds the organization together.⁶¹ Brewing giant InBev provides an example. When InBev bought Anheuser-Busch, it replaced lavish perks and generous spending with a no-frills culture focused intently on cost cutting and meeting strict profit goals. Managers also created an incentive-based compensation system to reflect "an increased focus on meritocracy." The system handsomely rewards high performers rather than spreading dollars more evenly among employees. "We always say, the leaner the business, the more money we'll have at the end of the year to share," said Carlos Brito, InBev's CEO.⁶²

INVOLVEMENT CULTURE

The involvement culture emphasizes an internal focus on the involvement and participation of employees to adapt rapidly to changing needs from the environment. This culture places high value on meeting the needs of employees, and the organization may be

characterized by a caring, family-like atmosphere. Managers emphasize values such as cooperation, consideration of both employees and customers, and avoiding status differences. Consider the Four Seasons hotel chain, where the culture embodies a commitment to the company's greatest asset—its employees.

Four Seasons is considered by many people to be the world's premier hospitality company, offering a worldwide chain of luxury hotels and resorts. One reason is that it consistently inspires employees to provide exceptional, customized, 24-hour service and strive for the goal of creating "the world's best hospitality experience." The company has been named one of the "100 Best Companies to Work For" by Fortune magazine every year since the survey's inception in 1998, ranking number 85 in 2012. With 86 luxury properties in 35 countries, Four Seasons has nurtured a corporate culture that values employees above all other assets. This relentless commitment to employees has sustained Four Seasons during an economic recession that battered many companies in the hospitality industry. With most of the industry in shambles as vacationers and business travelers canceled travel plans, how did Four Seasons stay on track and position itself for future success?

Managers created a unified culture whose employees rally behind an inspiring purpose. The purpose of Four Seasons—to create the world's best hospitality experience—is a deeply instilled belief that each employee takes personally. "We have 34,000 employees who get up every morning thinking about how to serve our guests even better than the day before," said CEO Katie Taylor. "So while all of this trouble is swirling around us, our brand promise of providing the most exceptional guest experience wherever and whenever you visit us is instilled in the hearts and minds of our dedicated employees. They are the ones who fulfill that promise day in and day out."

Four Seasons also clarified its corporate vision by ensuring that it could be personalized by employees and provide stability through an unpredictable recession. The new vision includes (1) achieving a first-choice ranking among guests, (2) being the best employer, and (3) being the industry's number one builder of sustainable value. These clear and meaningful statements provide a compelling and aspirational vision that motivates employees to do their best. The results? Bookings have gone up dramatically, and employee engagement scores are higher than ever.⁶³

CONSISTENCY CULTURE

The final category of culture, the **consistency culture**, uses an internal focus and a consistency orientation for a stable environment. Following the rules and being thrifty are valued, and the culture supports and rewards a methodical, rational, orderly way of doing things. In today's fast-changing world, few companies operate in a stable environment, and most managers are shifting toward cultures that are more flexible and in tune with changes in the environment. However, Pacific Edge Software (now part of Serena Software), successfully implemented elements of a consistency culture to ensure that all its projects stayed on time and under budget. The husband-and-wife team of Lisa Hjorten and Scott Fuller implanted a culture of order, discipline, and control from the moment they founded the company. The emphasis on order and focus meant employees could generally go home by 6:00 P.M. rather than working all night to finish an important project. Although sometimes being careful means being slow, Pacific Edge managed to keep pace with the demands of the external environment.⁶⁴

Each of these four categories of culture can be successful. In addition, organizations usually have values that fall into more than one category. The relative emphasis on various cultural values depends on the needs of the environment and the organization's focus. Managers are responsible for instilling the cultural values the organization needs to be successful in its environment.

Innovative Way Four Seasons

2

ENVIRONMENT

Take a Moment

Would you rather work in an organization with an adaptability, achievement, involvement, or consistency culture? Complete the New Manager Self-Test to get an idea of what type of culture you would be most comfortable working in.

New Manager

Self-Test

Culture Preference

Instructions: The fit between a new manager and organizational culture can determine success and satisfaction. To understand your culture preference, rank the items below from 1 to 8 based on the strength of your preference (1 = strongest preference).

1. The organization is very personal, much like an extended family.
2. The organization is dynamic and changing where people take risks.
3. The organization is achievement oriented, with the focus on competition and getting jobs done.
4. The organization is stable and structured, with clarity and established procedures.
5. Management style is characterized by teamwork and participation.
6. Management style is characterized by innovation and risk taking.
7. Management style is characterized by high performance demands and achievement.
8. Management style is characterized by security and predictability.

Scoring and Interpretation: Each question pertains to one of the four types of culture in Exhibit 3.7. To compute your preference for each type of culture, add together the scores for each set of two questions as follows:

Involvement culture—total for questions 1, 5: _____

Adaptability culture—total for questions 2, 6: _____

Achievement culture—total for questions 3, 7: _____

Consistency culture—total for questions 4, 8: _____

A lower score means a stronger culture preference. You will likely be more comfortable and more effective as a new manager in a corporate culture that is compatible with your personal preferences. A higher score means the culture would not fit your expectations, and you would have to change your style and preference to be comfortable. Review the text discussion of the four culture types. Do your cultural preference scores seem correct to you? Can you think of companies that fit your culture preference?

Source: Adapted from Kim S. Cameron and Robert D. Quinn, *Diagnosing and Changing Organizational Culture* (Reading, MA: Addison-Wesley, 1999).

Remember This

- For an organization to be effective, corporate culture should be aligned with organizational strategy and the needs of the external environment.
- Organizations within the same industry often reveal similar cultural characteristics because they are operating in similar environments.
- The **adaptability culture** is characterized by values that support the company's ability to interpret and translate signals from the environment into new behavior responses.
- An **achievement culture** is a results-oriented culture that values competitiveness, personal initiative, and achievement.
- A culture that places high value on meeting the needs of employees and values cooperation and equality is an **involvement culture**.
- A **consistency culture** values and rewards a methodical, rational, orderly way of doing things.

Shaping Corporate Culture for Innovative Response

Research conducted by a Stanford University professor indicates that the one factor that increases a company's value the most is people and how they are treated.⁶⁵ In addition, surveys show that CEOs often cite organizational culture as their most important mechanism for attracting, motivating, and retaining talented employees, a capability considered the single best predictor of overall organizational excellence.⁶⁶ In a survey of Canadian senior executives, fully 82 percent believe a direct correlation exists between culture and financial performance.⁶⁷ Consider how an "employees first" corporate culture drives stellar financial performance at Southwest Airlines. Profitable for 38 consecutive years and touting the lowest ratio of complaints per passengers in the industry, Southwest offers industry-leading salaries and benefits, intense career development programs, and a commitment to diversity among its workforce. In addition, Southwest promotes a strong collaborative culture and fosters good relationships with organized labor.⁶⁸ At Southwest, a positive culture that reflects an intense commitment to employees results in a competitive advantage.

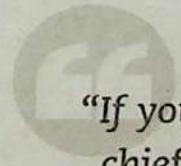
Corporate culture plays a key role in creating an organizational climate that enables learning and innovative responses to threats from the external environment, challenging new opportunities, or organizational crises. However, managers realize they can't focus all their effort on values; they also need a commitment to solid business performance.

MANAGING THE HIGH-PERFORMANCE CULTURE

Companies that succeed in a turbulent world are those that pay careful attention to both cultural values and business performance. Cultural values can energize and motivate employees by appealing to higher ideals and unifying people around shared goals. In addition, values boost performance by shaping and guiding employee behavior, so that everyone's actions are aligned with strategic priorities.⁶⁹ Exhibit 3.8 illustrates four organizational outcomes based on the relative attention managers pay to cultural values and business performance.⁷⁰ For example, a company in Quadrant C pays little attention to either values or business results and is unlikely to survive for long. Managers in Quadrant D organizations are highly focused on creating a strong cohesive culture, but they don't tie organizational values directly to goals and desired business results.

When cultural values aren't connected to business performance, they aren't likely to benefit the organization during hard times. The corporate culture at the LEGO Group, with headquarters in Billund, Denmark, nearly doomed the toymaker in the 1990s when sales plummeted as children turned from traditional toys to video games. At that time, LEGO reflected the characteristics found in Quadrant D of Exhibit 3.8. Imagination and creativity, not business performance, were what guided the company. The attitude among employees was, "We're doing great stuff for kids—don't bother us with financial goals." A new CEO, Jørgen Vig Knudstorp, upended the corporate culture with a new employee motto: "I am here to make money for the company." The shift to bottom-line results had a profound impact, and LEGO has become one of the most successful companies in the toy industry.⁷¹

Quadrant A represents organizations that are focused primarily on bottom-line results and pay little attention to organizational values. This approach may be profitable in the short run, but the success is difficult to sustain over the long term because the "glue" that holds the organization

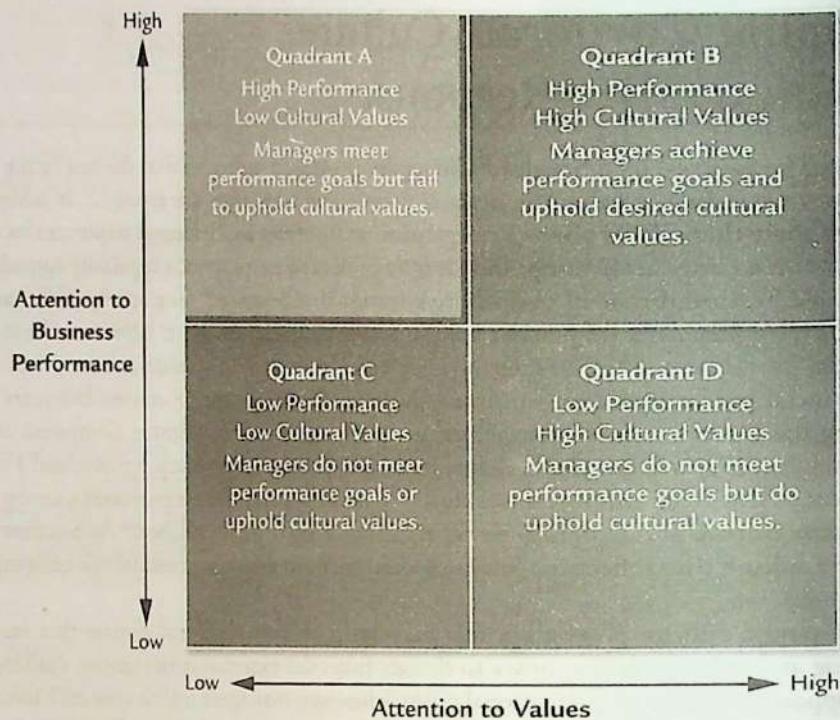


"If you see your job not as chief strategy officer and the guy who has all the ideas, but rather as the guy who is obsessed with enabling employees to create value, I think you will succeed."

— VINEET NAYAR, CEO OF HCL TECHNOLOGIES

EXHIBIT 3.8

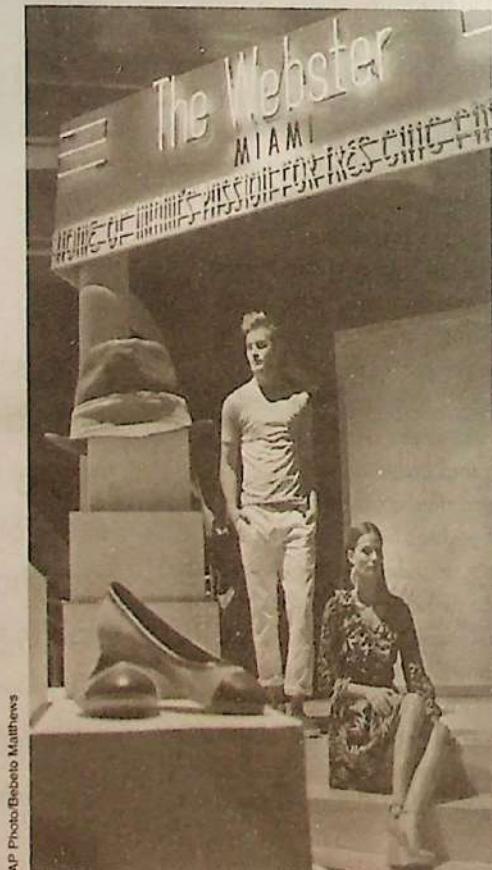
Combining Culture and Performance



SOURCES: Adapted from Jeff Rosenthal and Mary Ann Masarech, "High-Performance Cultures: How Values Can Drive Business Results," *Journal of Organizational Excellence* (Spring 2003): 3–18; and Dave Ulrich, Steve Kerr, and Ron Ashkenas, Figure 11-2, GE Leadership Decision Matrix, *The GE Work-Out: How to Implement GE's Revolutionary Method for Busting Bureaucracy and Attacking Organizational Problems—Fast!* (New York: McGraw-Hill, 2002), p. 230.

Concept Connection

Furthering Target's partnerships with unique designer brands, the idea to create the new Shops at Target in-store boutiques was born in Target's **high-performance culture**. Target has quarterly Big Idea internal contests, in which departments compete for additional budget allocations awarded for innovative ideas. The fun, creative competition encourages a sense of employee ownership and reinforces shared values. Tapping into employee talent helps Target meet its mission of providing customers with more for less.



AP Photo/Bebeto Matthews

together—that is, shared cultural values—is missing. Consider how a bottom-line focus at Zynga, the Web's largest social games company, is damaging the organization. Zynga, founded in July 2007 and led by CEO Mark Pincus, recorded a phenomenal \$828 million in revenue in the first nine months of 2011, more than double the amount earned a year earlier. Zynga also met ambitious profitability goals, rare among Internet start-ups. With this type of financial performance, one might assume working for Zynga would be all fun and games. Instead, autonomous teams for each game, like FarmVille and CityVille, work under aggressive deadlines and are continuously challenged to meet lofty performance goals. Managers emphasize performance reports, relentlessly aggregating data, and using the data to demote or fire weak employees. Little attention is paid to cultural values that bind people into a unified whole.

The relentless focus on financial performance began to take a toll when employees started voicing their frustration, complaining about long hours and aggressive deadlines. Former employees describe emotionally charged encounters, including loud outbursts from Pincus, threats from top managers, and moments when colleagues broke down in tears. The company's success likely cannot be sustained without an increased focus on building a more positive culture. Already, valued employees are being lured away by competitors in an industry where talent is scarce.⁷²

Finally, companies in Quadrant B put high emphasis on both culture and solid business performance as drivers of organizational success. Managers in these organizations align values with the company's day-to-day operations—hiring practices, performance management, budgeting, criteria for promotions and rewards, and so forth. Consider the approach that General Electric (GE) took to accountability and performance management. When he was CEO, Jack Welch helped GE become one of the world's most successful and admired companies. He achieved this by creating a culture in which risk was rewarded and accountability and measurable goals were keys to individual success and company profitability.⁷³ The company's traditional approach had achieved stellar financial results, but managers motivated people to perform primarily through control, intimidation, and reliance on a small circle of staff. Welch was interested in more than just financial results—he wanted managers to exhibit the following cultural values in addition to "making their numbers":⁷⁴

- Have a passion for excellence and hate bureaucracy.
- Be open to ideas from anywhere.
- "Live" quality, and drive cost and speed for competitive advantage.

Welch knew that for the company to succeed in a rapidly changing world, managers needed to pay careful attention to both cultural values and business performance. Quadrant D organizations represent the **high-performance culture**, a culture that (1) is based on a solid organizational mission or purpose, (2) embodies shared adaptive values that guide decisions and business practices, and (3) encourages individual employee ownership of both bottom-line results and the organization's cultural backbone.⁷⁵

One of the most important things managers do is create and influence organizational culture to meet strategic goals because culture has a significant impact on performance. In *Corporate Culture and Performance*, John Kotter and James Heskett provided evidence that companies that intentionally managed cultural values outperformed similar companies that did not. Recent research validates that elements of corporate culture are positively correlated with higher financial performance.⁷⁶

CULTURAL LEADERSHIP

A primary way in which managers shape cultural norms and values to build a high-performance culture is through *cultural leadership*. Managers must *overcommunicate* to ensure that employees understand the new culture values, and they signal these values in actions as well as words.

A **cultural leader** defines and uses signals and symbols to influence corporate culture. Cultural leaders influence culture in two key areas:

1. *The cultural leader articulates a vision for the organizational culture that employees can believe in.* The leader defines and communicates central values that employees believe in and will rally around. Values are tied to a clear and compelling mission, or core purpose.
2. *The cultural leader heeds the day-to-day activities that reinforce the cultural vision.* The leader makes sure that work procedures and reward systems match and reinforce the values. Actions speak louder than words, so cultural leaders "walk their talk."⁷⁷

Managers widely communicate the cultural values through words and actions. Values statements that aren't reinforced by management behavior are meaningless, or even harmful, for employees and the organization. Whole Foods founder and CEO John Mackey wants his managers to place more value on creating "a better person, company, and world" than on pursuing personal financial gain. To demonstrate his personal commitment to this belief, he asked the board of directors to donate all his future stock options to the company's two foundations, the Animal Compassion Foundation and the Whole Planet Foundation.⁷⁸

Cultural leaders also uphold their commitment to values during difficult times or crises. Upholding the cultural values helps organizations weather a crisis and come out stronger on the other side. Creating and maintaining a high-performance culture is not easy in today's turbulent environment and changing workplace, but through their words—and particularly their actions—cultural leaders let everyone in the organization know what really counts.

Remember This

- Managers emphasize both values and business results to create a **high-performance culture**.
- Culture enables solid business performance through the alignment of motivated employees with the mission and goals of the company.
- Managers create and sustain adaptive high-performance cultures through cultural leadership.
- **Cultural leaders** define and articulate important values that are tied to a clear and compelling mission, which they communicate widely and uphold through their actions.

ch3: Discussion Questions

1. What are the characteristics of a *flat world*, a term used by Thomas Friedman to describe today's business environment? What challenges do they pose? How can you prepare to manage in a flat world?
2. Would the task environment for a cellular phone provider contain the same elements as that for a government welfare agency? Discuss.
3. What strategic issues have the potential to create environmental uncertainty in the following four industries: (a) automobile; (b) social media; (c) newspaper; and (d) medical services?
4. Contemporary best-selling management books often argue that customers are the most important element in the external environment. Do you agree? In what company situations might this statement be untrue?
5. Why do you think many managers are surprised by environmental changes and hence are less able to help their organizations adapt?
6. Why are interorganizational partnerships so important for today's companies? What elements in the current environment might contribute to either an increase or a decrease in interorganizational collaboration? Discuss.
7. Consider the factors that influence environmental uncertainty (rate of change in factors and number of factors in the environment) that are presented in

Exhibit 3.4. Classify each of the following organizations as operating in either (a) a low-uncertainty environment or (b) a high-uncertainty environment: Hyundai, Facebook, a local Subway franchise, FedEx, a cattle ranch in Oklahoma, and McDonald's. Explain your reasoning.

8. Cultural symbols are usually noticed through sight, sound, touch, and smell. For example, Costco displays a limited amount of low-priced merchandise in a no-frills, self-service warehouse with concrete floors. What do these elements communicate as symbols about its corporate culture?
9. Both China and India are rising economic powers. How might your approach to doing business with China, a communist country, be different from your approach to doing business with India, the world's most populous democracy? In which country would you expect to encounter the most rules? The most bureaucracy?
10. As described in this chapter, Zynga CEO Mark Pincus is obsessed with high performance, and demanding deadlines define the corporate culture. Describe how this culture may be good for the short term but ultimately could hurt the organization's long-term sustainability.

ch3: Apply Your Skills: Experiential Exercise

Working in an Adaptability Culture⁷⁹

Think of a specific full-time job that you have held. Please answer the following questions according to your perception of the *managers above you* in that job. Circle a number on the 1–5 scale based on the extent to which you agree with each statement about the managers above you:

- (5) Strongly agree
- (4) Agree
- (3) Neither agree nor disagree
- (2) Disagree
- (1) Strongly disagree

1. Good ideas got serious consideration from management above me.
1 2 3 4 5
2. Management above me was interested in ideas and suggestions from people at my level in the organization.
1 2 3 4 5
3. When suggestions were made to management above me, they received a fair evaluation.
1 2 3 4 5
4. Management did not expect me to challenge or change the status quo.
1 2 3 4 5
5. Management specifically encouraged me to bring about improvements in my workplace.
1 2 3 4 5
6. Management above me took action on recommendations made from people at my level.
1 2 3 4 5
7. Management rewarded me for correcting problems.
1 2 3 4 5

8. Management clearly expected me to improve work unit procedures and practices.

1 2 3 4 5

9. I felt free to make recommendations to management above me to change existing practices.

1 2 3 4 5

10. Good ideas did not get communicated upward because management above me was not very approachable.

1 2 3 4 5

Scoring and Interpretation

To compute your score: Subtract each of your scores for questions 4 and 10 from 6. Using your adjusted scores, add the numbers for all 10 questions to give you the total score. Divide that number by 10 to get your average score: _____.

An adaptability culture is shaped by the values and actions of top and middle managers. When managers actively encourage and welcome change initiatives from below, the organization will be infused with values for change. These ten questions measure your management's openness to change. A typical average score for management openness to change is about 3. If your average score was 4 or higher, you worked in an organization that expressed strong cultural values of adaptation. If your average score was 2 or below, the company probably did not have an adaptability culture.

Think about this job. Was the level of management openness to change correct for the organization? Why? Compare your scores to those of another student, and take turns describing what it was like working for the managers above you in your jobs. Do you sense a relationship between job satisfaction and your management's openness to change? What specific management characteristics and corporate values explain the openness scores in the two jobs?

ch3: Apply Your Skills: Small Group Breakout

Organizational Culture in the Classroom and Beyond

Step 1. Write down the norms that you believe to be operating in the following places: (1) in most of your courses, (2) in formal social groups such as fraternities and sororities, and (3) in student clubs or school-sponsored organizations. Use your personal experience in each place and consider the norms. Some norms are implicit, so you may have to think carefully to identify them. Other norms may be explicit.

Step 2. After you have developed your lists, divide into groups of four to six students to discuss norms. Each student should share with the group the norms identified

for each of the assigned places. Make a list of norms for each place and brainstorm with fellow group members to come up with additional norms.

Step 3. Try to group the norms by common themes, and give each group of norms a title. Decide as a group which norms are most important for regulating student behavior in each location.

Step 4. As a group, analyze the source or origin of each of the more important norms. Does the norm originate in the environment, from a leader, or elsewhere? Can you find any examples of norms that are expressed but not followed, which means that people do not "walk the talk" of the norms?

Step 5. What did you learn about cultural norms that exist in organizations and social groups? How is it helpful to make explicit those aspects of organization culture that

are typically implicit? Who should be responsible for setting norms in your courses or in student social groups and organizations?

ch3: Endnotes

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