

New Era of MANAGEMENT

with CourseMate

Richard L. Daft

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part 1 : chapter 2

The Evolution of Management Thinking



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Chapter Outline

Management and Organization

- Classical Perspective
- Scientific Management
- Bureaucratic Organizations
- Administrative Principles

Humanistic Perspective

- Early Advocates
- Human Relations Movement
- Human Resources Perspective

New Manager Self-Test: What's Your Mach?

- Behavioral Sciences Approach

Management Science

- Recent Historical Trends
- Systems Thinking
- Contingency View
- Total Quality Management

Innovative Management Thinking for a Changing World

- Contemporary Management Tools
- Managing the Technology-Driven Workplace

Learning Outcomes

After studying this chapter, you should be able to:

1. Understand how historical forces influence the practice of management.
2. Identify and explain major developments in the history of management thought.
3. Describe the major components of the classical and humanistic management perspectives.
4. Discuss the management science approach and its current use in organizations.
5. Explain the major concepts of systems thinking, the contingency view, and total quality management.
6. Name contemporary management tools and some reasons that management trends change over time.
7. Describe the management changes brought about by a technology-driven workplace, including the role of social media programs, customer relationship management (CRM), and supply chain management.

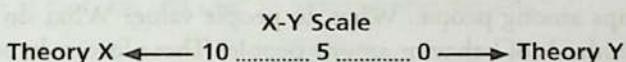


Are You a New-Style or an Old-Style Manager?¹

INSTRUCTIONS: The following are various behaviors in which a manager may engage when relating to subordinates. Read each statement carefully and rate each one Mostly True or Mostly False, to reflect the extent to which you would use that behavior.

	Mostly True	Mostly False
1. Supervise my subordinates closely to get better work from them.	_____	_____
2. Set the goals and objectives for my subordinates and sell them on the merits of my plans.	_____	_____
3. Set up controls to ensure that my subordinates are getting the job done.	_____	_____
4. Make sure that my subordinates' work is planned out for them.	_____	_____
5. Check with my subordinates daily to see if they need any help.	_____	_____
6. Step in as soon as reports indicate that progress on a job is slipping.	_____	_____
7. Push my people if necessary in order to meet schedules.	_____	_____
8. Have frequent meetings to learn from others what is going on.	_____	_____

SCORING AND INTERPRETATION: Add the total number of Mostly True answers and mark your score on the scale below. Theory X tends to be “old-style” management, and Theory Y “new-style,” because the styles are based on different assumptions about people. To learn more about these assumptions, you can refer to Exhibit 2.4 and review the assumptions related to Theory X and Theory Y. Strong Theory X assumptions are typically considered inappropriate for today’s workplace. Where do you fit on the X-Y scale? Does your score reflect your perception of yourself as a current or future manager?



What do managers at India's Tata Group, U.S.-based General Electric (GE), and Africa's M-Pesa mobile money transfer service have in common with eighteenth-century inventor and statesman Benjamin Franklin? The authors of a recent book on innovation say they have all applied a concept called *jugaad* (pronounced joo-gaardh). *Jugaad* is a Hindi word that basically refers to creating something of benefit from limited resources. Benjamin Franklin, the authors say, is a great historical example because he faced scarcity firsthand, but he improvised to create inventions that were for the benefit of the masses.²

Management—like most disciplines—loves buzzwords, and *jugaad* is one of the most recent to appear on the radar. *Jugaad* basically refers to an innovation mindset, used widely by Indian companies, that strives to meet customers' immediate needs quickly and inexpensively. With research and development budgets strained in today's economy, U.S. and other Western managers have quickly picked up on the approach, sometimes calling it *frugal engineering*.³ Will this be a buzzword that quickly fades from managers' vocabularies, or will it become as ubiquitous in management circles as terms such as total quality or *kaizen*?

Managers are always on the lookout for fresh ideas, innovative management approaches, and new tools and techniques. Management philosophies and organizational forms change over time to meet new needs. The questionnaire at the beginning of this chapter describes

two differing philosophies about how people should be managed, and you will learn more about these ideas in this chapter.

If management is always changing, why does history matter to managers? The workplace of today is different from what it was 50 years ago—indeed, from what it was even 10 years ago—yet historical concepts form the backbone of management education.⁴ One reason is that a historical perspective provides managers with a broader way of thinking, a way of searching for patterns and determining whether they recur across time periods. It is a way of learning from others' mistakes so as not to repeat them; learning from others' successes so as to repeat them in the appropriate situation; and most of all, learning to understand why things happen to improve organizations in the future. Certain management practices that seem modern, such as open-book management or employee stock ownership, have actually been around for a long time. These techniques have repeatedly gained and lost popularity since the early twentieth century because of shifting historical forces.⁵

This chapter provides a historical overview of the ideas, theories, and management philosophies that have contributed to making the workplace what it is today. The final section of the chapter looks at some recent trends and current approaches that build on this foundation of management understanding. This foundation illustrates that the value of studying management lies not in learning current facts and research, but in developing a perspective that will facilitate the broad, long-term view needed for management success.

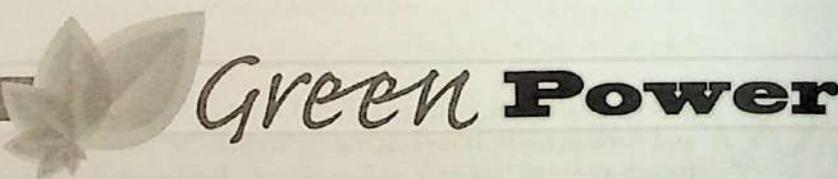
Management and Organization

Take A Moment

Go to the Small Group Breakout on page 58 that pertains to how historical events and forces shape the lives of individuals.

Studying history doesn't mean merely arranging events in chronological order; it means developing an understanding of the impact of societal forces on organizations. Studying history is a way to achieve strategic thinking, see the big picture, and improve conceptual skills. Let's begin by examining how social, political, and economic forces have influenced organizations and the practice of management.⁶

Social forces refer to those aspects of a culture that guide and influence relationships among people. What do people value? What do people need? What are the standards of behavior among people? These forces shape what is known as the *social*



Drop Back and Punt

Glenn Rink's great product—popcorn-like sponges for absorbing oil spills—received a cool reception in the 1990s. Corporate skeptics said that traditional skimming of oil off water remained the preferred choice for disaster cleanup. Blocked by resistance to his product, Rink, founder of **Abtech Industries**, followed the historic and time-honored tradition of football teams, which sometimes need to drop back and punt before they can go on offense again.

Rink decided to focus on smaller-scale disasters instead. For more than a decade, Abtech Industries built a reputation for offering low-cost alternatives

to address the cleanup needs of cities struggling with a variety of water pollution problems. The strategy paid off. In 2011, a revitalized Abtech, maker of the Smart Sponge Plus, partnered with the huge company Waste Management Inc. as the exclusive North American distributor to cities, and oil cleanup orders began pouring in. To date, Smart Sponge Plus has been used in more than 15,000 spill locations worldwide.

Source: "Innovation #71: Glenn Rink, Founder of Abtech Industries," *Fast Company* (June 2012): 136 (part of "The 100 Most Creative People in Business 2012," pp. 78–156).

contract, which refers to the unwritten, common rules and perceptions about relationships among people and between employees and management.

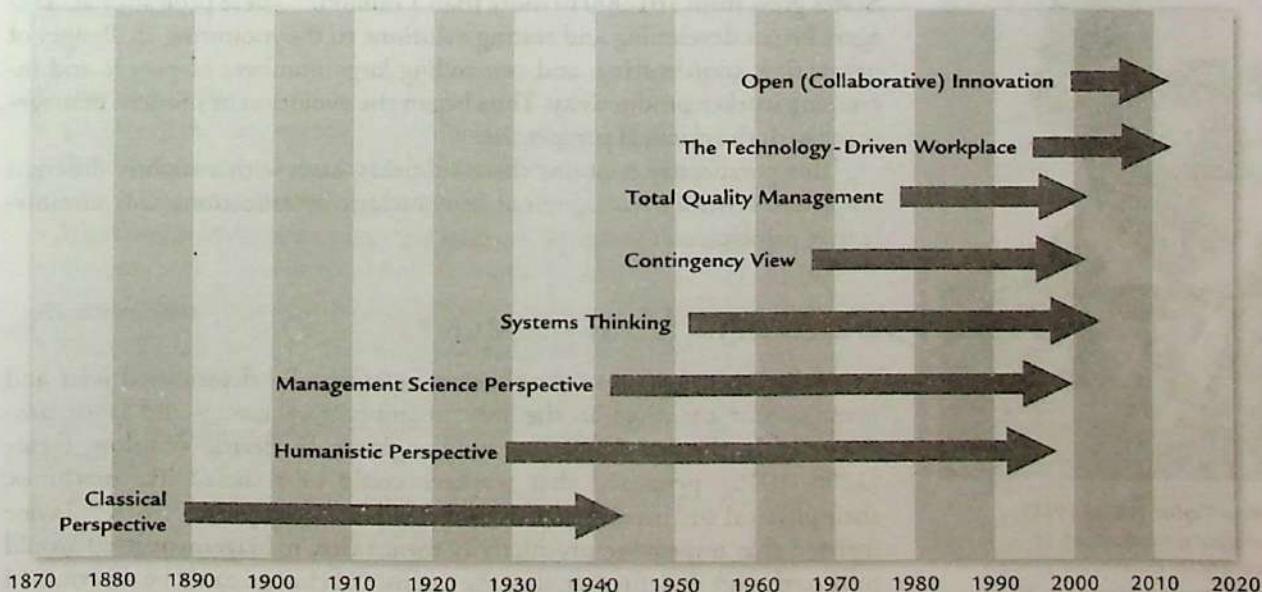
One social force is the changing attitudes, ideas, and values of Generation Y employees (sometimes called Millennials).⁷ These young workers, the most educated generation in the history of the United States, grew up technologically adept and globally conscious. Unlike many workers of the past, they typically are not hesitant to question their superiors and challenge the status quo. They want a flexible, collaborative work environment that is challenging and supportive, with access to cutting-edge technology, opportunities to learn and further their careers and personal goals, and the power to make substantive decisions and changes in the workplace.

Political forces refer to the influence of political and legal institutions on people and organizations. One significant political force is the increased role of government in business after the collapse of companies in the financial services sector and major problems in the auto industry. Some managers expect increasing government regulation in the coming years.⁸ Political forces also include basic assumptions underlying the political system, such as the desirability of self-government, property rights, contract rights, the definition of justice, and the determination of innocence or guilt of a crime.

Economic forces pertain to the availability, production, and distribution of resources in a society. Governments, military agencies, churches, schools, and business organizations in every society need resources to achieve their goals, and economic forces influence the allocation of scarce resources. Companies in every industry have been affected by the recent financial crisis, which is the worst since the Great Depression of the 1930s. Reduced consumer spending and tighter access to credit have curtailed growth and left companies scrambling to meet goals with limited resources. Although liquidity for large corporations has increased, smaller companies continued to struggle to find funding.⁹ Another economic trend that affects managers worldwide is the growing economic power of countries such as China, India, and Brazil.¹⁰

Management practices and perspectives vary in response to these social, political, and economic forces in the larger society. Exhibit 2.1 illustrates the evolution of significant management perspectives over time. The timeline reflects the dominant time period for each approach, but elements of each are still used in today's organizations.¹¹

EXHIBIT 2.1 Management Perspectives Over Time



Remember This

- Managers are always on the lookout for new techniques and approaches to meet shifting organizational needs.
- Looking at history gives managers a broader perspective for interpreting and responding to current opportunities and problems.
- Management and organizations are shaped by forces in the larger society.
- **Social forces** are aspects of a society that guide and influence relationships among people, such as their values, needs, and standards of behavior.
- **Political forces** relate to the influence of political and legal institutions on people and organizations.
- The increased role of government in business is one example of a political force.
- **Economic forces** affect the availability, production, and distribution of a society's resources.

Classical Perspective

The practice of management can be traced to 3000 B.C., to the first government organizations developed by the Sumerians and Egyptians, but the formal study of management is relatively recent.¹² The early study of management as we know it today began with what is now called the **classical perspective**.

The classical perspective on management emerged during the nineteenth and early twentieth centuries. The factory system that began to appear in the 1800s posed challenges that earlier organizations had not encountered. Problems arose in tooling the plants, organizing managerial structure, training employees (many of them non-English-speaking immigrants), scheduling complex manufacturing operations, and dealing with increased labor dissatisfaction and resulting strikes.

These myriad new problems and the development of large, complex organizations demanded a new approach to coordination and control, and a "new sub-species of economic man—the salaried manager"¹³—was born. Between 1880 and 1920, the number of professional managers in the United States grew from 161,000 to more than 1 million.¹⁴ These professional managers began developing and testing solutions to the mounting challenges of organizing, coordinating, and controlling large numbers of people and increasing worker productivity. Thus began the evolution of modern management with the classical perspective.

This perspective contains three subfields, each with a slightly different emphasis: scientific management, bureaucratic organizations, and administrative principles.¹⁵

SCIENTIFIC MANAGEMENT

Scientific management emphasizes scientifically determined jobs and management practices as the way to improve efficiency and labor productivity. In the late 1800s, a young engineer, Frederick Winslow Taylor (1856–1915), proposed that workers "could be retooled like machines, their physical and mental gears recalibrated for better productivity."¹⁶ Taylor insisted that improving productivity meant that management itself would have to change and, further, that the manner of change could be determined only by scientific study; hence, the label *scientific management* emerged.

Concept Connection



The Granger Collection, New York

Frederick Winslow Taylor (1856–1915).

Taylor's theory that labor productivity could be improved by scientifically determined management practices earned him the title of "father of scientific management."

Taylor suggested that decisions based on rules of thumb and tradition be replaced with precise procedures developed after careful study of individual situations.¹⁷

The scientific management approach is illustrated by the unloading of iron from rail cars and reloading finished steel for the Bethlehem Steel plant in 1898. Taylor calculated that with the correct movements, tools, and sequencing, each man was capable of loading 47.5 tons per day instead of the typical 12.5 tons. He also worked out an incentive system that paid each man \$1.85 a day for meeting the new standard, an increase from the previous rate of \$1.15. Productivity at Bethlehem Steel shot up overnight.

Although known as the *father of scientific management*, Taylor was not alone in this area. Henry Gantt, an associate of Taylor's, developed the *Gantt chart*, a bar graph that measures planned and completed work along each stage of production by time elapsed. Two other important pioneers in this area were the husband-and-wife team of Frank B. and Lillian M. Gilbreth. Frank B. Gilbreth (1868–1924) pioneered *time and motion study* and arrived at many of his management techniques independent of Taylor. He stressed efficiency and was known for his quest for the one best way to do work. Although Gilbreth is known for his early work with bricklayers, his work had great impact on medical surgery by drastically reducing the time that patients spent on the operating table. Surgeons were able to save countless lives through the application of time and motion study. Lillian M. Gilbreth (1878–1972) was more interested in the human aspect of work. When her husband died at the age of 56, she had 12 children ages 2 to 19. The undaunted "first lady of management" went right on with her work. She presented a paper in place of her late husband, continued their seminars and consulting, lectured, and eventually became a professor at Purdue University.¹⁸ She pioneered in the field of industrial psychology and made substantial contributions to human resource management.

Exhibit 2.2 shows the basic ideas of scientific management. To use this approach, managers should develop standard methods for doing each job, select workers with the appropriate abilities, train workers in the standard methods, support workers and eliminate interruptions, and provide wage incentives.

General Approach

- Developed standard method for performing each job
- Selected workers with appropriate abilities for each job
- Trained workers in standard methods
- Supported workers by planning their work and eliminating interruptions
- Provided wage incentives to workers for increased output

Contributions

- Demonstrated the importance of compensation for performance
- Initiated the careful study of tasks and jobs
- Demonstrated the importance of personnel selection and training

Criticisms

- Did not appreciate the social context of work and higher needs of workers
- Did not acknowledge variance among individuals
- Tended to regard workers as uninformed and ignored their ideas and suggestions

▶▶▶ Concept Connection



Rue des Archives/The Granger Collection, New York

Automaker Henry Ford made extensive use of Frederick Taylor's **scientific management** techniques, as illustrated by this assembly of an automobile at a Ford plant circa 1930. Ford replaced workers with machines for heavy lifting and moving autos from one worker to the next. This reduced worker hours and improved efficiency and productivity. Under this system, a Ford car rolled off the assembly line every 10 seconds.

EXHIBIT 2.2

Characteristics of Scientific Management

The ideas of scientific management that began with Taylor dramatically increased productivity across all industries, and they are still important today. Indeed, the idea of engineering work for greater productivity has enjoyed a renaissance in the retail industry. Supermarket chains such as Meijer Inc. and Hannaford, for example, use computerized labor waste elimination systems based on scientific management principles. The system breaks down tasks such as greeting a customer, working the register, scanning items, and so forth, into quantifiable units and devises standard times to complete each task. Executives say the computerized system has allowed them to staff stores more efficiently because people are routinely monitored by computer and are expected to meet strict standards.¹⁹

A *Harvard Business Review* article discussing innovations that shaped modern management puts scientific management at the top of its list of 12 influential innovations. Indeed, the ideas of creating a system for maximum efficiency and organizing work for maximum productivity are deeply embedded in our organizations.²⁰ However, because scientific management ignores the social context and workers' needs, it can lead to increased conflict and clashes between managers and employees. The United Food and Commercial Workers Union, for instance, filed a grievance against Meijer in connection with its cashier-performance system. Under such performance management systems, workers often feel exploited—a sharp contrast from the harmony and cooperation that Taylor and his followers had envisioned.

BUREAUCRATIC ORGANIZATIONS

A systematic approach developed in Europe that looked at the organization as a whole is the **bureaucratic organizations approach**, a subfield within the classical perspective. Max Weber (1864–1920), a German theorist, introduced most of the concepts on bureaucratic organizations.²¹

During the late 1800s, many European organizations were managed on a personal, familylike basis. Employees were loyal to a single individual rather than to the organization or its mission. The dysfunctional consequence of this management practice was that resources were used to realize individual desires rather than organizational goals. Employees in effect owned the organization and used resources for their own gain rather than to serve customers. Weber envisioned organizations that would be managed on an impersonal, rational basis. This form of organization was called a *bureaucracy*. Exhibit 2.3 summarizes the six characteristics of bureaucracy as specified by Weber.

Weber believed that an organization based on rational authority would be more efficient and adaptable to change because continuity is related to formal structure and positions rather than to a particular person, who may leave or die. To Weber, rationality in organizations meant employee selection and advancement based not on whom you know, but rather on competence and technical qualifications, which are assessed by examination or according to specific training and experience. The organization relies on rules and written records for continuity. In addition, rules and procedures are impersonal and applied uniformly to all employees. A clear division of labor arises from distinct definitions of authority and responsibility, legitimized as official duties. Positions are organized in a hierarchy, with each position under the authority of a higher one. The manager gives orders successfully not on the basis of his or her personality, but on the legal power invested in the managerial position.

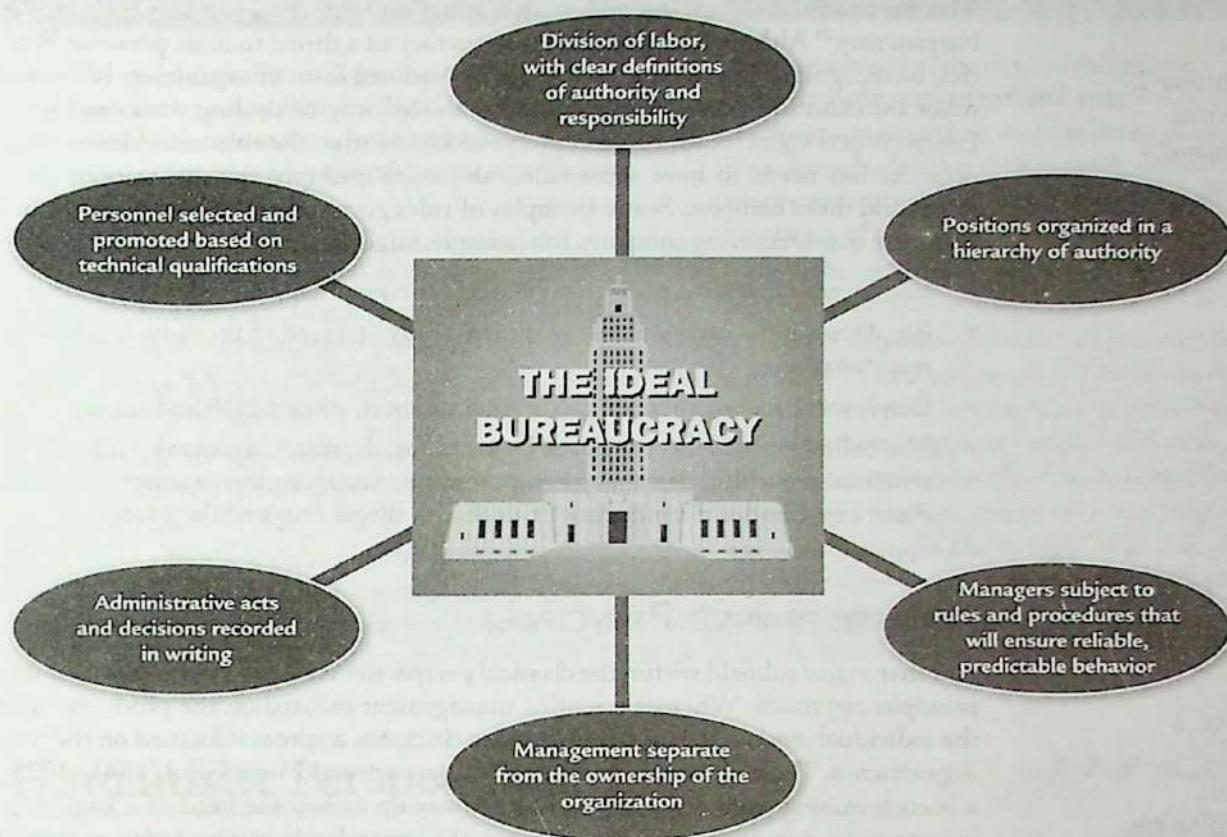
The term *bureaucracy* has taken on a negative meaning in today's organizations and is associated with endless rules and red tape. We have all been frustrated by waiting in long lines or following seemingly silly procedures. However, the value of bureaucratic principles is still evident in many organizations, such as United Parcel Service (UPS), sometimes nicknamed *Big Brown*.

"Students would be more likely to have a positive impact on the future of management if they were more engaged with the history and traditions of management—particularly that of a German sociologist [Weber] who died nearly 100 years ago."

—STEPHEN CUMMINGS AND TODD BRIDGMAN, VICTORIA UNIVERSITY OF WELLINGTON, NEW ZEALAND

EXHIBIT 2.3

Characteristics of Weberian Bureaucracy



SOURCE: Adapted from Max Weber, *The Theory of Social and Economic Organizations*, ed. and trans. A. M. Henderson and Talcott Parsons (New York: Free Press, 1947), pp. 328–337.

Innovative Way UPS

UPS is the largest package delivery company in the world and a leading global provider of specialized transportation and logistics services. The company operates in more than 200 countries and territories worldwide.

Why has UPS been so successful? One important factor is the concept of bureaucracy. UPS operates according to strict rules and regulations. It teaches drivers an astounding 340 steps for how to deliver a package correctly, such as how to load the truck, how to fasten their seat belts, how to walk, and how to carry their keys. Specific safety rules apply to drivers, loaders, clerks, and managers. Strict dress codes are enforced—clean uniforms (called *browns*), every day, black or brown polished shoes with nonslip soles, no beards, no hair below the collar, no tattoos visible during deliveries, and so on. Before each shift, drivers conduct a “Z-scan,” a Z-shaped inspection of the sides and front of their vehicles. Employees are asked to clean off their desks at the end of each day so they can start fresh the next morning. Managers are given copies of policy books with the expectation that they will use them regularly, and memos on various policies and rules circulate by the hundreds every day.

UPS has a well-defined division of labor. Each plant consists of specialized drivers, loaders, clerks, washers, sorters, and maintenance personnel. UPS thrives on written records, and it has been a leader in using new technology to enhance reliability and efficiency. All drivers have daily worksheets that specify performance goals and work output. Technical qualification is the criterion for hiring and promotion. The UPS policy book says the leader is expected to have the knowledge and capacity to justify the position of leadership. Favoritism is forbidden. The bureaucratic model works just fine at UPS, “the tightest ship in the shipping business.”²²

Take Moment

Read the Ethical Dilemma for Chapter 1 on pages 43–44 that pertains to problems with bureaucracy.

As this example shows, there are positive as well as negative aspects associated with bureaucratic principles. Weber also struggled with the good and bad sides of bureaucracy.²³ Although he perceived bureaucracy as a threat to basic personal liberties, he recognized it as the most efficient and rational form of organizing. Rules and other bureaucratic procedures provide a standard way of dealing with employees. Everyone gets equal treatment, and everyone knows what the rules are. Almost every organization needs to have some rules, and rules multiply as organizations grow larger and more complex. Some examples of rules governing employee behavior in a furniture manufacturing company, for example, might include:²⁴

- Employees must wear protective eye and ear equipment when using machines.
- Employees must carry out any reasonable duty assigned to them, including shop maintenance.
- Employees must maintain an accurate time sheet, showing job and activity.
- The following will be considered causes for dismissal: excessive tardiness or absenteeism; willful damage to equipment; continual careless or unsafe behavior; staff being under the influence of alcohol or illegal drugs while at work.

Take Moment

What would it be like for you to be a manager in a bureaucratic organization? Complete the Experiential Exercise on pages 57–58 to find out if you would thrive in that type of environment.

ADMINISTRATIVE PRINCIPLES

Another major subfield within the classical perspective is known as the administrative principles approach. Whereas scientific management focused on the productivity of the individual worker, the administrative principles approach focused on the total organization. The major contributor to this approach was Henri Fayol (1841–1925), a French mining engineer who worked his way up to become head of a large mining group known as Comembault. Pieces of Comembault survive today as part of ArcelorMittal, the world's largest steel and mining company. In his later years, Fayol wrote down his concepts on administration, based largely on his own management experiences.²⁵

In his most significant work, *General and Industrial Management*, Fayol discussed 14 general principles of management, several of which are part of management philosophy today. For example:

- *Unity of command.* Each subordinate receives orders from one—and only one—superior.
- *Division of work.* Managerial work and technical work are amenable to specialization to produce more and better work with the same amount of effort.
- *Unity of direction.* Similar activities in an organization should be grouped together under one manager.
- *Sector chain.* A chain of authority extends from the top to the bottom of the organization and should include every employee.

Fayol felt that these principles could be applied in any organizational setting. He also identified five basic functions or elements of management: planning, organizing, commanding, coordinating, and controlling. These functions underlie much of the general approach to today's management theory.

The overall classical perspective as an approach to management was very powerful and gave companies fundamental new skills for establishing high productivity and effective treatment of employees. Indeed, the United States surged ahead of the world in management techniques, and other countries, especially Japan, borrowed heavily from American ideas.

Remember This

- The study of modern management began in the late nineteenth century with the **classical perspective**, which took a rational, scientific approach to management and sought to turn organizations into efficient operating machines.
- Scientific management** is a subfield of the classical perspective that emphasizes scientifically determined changes in management practices as the solution to improving labor productivity.
- Frederick Winslow Taylor is known as “the father of scientific management.”
- Scientific management is considered one of the most significant innovations influencing modern management.
- Some supermarket chains are using computerized systems based on scientific management principles to schedule employees for maximum efficiency.
- Another subfield of the classical perspective is the **bureaucratic organizations approach**, which emphasizes management on an impersonal, rational basis through elements such as clearly defined authority and responsibility, formal recordkeeping, and separation of management and ownership.
- Max Weber introduced most of the concepts about bureaucratic organizations.
- The **administrative principles approach** is a subfield of the classical perspective that focuses on the total organization rather than the individual worker and delineates the management functions of planning, organizing, commanding, coordinating, and controlling.
- Henri Fayol, a major contributor to the administrative principles approach, outlined 14 general principles of management, several of which are a part of management philosophy today.

Humanistic Perspective

The **humanistic perspective** on management emphasized the importance of understanding human behaviors, needs, and attitudes in the workplace, as well as social interactions and group processes.²⁶ There are three primary subfields based on the humanistic perspective: the human relations movement, the human resources perspective, and the behavioral sciences approach.

EARLY ADVOCATES

Two early advocates of a more humanistic approach were Mary Parker Follett and Chester Barnard. Mary Parker Follett (1868–1933) was trained in philosophy and political science, but she applied herself in many fields, including social psychology and management. She wrote of the importance of common superordinate goals for reducing conflict in organizations.²⁷ Her work was popular with businesspeople of her day but was often overlooked by management scholars.²⁸ Follett's ideas served as a contrast to scientific management and are re-emerging as applicable for modern managers dealing with rapid changes in today's global environment. Her approach to leadership stressed the importance of people rather than engineering techniques. She offered the pithy admonition, “Don't hug your blueprints,” and analyzed the dynamics of management-organization interactions. Follett addressed issues that are timely today, such as ethics, power, and leading in a way that encourages employees to give their best. The concepts of *empowerment*, facilitating rather than controlling employees, and allowing employees to act depending on the authority of the situation opened new areas for theoretical study by Chester Barnard and others.²⁹

Mary Parker Follett Foundation and Reading University, UK



Mary Parker Follett (1868–1933). Follett was an early advocate of the **humanistic perspective** on management. Her emphasis on worker participation and shared goals among managers was embraced by many businesspeople of the day and has been recently “rediscovered” by corporate America.

Concept

Connection

Concept Connection



National Archives

This 1914 photograph shows the initiation of a new arrival at a Nebraska planting camp. This initiation was not part of the formal rules and illustrates the significance of the **informal organization** described by Barnard. Social values and behaviors were powerful forces that could help or hurt the planting organization, depending on how they were managed.

Take a Moment

Before reading on, take the New Manager Self-Test on page 46. This test will give you feedback about your personal approach to getting things done through others.

Chester I. Barnard (1886–1961) studied economics at Harvard but failed to receive a degree because he did not take a course in laboratory science. He went to work in the statistical department of AT&T, and in 1927, he became president of New Jersey Bell. One of Barnard's significant contributions was the concept of the informal organization. The *informal organization* occurs in all formal organizations and includes cliques, informal networks, and naturally occurring social groupings. Barnard argued that organizations are not machines and stressed that informal relationships are powerful forces that can help the organization if properly managed. Another significant contribution was the *acceptance theory of authority*, which states that people have free will and can choose whether to follow management orders. People typically follow orders because they perceive positive benefit to themselves, but they do have a choice. Managers should treat employees properly because their acceptance of authority may be critical to organization success in important situations.³⁰

HUMAN RELATIONS MOVEMENT

The **human relations movement** was based on the idea that truly effective control comes from within the individual worker rather than from strict, authoritarian control.³¹ This school of thought recognized and directly responded to social pressures for enlightened treatment of employees. The early work on industrial psychology and personnel selection received little attention because of the prominence of scientific management. Then a series of studies at a Chicago electric company, which came to be known as the **Hawthorne studies**, changed all that.

Beginning about 1895, a struggle developed between manufacturers of gas and electric lighting fixtures for control of the residential and industrial market.³² By 1909, electric lighting had begun to win, but the increasingly efficient electric fixtures used less total power, which was less profitable for the electric companies. The electric companies began a campaign to convince industrial users that they needed more light to get more productivity. When advertising did not work, the industry began using experimental tests to demonstrate their argument. Managers were skeptical about the results, so the Committee on Industrial Lighting (CIL) was set up to run the tests. To further add to the tests' credibility, Thomas Edison was made honorary chairman of the CIL. In one test location—the Hawthorne plant of the Western Electric Company—some interesting events occurred.

The major part of this work involved four experimental and three control groups. In all, five different tests were conducted. These pointed to the importance of factors other than illumination in affecting productivity. To examine these factors more carefully, numerous other experiments were conducted.³³ The results of the most famous study, the first Relay Assembly Test Room (RATR) experiment, were extremely controversial. Under the guidance of two Harvard professors, Elton Mayo and Fritz Roethlisberger, the RATR studies lasted nearly six years (May 10, 1927 to May 4, 1933) and involved 24 separate experimental periods. So many factors were changed and so many unforeseen factors uncontrolled that scholars disagree on the factors that truly contributed to the general increase in performance over that time period. Most early interpretations, however, agreed on one point: Money was not the cause of the increased output.³⁴ It was believed that the factor that best explained increased output was *human relations*. Employees performed better when managers treated them in a positive manner. Recent re-analyses of the experiments have revealed that a number of factors were different for the workers involved, and some suggest that money may well have been the single most important factor.³⁵ An interview with one of the original participants revealed that just getting into the experimental group meant a huge increase in income.³⁶

These new data clearly show that money mattered a great deal at Hawthorne. In addition, worker productivity increased partly as a result of the increased feelings of importance and group pride that employees felt by virtue of being selected for this important project.³⁷ One unintended contribution of the experiments was a rethinking of field research practices. Researchers and scholars realized that the researcher can influence the outcome of an experiment by being too closely involved with research subjects. This phenomenon has come to be known as the *Hawthorne effect* in research methodology. Subjects behaved differently because of the active participation of researchers in the Hawthorne experiments.³⁸

From a historical perspective, whether the studies were academically sound is less important than the fact that they stimulated an increased interest in looking at employees as more than extensions of production machinery. The interpretation that employees' output increased when managers treated them in a positive manner started a revolution in worker treatment for improving organizational productivity. Despite flawed methodology or inaccurate conclusions, the findings provided the impetus for the human relations movement. This approach shaped management theory and practice for well over a quarter-century, and the belief that human relations is the best area of focus for increasing productivity persists today.

►►► Concept Connection



Western Electric Photographic Services

This is the Relay Room of the Western Electric Hawthorne, Illinois, plant in 1927. Six women worked in this relay assembly test room during the controversial experiments on employee productivity. Professors Mayo and Roethlisberger evaluated conditions such as rest breaks and workday length, physical health, amount of sleep, and diet. Experimental changes were fully discussed with the women and were abandoned if they disapproved. Gradually the researchers began to realize they had created a change in supervisory style and **human relations**, which they believed was the true cause of the increased productivity.

HUMAN RESOURCES PERSPECTIVE

The human relations movement initially espoused a *dairy farm* view of management—just as contented cows give more milk, satisfied workers will produce more work. Gradually, views with deeper content began to emerge. The **human resources perspective** maintained an interest in worker participation and considerate leadership but shifted the emphasis to consider the daily tasks that people perform. The human resources perspective combines prescriptions for design of job tasks with theories of motivation.³⁹ In the human resources view, jobs should be designed so that tasks are not perceived as dehumanizing or demeaning but instead allow workers to use their full potential. Two of the best-known contributors to the human resources perspective were Abraham Maslow and Douglas McGregor.

Abraham Maslow (1908–1970), a practicing psychologist, observed that his patients' problems usually stemmed from an inability to satisfy their needs. Thus, he generalized his work and suggested a hierarchy of needs. Maslow's hierarchy started with physiological needs and progressed to safety, belongingness, esteem, and, finally, self-actualization needs. Chapter 16 discusses his ideas in more detail.

Douglas McGregor (1906–1964) had become frustrated with the early simplistic human relations notions while president of Antioch College in Ohio. He challenged both the classical perspective and the early human relations assumptions about human behavior. Based on his experiences as a manager and consultant, his training as a psychologist, and the work of Maslow, McGregor formulated Theory X and Theory Y, which are explained in Exhibit 2.4.⁴⁰ McGregor believed that the classical perspective was based on Theory X assumptions about workers. He also felt that a slightly modified version of

New Manager

Self-Test

What's Your Mach?

Instructions: Managers differ in how they view human nature and the tactics that they use to get things done through others. Answer the questions below based on how you view others. Think carefully about each question and be honest about what you feel inside. Please answer whether each item below is Mostly False or Mostly True for you.

	Mostly True	Mostly False
1. Overall, it is better to be humble and honest than to be successful and dishonest.	_____	_____
2. If you trust someone completely, you are asking for trouble.	_____	_____
3. A leader should take action only when it is morally right.	_____	_____
4. A good way to handle people is to tell them what they like to hear.	_____	_____
5. There is no excuse for telling a white lie to someone.	_____	_____
6. It makes sense to flatter important people.	_____	_____
7. Most people who get ahead as leaders have led very moral lives.	_____	_____
8. It is better not to tell people the real reason you did something unless it benefits you to do so.	_____	_____
9. The vast majority of people are brave, good, and kind.	_____	_____
10. It is hard to get to the top without sometimes cutting corners.	_____	_____

Scoring and Interpretation: To compute your Mach score, give yourself one point for each Mostly False answer to items 1, 3, 5, 7, and 9, and one point for each Mostly True answer to items 2, 4, 6, 8, and 10. These items were drawn from the works of Niccoló Machiavelli, an Italian political philosopher who wrote *The Prince* in 1513 to describe how a prince can retain control of his kingdom. Successful management intrigue at the time of Machiavelli was believed to require behaviors that today would be considered ego-centered and manipulative, which is almost the opposite of more enlightened management that arose from the human relations movement. A score of 8–10 points suggests that you have a high Mach score. From 4–7 points indicates a moderate score, and 0–3 points would indicate a low Mach score. Having a high Mach score does not mean that the individual is a sinister or vicious person, but it probably means that he or she has a cool detachment, sees life as a game, and is not personally engaged with other people. Discuss your results with other students, and talk about whether you think politicians and top executives would have a high or a low Mach score.

Source: Adapted from R. Christie and F. L. Geis, *Studies in Machiavellianism* (New York: Academic Press, 1970).

Theory X fit early human relations ideas. In other words, human relations ideas did not go far enough. McGregor proposed Theory Y as a more realistic view of workers for guiding management thinking.

The point of Theory Y is that organizations can take advantage of the imagination and intellect of all their employees. Employees will exercise self-control and will contribute to organizational goals when given the opportunity. A few companies today still use Theory X management, but many are using Theory Y techniques. Consider how Semco applies Theory Y assumptions to tap into employee creativity and mind power.

EXHIBIT 2.4

Theory X and Theory Y

Assumptions of Theory X

- The average human being has an inherent dislike of work and will avoid it if possible.
- Because of the human characteristic of dislike for work, most people must be coerced, controlled, directed, or threatened with punishment to get them to put forth adequate effort toward the achievement of organizational objectives.
- The average human being prefers to be directed, wishes to avoid responsibility, has relatively little ambition, and wants security above all.

Assumptions of Theory Y

- The expenditure of physical and mental effort in work is as natural as play or rest. The average human being does not inherently dislike work.
- External control and the threat of punishment are not the only means for bringing about effort toward organizational objectives. A person will exercise self-direction and self-control in the service of objectives to which he or she is committed.
- The average human being learns, under proper conditions, not only to accept but to seek responsibility.
- The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organizational problems is widely, not narrowly, distributed in the population.
- Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilized.

SOURCE: Douglas McGregor, *The Human Side of Enterprise* (New York: McGraw-Hill, 1960), pp. 33–48. (c) McGraw-Hill Companies, Inc. Reprinted by permission.

The Brazil-based company Semco's fundamental operating principle is to harness the wisdom of all its employees. It does so by letting people control their work hours, location, and even pay plans. Employees also participate in all organizational decisions, including what businesses Semco should pursue.

Semco leaders believe that economic success requires creating an atmosphere that puts power and control directly in the hands of employees. People can veto any new product idea or business venture. They choose their own leaders and manage themselves to accomplish goals. Information is openly and broadly shared so that everyone knows where they and the company stand. Instead of dictating Semco's identity and strategy, leaders allow it to be shaped by individual interests and efforts. People are encouraged to seek challenges, explore new ideas and business opportunities, and question the ideas of anyone in the company.

This high level of trust in employees has helped Semco achieve decades of high profitability and growth despite fluctuations in the economy and shifting markets. "At Semco, we don't play by the rules," says Ricardo Semler. Semler, whose father started the company in the 1950s, says it doesn't unnerve him to "step back and see nothing on the company's horizon." He is happy to watch the company and its employees "ramble through their days, running on instinct and opportunity..."⁴¹

Innovative Way Semco

For managers like Ricardo Semler, command and control is a thing of the past, with the future belonging to those companies that build leadership throughout the organization. The Theory Y approach has helped Semco succeed in a tough environment. Although few go as far as Semco, other companies are also using Theory Y principles that are more in line with today's emphasis on employee empowerment and involvement.

BEHAVIORAL SCIENCES APPROACH

The behavioral sciences approach uses scientific methods and draws from sociology, psychology, anthropology, economics, and other disciplines to develop theories

Take a Moment

Look back at your scores on the questionnaire at the beginning of this chapter related to Theory X and Theory Y. How will your management assumptions about people fit into an organization today?

about human behavior and interaction in an organizational setting. This approach can be seen in practically every organization. When a company such as Zappos.com conducts research to determine the best set of tests, interviews, and employee profiles to use when selecting new employees, it is using behavioral science techniques. When Best Buy electronics stores train new managers in the techniques of employee motivation, most of the theories and findings are rooted in behavioral science research.

One specific set of management techniques based in the behavioral sciences approach is *organization development* (OD). In the 1970s, OD evolved as a separate field that applied the behavioral sciences to improve the organization's health and effectiveness through its ability to cope with change, improve internal relationships, and increase problem-solving capabilities.⁴² The techniques and concepts of OD have since been broadened and expanded to address the increasing complexity of organizations and the environment, and OD is still a vital approach for managers. OD will be discussed in detail in Chapter 11. Other concepts that grew out of the behavioral sciences approach include matrix organizations, self-managed teams, ideas about corporate culture, and management by wandering around. Indeed, the behavioral sciences approach has influenced the majority of tools, techniques, and approaches that managers have applied to organizations since the 1970s.

All the remaining chapters of this book contain research findings and management applications that can be attributed to the behavioral sciences approach.

Remember This

- The **humanistic perspective** emphasized understanding human behavior, needs, and attitudes in the workplace.
- Mary Parker Follett and Chester Barnard were early advocates of a more humanistic approach to management.
- Follett emphasized worker participation and empowerment, shared goals, and facilitating rather than controlling employees. Barnard's contributions include the acceptance theory of authority.
- The **human relations movement** stresses the satisfaction of employees' basic needs as the key to increased productivity.
- The **Hawthorne studies** were important in shaping ideas concerning how managers should treat workers.
- The **human resources perspective** suggests that jobs should be designed to meet people's higher-level needs by allowing employees to use their full potential.
- The **behavioral sciences approach** draws from psychology, sociology, and other social sciences to develop theories about human behavior and interaction in an organizational setting.
- Many current management ideas and practices can be traced to the behavioral sciences approach.

Management Science

World War II caused many management changes. The massive and complicated problems associated with modern global warfare presented managerial decision makers with the need for more sophisticated tools than ever before. **Management science**, also referred to as the *quantitative perspective*, provided a way to address those problems. This view is distinguished for its application of mathematics, statistics, and other quantitative techniques to management decision making and problem solving. During World War II, groups of mathematicians, physicists, and other scientists were formed to solve military problems that frequently involved moving massive amounts of materials and large numbers of people quickly and efficiently. Managers soon saw how quantitative techniques could be applied to large-scale business firms.⁴³

Management scholar Peter Drucker's 1946 book *Concept of the Corporation* sparked a dramatic increase in the academic study of business and management. Picking up on techniques developed for the military, scholars began cranking out numerous mathematical tools for corporate managers, such as the application of linear programming for optimizing operations, statistical process control for quality management, and the capital asset pricing model.⁴⁴

These efforts were enhanced with the development and perfection of the computer. Coupled with the growing body of statistical techniques, computers made it possible for managers to collect, store, and process large volumes of data for quantitative decision making, and the quantitative approach is widely used today by managers in a variety of industries. The Walt Disney Company used quantitative techniques to develop FASTPASS, a sophisticated computerized system that spares parents the ordeal of standing in long lines for the most popular rides. Disney theme parks have machines that issue coupons with a return time that's been calculated based on the number of people standing in the actual line, the number who have already obtained passes, and each ride's capacity. The next generation of technology, xPass, will let visitors book times for rides before they even leave home.⁴⁵ Let's look at three subsets of management science.

Operations research grew directly out of the World War II military groups (called *operational research teams* in Great Britain and *operations research teams* in the United States).⁴⁶ It consists of mathematical model building and other applications of quantitative techniques to managerial problems.

Operations management refers to the field of management that specializes in the physical production of goods or services. Operations management specialists use management science to solve manufacturing problems. Some commonly used methods are forecasting, inventory modeling, linear and nonlinear programming, queuing theory, scheduling, simulation, and break-even analysis.

Information technology (IT) is the most recent subfield of management science, which is often reflected in management information systems designed to provide relevant information to managers in a timely and cost-efficient manner. IT has evolved to include intranets and extranets, as well as various software programs that help managers estimate costs, plan and track production, manage projects, allocate resources, or schedule employees. Most of today's organizations have IT specialists who use quantitative techniques to solve complex organizational problems.

However, as events in the mortgage and finance industries show, relying too heavily on quantitative techniques can cause problems for managers. Mortgage companies used quantitative models that showed their investments in subprime mortgages would be okay even if default rates hit historically high proportions. However, the models didn't take into account that no one before in history had thought it made sense to give \$500,000 loans to people making minimum wage!⁴⁷ "Quants" also came to dominate organizational decisions in other financial firms. The term **quants** refers to financial managers and others who base their decisions on complex quantitative analysis, under the assumption that using advanced mathematics and sophisticated computer technology can accurately predict how the market works and help them reap huge profits. The virtually exclusive use of these quantitative models led aggressive traders and managers to take enormous risks. When the market began to go haywire as doubts about subprime mortgages grew, the models went haywire as well. Stocks predicted to go up went down, and vice versa. Events that were predicted to happen only once every 10,000 years happened three days in a row in the market madness. Scott Patterson, a *Wall Street Journal* reporter and author of *The Quants: How a New Breed of Math Whizzes Conquered Wall Street and Nearly Destroyed It*, suggests that the financial crisis that began in 2008 is partly due to the quants' failure to observe market fundamentals, pay attention to human factors, and heed their own intuition.⁴⁸

Remember This

- Management science became popular based on its successful application in solving military problems during World War II.
- **Management science**, also called the *quantitative perspective*, uses mathematics, statistical techniques, and computer technology to facilitate management decision making, particularly for complex problems.
- The Walt Disney Company uses management science to solve the problem of long lines for popular rides and attractions at its theme parks.
- Three subsets of management science are operations research, operations management, and information technology.
- **Quants** have come to dominate decision making in financial firms, and the Wall Street meltdown in 2007–2008 shows the danger of relying too heavily on a quantitative approach.
- Management scholar Peter Drucker's classic 1946 book *Concept of the Corporation* sparked a dramatic increase in the academic study of business and management.

Recent Historical Trends

Despite recent heavy use of management science techniques by some managers, among the approaches that we've discussed so far the humanistic perspective has remained most prevalent from the 1950s until today. The post–World War II period saw the rise of new concepts, along with a continued strong interest in the human aspect of managing, such as team and group dynamics and other ideas that relate to the humanistic perspective. Three new concepts that appeared were systems thinking, the contingency view, and total quality management.

SYSTEMS THINKING

Systems thinking is the ability to see both the distinct elements of a system or situation and the complex and changing interaction among those elements. A **system** is a set of interrelated parts that function as a whole to achieve a common purpose.⁴⁹ **Subsystems** are parts of a system, such as an organization, that depend on one another. Changes in one part of the system (the organization) affect other parts. Managers need to understand the synergy of the whole organization, rather than just the separate elements, and to learn to reinforce or change whole system patterns.⁵⁰ **Synergy** means that the whole is greater than the sum of its parts. The organization must be managed as a coordinated whole. Managers who understand subsystem interdependence and synergy are reluctant to make changes that do not recognize subsystem impact on the organization as a whole.

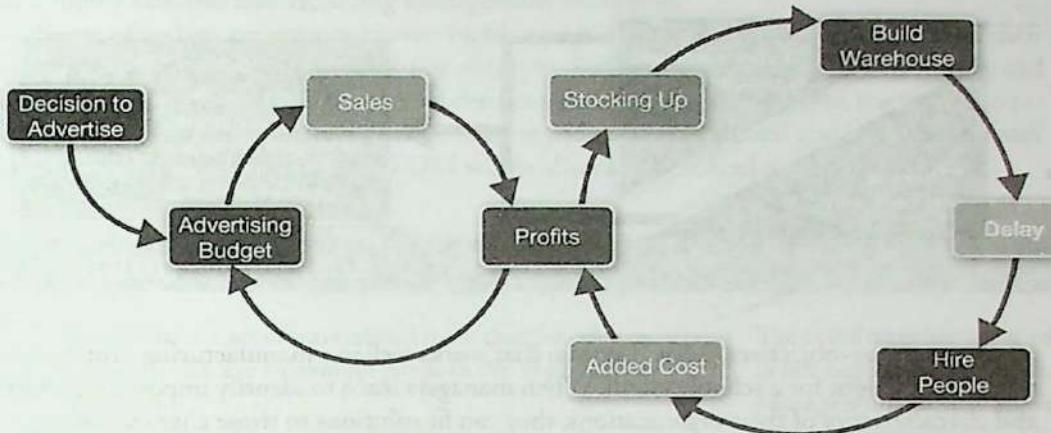
Many people have been trained to solve problems by breaking a complex system, such as an organization, into discrete parts and working to make each part perform as well as possible. However, the success of each piece does not add up to the success of the whole. In fact, sometimes changing one part to make it better actually makes the whole system function less effectively. For example, a small city embarked on a road-building program to solve traffic congestion without whole-systems thinking. With new roads available, more people began moving to the suburbs. Rather than reduce congestion, the solution actually increased traffic congestion, delays, and pollution by enabling suburban sprawl.⁵¹

It is the *relationship* among the parts that form a whole system—whether a community, an automobile, a nonprofit agency, a human being, or a business organization—that matters. Systems thinking enables managers to look for patterns of movement over time and focus on the qualities of rhythm, flow, direction, shape, and networks of relationships that accomplish the performance of the whole. When managers can see the structures that underlie complex situations, they can facilitate improvement. But doing that requires a focus on the big picture.

An important element of systems thinking is to discern circles of causality. Peter Senge, author of *The Fifth Discipline*, argues that reality is made up of circles rather than straight

EXHIBIT 2.5

Systems Thinking and Circles of Causality



SOURCE: Based on concepts presented in Peter M. Senge, *The Fifth Discipline: The Art and Practice of the Learning Organization* (New York: Doubleday/Currency, 1990).

lines. For example, Exhibit 2.5 shows circles of influence for increasing a retail firm's profits. The events in the circle on the left are caused by the decision to increase advertising; hence the retail firm adds to the advertising budget to aggressively promote its products. The advertising promotions increase sales, which increase profits, which provide money to further increase the advertising budget.

But another circle of causality is being influenced as well. The decision by marketing managers will have consequences for the operations department. As sales and profits increase, operations will be forced to stock up with greater inventory. Additional inventory will create a need for additional warehouse space. Building a new warehouse will cause a delay in stocking up. After the warehouse is built, new people will be hired, all of which adds to company costs, which will have a negative impact on profits. Thus, understanding all the consequences of their decisions via circles of causality enables company leaders to plan and allocate resources to warehousing as well as to advertising to ensure stable increases in sales and profits. Without understanding system causality, top managers would fail to understand why increasing advertising budgets could cause inventory delays and temporarily reduce profits.

CONTINGENCY VIEW

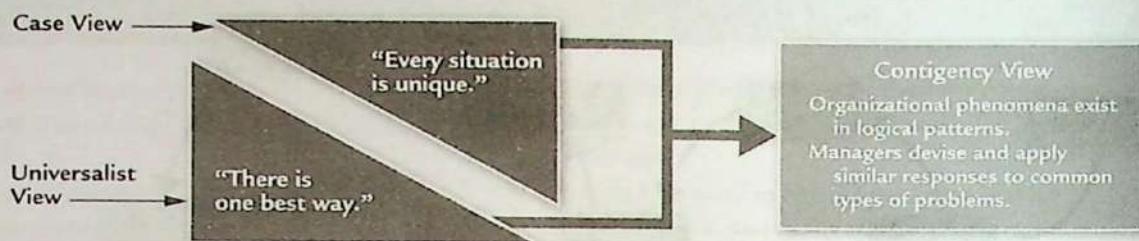
A second recent extension to management thinking is the **contingency view**. The classical perspective assumed a *universalist* view. Management concepts were thought to be universal; that is, whatever worked in terms of management style, bureaucratic structure, and so on in one organization would work in any other one. In business education, however, an alternative view exists. In this *case* view, each situation is believed to be unique. Principles are not universal, and one learns about management by experiencing a large number of case problem situations. Managers face the task of determining what methods will work in every new situation.

To integrate these views, the contingency view emerged, as illustrated in Exhibit 2.6.⁵² Here, neither of the other views is seen as entirely correct. Instead, certain contingencies, or variables, exist for helping managers identify and understand situations. The contingency view tells us that what works in one setting might not work in another. Contingency means that one thing depends on other things and a manager's response to a situation depends on identifying key contingencies in an organizational situation.

One important contingency, for example, is the industry in which the organization operates. The organizational structure that is effective for an Internet company, such as Google, would not be successful for a large auto manufacturer, such as Ford. A

EXHIBIT 2.6

Contingency View of Management



management-by-objectives (MBO) system that works well in a manufacturing firm, in turn, might not be right for a school system. When managers learn to identify important patterns and characteristics of their organizations, they can fit solutions to those characteristics.

Concept Connection <<<

Hyundai Motor Company's rise from 1 percent of the U.S. market in 1999 to about 9 percent of the U.S. market in 2011 shows how commitment to **total quality management** can improve a company's products and market position. First, managers increased the quality team from 100 to 865 people and held quality seminars to train employees. Then they **benchmarked** products, using vehicle lifts and high-intensity spotlights to compare against competing brands. Today, Hyundai earns quality ratings comparable to its main competitors, Honda and Toyota.

TOTAL QUALITY MANAGEMENT

The theme of quality is another concept that permeates current management thinking. The quality movement is strongly associated with Japanese companies, but these ideas emerged partly as a result of American influence after World War II. The ideas of W. Edwards Deming, known as the "father of the quality movement," were initially scoffed at in the United States, but the Japanese embraced his theories and modified them to help rebuild their industries into world powers.⁵³ Japanese companies achieved a significant departure from the American model by gradually shifting from an inspection-oriented approach to quality control toward an approach that emphasized employee involvement in the prevention of quality problems.⁵⁴

During the 1980s and into the 1990s, total quality management (TQM), which focuses on managing the total organization to deliver better quality to customers, moved to the forefront in helping U.S. managers deal with global competition. The approach infuses high-quality values throughout every activity within a company, with frontline workers intimately involved in the process. Four significant elements of quality management are employee involvement, focus on the customer, benchmarking, and continuous improvement, often referred to as *kaizen*.

Employee involvement means that achieving better quality requires companywide participation in quality control. All employees are focused on the customer; companies find out what customers want and try to meet their needs and expectations. *Benchmarking* refers to a process whereby companies find out how others do something better than they do and then try to imitate or improve on it. *Continuous improvement* is the implementation of small, incremental improvements in all areas of the organization on an ongoing basis. TQM is not a quick fix, but companies such as GE, Texas Instruments, Procter & Gamble, and DuPont achieved astonishing results in efficiency, quality, and customer satisfaction through total quality management.⁵⁵ TQM is still an

important part of today's organizations, and managers consider benchmarking in particular a highly effective and satisfying management technique.⁵⁶

Some of today's companies pursue highly ambitious quality goals to demonstrate their commitment to improving quality. For example, *Six Sigma*, popularized by Motorola and GE, specifies a goal of no more than 3.4 defects per million parts. However, the term also refers to a broad quality control approach that emphasizes a disciplined and relentless pursuit of higher quality and lower costs. TQM will be discussed in detail in Chapter 19.

Remember This

- A **system** is a set of interrelated parts that function as a whole to achieve a common purpose. An organization is a system.
- **Systems thinking** means looking not just at discrete parts of an organizational situation, but also at the continually changing interactions among the parts.
- When managers think systemically and understand subsystem interdependence and **synergy**, they can get a better handle on managing in a complex environment.
- **Subsystems** are parts of a system that depend on one another for their functioning.
- The concept of **synergy** says that the whole is greater than the sum of its parts. The organization must be managed as a whole.
- The **contingency view** tells managers that what works in one organizational situation might not work in others. Managers can identify important *contingencies* that help guide their decisions regarding the organization.
- The quality movement is associated with Japanese companies, but it emerged partly as a result of American influence after World War II.
- W. Edwards Deming is known as the "father of the quality movement."
- **Total quality management** focuses on managing the total organization to deliver quality to customers.
- Four significant elements of TQM are employee involvement, focus on the customer, benchmarking, and continuous improvement.

Innovative Management Thinking for a Changing World

All of the ideas and approaches discussed so far in this chapter go into the mix that makes up modern management. Dozens of ideas and techniques in current use can trace their roots to these historical perspectives.⁵⁷ In addition, innovative concepts continue to emerge to address new management challenges. Smart managers heed the past but know that they and their organizations have to change with the times. General Motors (GM) was the "ideal" organizational model in a post–World War II environment, but by 2009, it had collapsed into bankruptcy and sought billions of dollars in government aid because managers failed to pay attention as the world changed around them.⁵⁸ GM managers assumed that the preeminence of their company would shelter it from change, and they stuck far too long with a strategy, culture, and management approach that were out of tune with the shifting environment.

HOT
TOPIC

CONTEMPORARY MANAGEMENT TOOLS

Recall from the beginning of this chapter our discussion of *jugaad*, an approach to innovation management used in India that many U.S. managers are trying. Management fads and fashions come and go, but managers are always looking for new techniques and approaches that more adequately respond to customer needs and the demands of the environment. A recent survey of European managers reflects that managers pay attention to currently fashionable management concepts. The following table lists the percentage of managers

reporting that they were aware of these selected management trends that have been popular over the past decade.⁵⁹

Concept	Awareness Percentage
E-business	99.41
Decentralization	99.12
Customer Relationship Management	97.50
Virtual Organization	91.19
Empowerment	83.41
Reengineering	76.65

Managers especially tend to look for fresh ideas to help them cope during difficult times. For instance, recent challenges such as the tough economy and volatile stock market, environmental and organizational crises, lingering anxieties over war and terrorism, and public suspicion and skepticism resulting from the crisis on Wall Street have left today's executives searching for any management tool—new or old—that can help them get the most out of limited resources. The Manager's Shoptalk lists a wide variety of ideas and techniques used by today's managers. Management idea life cycles have been growing shorter as the pace of change has increased. A study by professors at the University of Louisiana at Lafayette found that, from the 1950s to the 1970s, it typically took more than a decade for interest in a popular management idea to peak. Now, the interval has shrunk to fewer than three years, and some trends come and go even faster.⁶⁰

MANAGING THE TECHNOLOGY-DRIVEN WORKPLACE

Two popular contemporary tools that have shown some staying power (as reflected in the Shoptalk Box) are customer relationship management and supply chain management. These techniques are related to the shift to a technology-driven workplace. A more recent tool in the technology-driven workplace, social media, is also growing in use and importance.

Social Media Programs

Companies use social media programs to interact electronically with employees, customers, partners, and other stakeholders. Although only 29 percent of managers surveyed by Bain & Company said their companies used social media

programs in 2010, more than half said they planned to use them in 2011.⁶¹ **Social media programs** include company online community pages, social media sites such as Facebook or LinkedIn, microblogging platforms such as Twitter and China's Weibo, and company online forums. One frequent, and controversial, use of social media has been to look into the backgrounds and activities of job candidates. A survey by CareerBuilder found that 37 percent of hiring managers said they had used social media sites to see if job applicants present themselves professionally, to learn more about an applicant's qualifications, or to see if the candidate would be a good fit with the organizational culture.⁶² Other uses of social media programs include generating awareness about the company's products and services, sharing ideas and seeking feedback from customers and partners, strengthening relationships among employees, and selling products. One concern for many managers is how to measure the effectiveness of the use of social media programs.

Concept Connection



Blend Images/Stockphoto.com

The success and popularity of **social media** tools continues to drive innovation on the Web. In 2012, after an initial launch in France, Muxi went international. Muxi's creators describe it as a combination of the professional networking power of LinkedIn and the truly social aspects of Facebook.

Manager's Shoptalk

Management Tools and Trends

Over the history of management, many fashions and fads have appeared. Critics argue that new techniques may not represent permanent solutions. Others feel that managers must adopt new techniques for continuous improvement in a fast-changing world.

In 1993, Bain and Company started a large research project to interview and survey thousands of corporate executives about the 25 most popular management tools and techniques. The most recent list and usage rates for 2010–2011 are shown below. How many of the tools do you know? For more information on specific tools, see Bain's *Management Tools 2011: An Executive's Guide* at www.bain.com/publications/articles/management-tools-2011-executives-guide.aspx.

Popularity. In the 2010–2011 survey, benchmarking held onto the top spot as the most popular tool, reflecting managers' concern with efficiency and cost-cutting in a difficult economy. Mergers and acquisitions have decreased in popularity, with only 35 percent of managers using this technique. Three tools that ranked high in both use and satisfaction were *strategic planning, mission and vision*

statements, and customer segmentation, tools that can guide managers' thinking on strategic issues during times of rapid change.

Global Trends. For the first time, firms in emerging markets reported using more tools than those in developed markets. More than half of emerging market executives reported using the *balanced scorecard*. North American managers decreased their use of *outsourcing* and were the largest users of *social media programs*. Managers in Latin American companies used more tools than any other region, but they were the lightest users of *downsizing* and *customer relationship management (CRM)*. Asian companies were the greatest users of *knowledge management*. *Benchmarking* and *change management programs* were top tools for managers in Europe, where acute economic uncertainty continues.

Source: Darrell Rigby and Barbara Bilodeau, "Management Tools and Trends 2011," Copyright © 2011, Bain and Company, Inc., <http://www.bain.com/publications/articles/Management-tools-trends-2011.aspx>. Reprinted by permission.

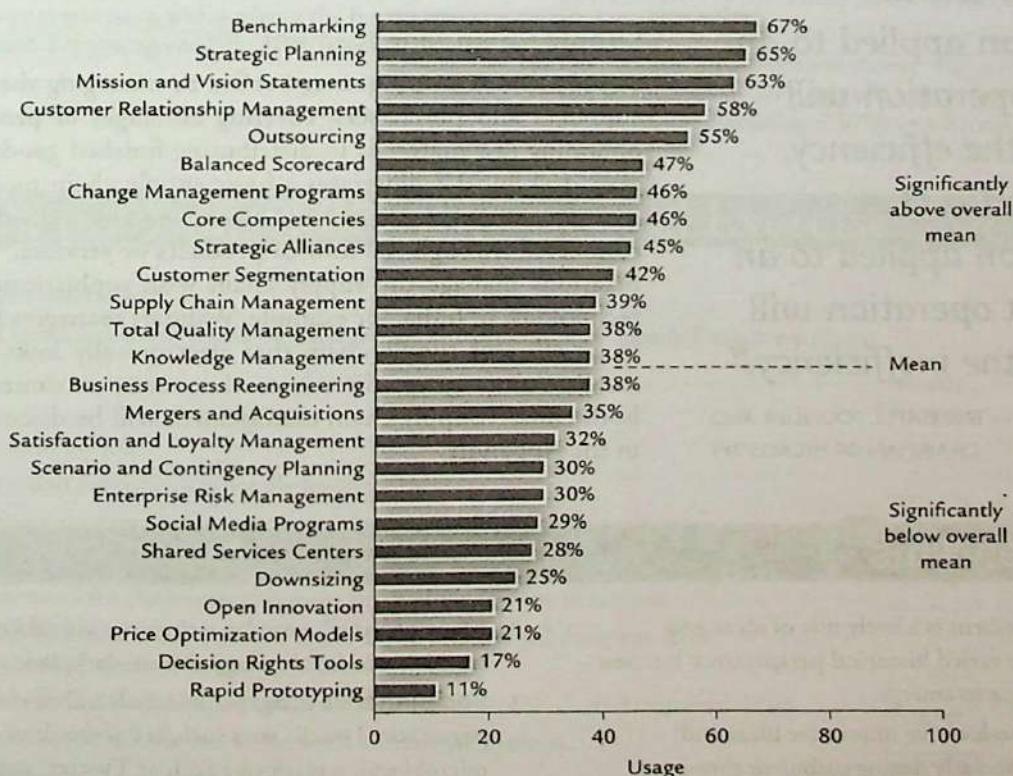
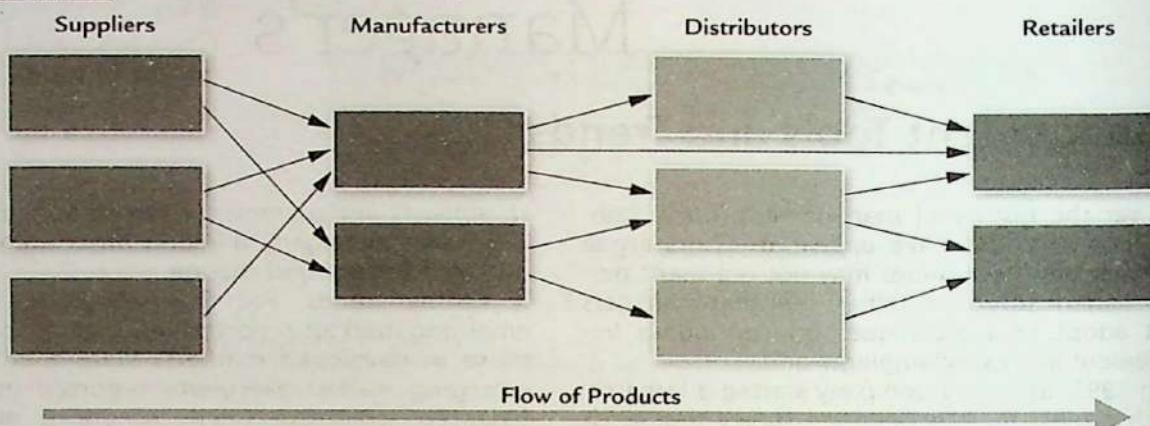


EXHIBIT 2.7

Supply Chain for a Retail Organization



SOURCE: Adapted from an exhibit from the Global Supply Chain Games Project, Delft University and the University of Maryland, R. H. Smith School of Business, www.gscg.org:8080/opencms/export/sites/default/gscg/images/supplychain_simple.gif (accessed February 6, 2008).

Customer Relationship Management

Unlike social media, many managers have become quite comfortable and adept at using technology for **customer relationship management (CRM)**. CRM systems use the latest information technology to keep in close touch with customers and to collect and manage large amounts of customer data. These systems can help managers be more accurate in their sales forecasts, coordinate sales and service staff more easily, improve product design and marketing, and act quickly to respond to shifting customer needs and desires. There has been an explosion of interest in CRM. In the Manager's Shoptalk, 58 percent of surveyed managers reported their companies used CRM in 2010, whereas only 35 percent of companies reported using this technique in 2000.

"The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency."

— BILL GATES, FOUNDER AND CHAIRMAN OF MICROSOFT

Supply Chain Management

Supply chain management refers to managing the sequence of suppliers and purchasers, covering all stages of processing from obtaining raw materials to distributing finished goods to consumers.⁶³ Exhibit 2.7 illustrates a basic supply chain model. A *supply chain* is a network of multiple businesses and individuals that are connected through the flow of products or services.⁶⁴ Many organizations manage the supply chain with sophisticated electronic technology. In India, for example, Walmart managers have invested in an efficient supply chain that electronically links farmers and small manufacturers directly to the stores, maximizing value for both ends.⁶⁵ Supply chain management will be discussed in detail in the Appendix.

Remember This

- Modern management is a lively mix of ideas and techniques from varied historical perspectives, but new concepts continue to emerge.
- Managers tend to look for innovative ideas and approaches particularly during turbulent times.
- Many of today's popular techniques are related to the transition to a technology-driven workplace.
- **Social media programs** include online community pages, social media sites such as Facebook and LinkedIn, microblogging platforms such as Twitter, and company (Continued)

- online forums that enable managers to interact electronically with employees, customers, partners, and other stakeholders.
- **Customer relationship management (CRM)** systems use information technology to keep in close touch with customers, collect and manage large amounts of customer data, and provide superior customer value.

- Supply chain management refers to managing the sequence of suppliers and purchasers, covering all stages of processing from obtaining raw materials to distributing finished goods to consumers.
- These new approaches require managers to think in fresh ways about managing their relationships with employees, customers, and business partners.

ch2: Discussion Questions

1. How do you think management practices might change in response to increasing government regulation in the banking and health care industries? What other recent political, social, or economic forces can you identify that might affect your job as a manager?
2. The 2010–2011 Bain survey of management tools and trends found that the use of social media programs is growing, but as a tool, social media also has one of the lowest satisfaction ratings. How would you explain this?
3. Can you think of potential drawbacks to retailers using labor-waste elimination systems based on scientific management principals, as described in the text? Despite their being about 100 years old, do you believe scientific management characteristics will ever cease to be a part of organizational life? Discuss.
4. A management professor once said that for successful management, studying the present was most important, studying the past was next, and studying the future was least important. Do you agree? Why?
5. As organizations become more technology-driven, which do you think will become more important—the management of the human element of the organization or the management of technology? Discuss.
6. Why do you think Mary Parker Follett's ideas tended to be popular with businesspeople of her day but were ignored by management scholars? Why are her ideas appreciated more today?
7. Explain the basic idea underlying the contingency view. How would you go about identifying key contingencies facing an organization?
8. Why can an event such as the Hawthorne studies be a major turning point in the history of management, even if the results of the studies are later shown to be in error? Discuss.
9. How would you apply systems thinking to a problem such as poor performance in your current academic studies? To a problem with a romantic partner or family member? Try to identify all the elements and their interdependencies.
10. Do you think management theory will ever be as precise as theories in the fields of finance, accounting, or experimental psychology? Why or why not?

ch2: Apply Your Skills: Experiential Exercise

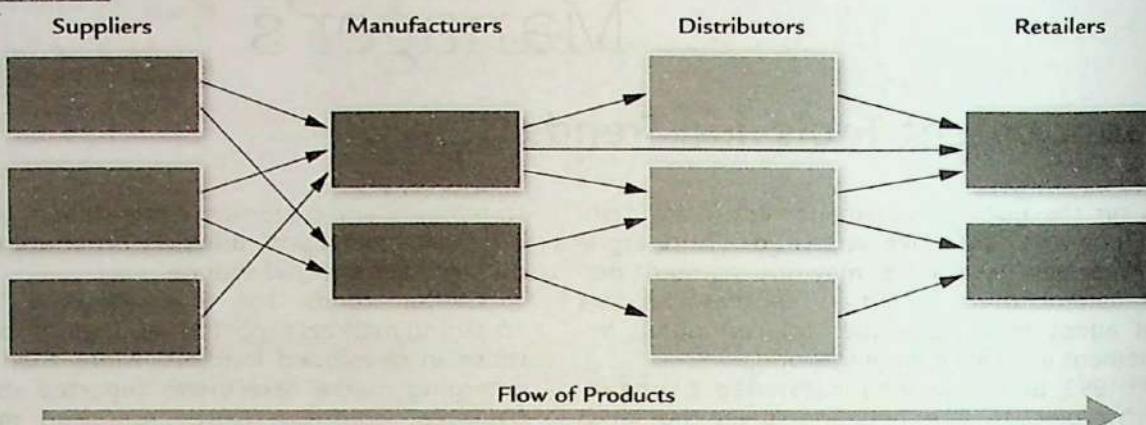
Security or Autonomy⁶⁶

Respond to each statement below based on whether you Mostly Agree or Mostly Disagree with it.

	Mostly Disagree	Mostly Agree
1. I value stability in my job.	_____	_____
2. Rules, policies, and procedures generally frustrate me.	_____	_____
3. I enjoy working for a firm that promotes employees based heavily on seniority.	_____	_____
4. I'd prefer some kind of freelance job to working for the government.	_____	_____
5. I'd be proud to work for the largest and most successful company in its field.	_____	_____
6. Given a choice, I'd rather make \$90,000 a year as a VP in a small company than \$100,000 a year as a middle manager in a large company.	_____	_____
7. I'd rather work directly for a single manager than on a team with shared responsibilities.	_____	_____
8. I generally prefer to multitask and be involved in multiple projects.	_____	_____
9. Good employee benefits are important to me.	_____	_____
10. Rules are made to be broken.	_____	_____

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7. I'd rather work directly for a single manager than on a team with shared responsibilities.	_____	_____
8. I generally prefer to multitask and be involved in multiple projects.	_____	_____
9. Good employee benefits are important to me.	_____	_____
10. Rules are made to be broken.	_____	_____

Scoring

Give yourself one point for each answer of Mostly Agree to the odd-numbered questions and one point for each Mostly Disagree to the even-numbered questions.

Interpretation

Your answers determine whether your preferences would fit better with a bureaucratic organization. If your score is 8–10, a large, formal company would be compatible with your style and wishes. A score of 4–7 suggests that you

would receive modest satisfaction from working within a bureaucratic organization. A score of 1–3 suggests that you would likely be frustrated by working in a large bureaucracy.

A large, bureaucratic organization provides security, benefits, and certainty compared to smaller or entrepreneurial firms, where freedom and autonomy are greater. Do you want to optimize security or autonomy in your career? Would you be more satisfied in a large formal organization or in an organization that emphasizes a human resources perspective? Compare your scores with other students' scores and discuss any differences.

ch2: Apply Your Skills: Small Group Breakout

Turning Points on the Road to Management

Step 1. Interview a manager you know at your university or place of employment, or a parent or friend who is a manager, and ask the following question: "What was a turning point in your life that led you to become the person, and manager, that you are today?" (A turning point could be an *event*, such as a divorce, birth of a child, business failure, loss of job; or a *decision*, such as to quit college and start a business, go back to school, get married, and so on.) Collect information on a second turning point if the interviewee has one to describe. Your goal is to learn the specifics about how each turning point led to the person's current position in life.

Step 2. Divide into groups of four to six members. One person at a time, share what you learned about a manager's career turning points. What themes or patterns characterize the turning points among the managers interviewed?

Step 3. Have you personally experienced any turning points in your life? Each group member should describe your personal turning point to the group. With the additional turning points, analyze again for themes and patterns across all the turning points.

Step 4. What lessons does your group learn from its analysis? How does history (events, decisions) play a role in the lives and careers of the managers interviewed, and in the lives of your group members?

ch2: Endnotes

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ch1: Apply Your Skills: Ethical Dilemma

Can Management Afford to Look the Other Way?*

Harry Rull had been with Shellington Pharmaceuticals for 30 years. After a tour of duty in the various plants and seven years overseas, Harry was back at headquarters, looking forward to his new role as vice president of U.S. marketing.

Two weeks into his new job, Harry received some unsettling news about one of the managers that he supervises. During a casual lunch conversation, Sally Barton, the director of human resources, mentioned that Harry should expect a phone call about Roger Jacobs, manager of new product development. Jacobs had a history of being "pretty horrible" to his subordinates, she said, and one disgruntled employee asked to speak to someone in senior management. After lunch, Harry did some follow-up work. Jacobs's performance reviews have been stellar, but his personnel file also contains a large number of notes documenting charges of Jacobs's mistreatment of subordinates. The complaints ranged from "inappropriate and derogatory remarks" to charges of sexual harassment (which were subsequently dropped). What was more disturbing was the fact that the number and the severity of the complaints have increased with each of Jacobs's ten years with Shellington.

When Harry questioned the company president about the issue, he was told, "Yeah, he's had some problems, but

you can't just replace someone with an eye for new products. You're a bottom-line guy; you understand why we let these things slide." Not sure how to handle the situation, Harry met briefly with Jacobs and reminded him to "keep the team's morale up." Just after the meeting, Barton called to let him know that the problem that she'd mentioned over lunch had been worked out. However, she warned, another employee has now come forward, demanding that her complaints be addressed by senior management.

What Would You Do?

1. Ignore the problem. Jacobs's contributions to new product development are too valuable to risk losing him, and the problems over the past ten years have always worked themselves out anyway. There's no sense starting something that could make you look bad.
2. Launch a full-scale investigation of employee complaints about Jacobs and make Jacobs aware that his documented history over the past ten years has put him on thin ice.
3. Meet with Jacobs and the employee to try to resolve the current issue, and then start working with Barton and other senior managers to develop stronger policies regarding sexual harassment and treatment of employees, including clear-cut procedures for handling complaints.

*Based on Doug Wallace, "A Talent for Mismanagement: What Would You Do?" *Business Ethics* 2 (November–December 1992): 3–4.

ch1: Apply Your Skills: Case for Critical Analysis

SmartStyle Salons

Jamika Westbrook takes pride in her position as salon manager for SmartStyle Salon, one of six local hair salons associated with a large retail store chain located in the Southeast and one of five chain store groups under the Gold Group umbrella. She oversees a staff of 30, including hairdressers, a nail technician, receptionists, shampoo assistants, and a custodian. She enjoys a reputation as a manager who works very hard and takes care of her people. Hairdressers want to work for her.

Following the salon's new-hire policy, Jamika began as a shampoo assistant and quickly became a top hairdresser in the company through a combination of skill, a large and loyal client base, and long hours at work. In 2007, retiring manager Carla Weems hand-picked Jamika as her successor, and the board quickly approved.

Initially, the salon, located in a suburban mall, managed a strong, steady increase, holding its position as one of the corporate's top performers. But economic woes hit the area hard, with increases in unemployment, mortgage woes, and foreclosures among current and potential customers. As families sought ways to save, the luxury of regular visits to

the hair salon was among the first logical budget cuts. The past year has reflected this economic reality, and Jamika's salon saw a sharp decrease in profits.

Jamika's stomach is in knots as she arrives at the salon on Monday. Scheduled to fly to Atlanta the next morning for a meeting at corporate, she fears potential staffing cuts, but more important, she fears the loss of opportunity to secure her dream job, replacing the retiring manager at Riverwood Mall, the top-performing salon located in an upscale area of the city.

Distracted, Jamika walks past the receptionist, Marianne, who is busily answering the phones. Hanging up the phone, Marianne tells Jamika that Holly and Carol Jean, two popular hairdressers, called in sick, and Jamika now has to reschedule their clients. Jamika had denied their earlier request to travel out of town to attend a concert, and her irritation is obvious. She orders Marianne to call both women and instruct them that, when they return to work, they are to bring a doctor's statement and a copy of any prescriptions that they were given. "They had better be sick!" Jamika shouts as she enters her office, slamming the door more forcefully than she intended. Startled employees

and early-morning customers heard the outburst, and, after a momentary pause, they resumed their activities and quiet conversation, surprised by the show of managerial anger. Jamika knows she has let Holly and Carol Jean get away with unwarranted absences before and worries that she will do it again. She needs every head of hair they can style to help the salon's profit.

Jamika takes a deep breath and sits at her desk, turning on the computer and checking e-mails, including one from the group manager reminding her to send the salon's status report in advance of tomorrow's meeting. She buzzes Marianne on the intercom to request final figures for the report on her desk by 1:00 p.m.

Picking up the phone, she calls Sharon, a manager at another SmartStyle salon. "I really lost my cool in front of everyone, but I'm not apologizing," Jamika admits, adding that she wished she had the guts to fire both stylists. "But this is not the day for that drama. I've got that report hanging over my head. I have no idea how to make things look better than they are, but I have to come up with something. Things look pretty dismal."

Sharon assures her that she did the best she could dealing with two "irresponsible" employees. "What will you do if they show up tomorrow with no doctor's statement?"

"I don't know. I hope I scared them enough so that they'll come in with something."

"I know you're worried about the report and the effect it might have on the Riverwood job," Sharon says. "But everyone knows you can't control the economy and its effect on the business. Just focus on the positive. You'll be fine."

At 10:30, as Jamika struggles to put the best possible spin on the report, she is paged to the receptionist desk to speak to an angry customer. "Another interruption," Jamika fumes to herself. Just then, the door opens and top stylist/

assistant manager Victoria Boone sticks her head into the office.

"I know you're busy with the report. I'll handle this," she says enthusiastically.

"Thanks," Jamika replies.

No sooner had she handed off the irate client to Victoria than she second-guessed the decision. In addition to her talents as a hairdresser, Victoria had experience as the manager of a successful salon in another city before moving to the area. Recognizing her organizational and people skills, Jamika promoted Victoria to assistant manager soon after her arrival. Now each "I'll handle this" remark by Victoria convinces Jamika that her assistant manager is positioning herself as a potential rival for the Riverwood job. Jamika appreciates her enthusiastic attitude, but she's also trying to limit her opportunities to lead or appear too competent before staff, customers, and company officials. Jamika finds herself wanting to hide Victoria's competence, and she has condescendingly reminded management that Victoria is a "great help to me."

Now, thinking of Victoria's cheerful "I'll handle this," Jamika rises from her desk and marches to the door. No, Jamika thinks, *I'll take care of this personally.*

Questions

1. What positive and negative managerial characteristics does Jamika possess?
2. How do these traits help or hinder her potential to get the top position at the Riverwood Mall salon?
3. How do you think Jamika should have handled each of the incidents with Marianne? Holly and Carol Jean? Victoria?

ch1: On the Job Video Cases

On the Job: Camp Bow Wow: Innovative Management for a Changing World

Questions

1. List the three broad management skill categories and explain which skills are needed most for each of the Camp Bow Wow leaders highlighted in the video.

2. Which activities at Camp Bow Wow require high efficiency? Which activities require high effectiveness?
3. List two activities that leaders at Camp Bow Wow perform daily, and identify which of the ten managerial roles discussed in the chapter figure prominently for each.



ch2: Apply Your Skills: Ethical Dilemma

The New Test*

The Civil Service Board in a midsize city in Indiana decided that a written exam should be given to all candidates for promotion to supervisor. A written test would assess mental skills and would open access to all personnel

who wanted to apply for the position. The board believed a written exam for promotion would be completely fair and objective because it eliminated subjective judgments and personal favoritism regarding a candidate's qualifications.

Maxine Othman, manager of a social service agency, loved to see her employees learn and grow to their full potential. When a rare opening for a supervising clerk occurred, Maxine quickly decided to give Sheryl Hines a shot at the job. Sheryl had been with the agency for 17 years and had shown herself to be a true leader. Sheryl worked hard at becoming a good supervisor, just as she had always worked hard at being a top-notch clerk. She paid attention to the human aspects of employee problems and introduced modern management techniques that strengthened the entire agency. Because of the board's new ruling, Sheryl would have to complete the exam in an open competition—anyone could sign up and take it, even a new employee. The board wanted the candidate with the highest score to get the job but allowed Maxine, as manager of the agency, to have the final say.

Because Sheryl had accepted the provisional opening and proved herself on the job, Maxine was upset that the entire clerical force was deemed qualified to take the test. When the results came back, she was devastated. Sheryl placed twelfth in the field of candidates, while one of her newly hired clerks placed first. The Civil Service Board,

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impressed by the high score, urged Maxine to give the new clerk the permanent supervisory job; however, it was still Maxine's choice. Maxine wonders whether it is fair to base her decision only on the results of a written test. The board was pushing her to honor the objective written test, but could the test really assess fairly who was the right person for the job?

What Would You Do?

1. Ignore the test. Sheryl has proved herself via work experience and deserves the job.
2. Give the job to the candidate with the highest score. You don't need to make enemies on the Civil Service Board, and, although it is a bureaucratic procedure, the test is an objective way to select a permanent placement.
3. Press the board to devise a more comprehensive set of selection criteria—including test results as well as supervisory experience, ability to motivate employees, and knowledge of agency procedures—that can be explained and justified to the board and to employees.

ch2: Apply Your Skills: Case for Critical Analysis

More Hassle from HR?

In their three years at Vreeland Pharmaceuticals, Vitorio Nuños and Gary Shaw had rarely crossed paths, and they had exchanged no more than a dozen sentences. But here they were, seatmates on a plane headed to company headquarters in Kansas City, Missouri. And suddenly, they had a lot to say to each other.

"What I'd like to know is why we're wasting a trip to Kansas City to thrash out some new policies about leader competencies," Vitorio said.

"Because Connie Wyland is HR at Vreeland, and you and I both know that policies and models and all of that touchy-feely people stuff is the lifeblood of HR," Gary replied. "I also think a lot of this is the result of panic on the heels of the scandals in sales last year."

"I don't think there's cause for panic. The company fired the guys, apologized, and then you just move on," said Vitorio.

Gary laughed sarcastically. "No, you fire them, you apologize, and then you analyze the whole thing *ad nau-*
scam, and then you hamstring your management team with endless rules and bureaucratic standards just to make sure it doesn't happen again."

"So we all pay for *their* mistakes," replied Vitorio.

"We pay because HR feels guilty that those guys moved up so high in the system," Gary replied. "So now Connie and her staff have devised the ultimate solution to the problem. I don't know why we all have to go in to discuss it; she's already decided what she's going to do and she's positive this is the cure-all to prevent any further embarrassment to the company."

"Let's look at the document," Vitorio said. He reached under the seat, retrieved and unpacked his tablet, placed it on the tray table, and turned it on.

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"Is that better?"

Gary nodded. The two men read through the document.

"I resent the term 'rogue leaders,'" Gary remarked, pointing to the phrase.

Vitorio shrugged. "It's a rough draft. They'll clean up the language . . . I think."

"It's really just a rehash of the mission statement and all of the things we learned in training. This is stuff we all learned in business school. I feel like I'm being lectured."

"Yeah." Vitorio scrolled up and down the document. "Any business student could have written this."

"I hear the HR crew put in lots of overtime," said Gary.

Vitorio smirked. "For this? I'll tell you . . . and this is just between you and me, but I really resent this and we're some of the newer members of management. I would love to hear what the older managers are saying."

"I know Connie," Gary said. "She and her staff are going to come in tomorrow all gung-ho on this." He turned the tablet in order to see it easier. "We already know what's expected of us." He scrolled down, stopping at key phrases. "Look at this . . . 'critical values' . . . 'core behaviors' . . . 'fostering conflict resolution' . . . and here's one—"implementing employee involvement strategies." How does she think we got these jobs in the first place?" Gary paused. "What really makes me angry is that I heard Connie is going to

start manager training sessions where she will teach us the behaviors associated with each value! Can you believe that? She will have us role-playing and stuff. I will fight this if it goes beyond general value statements that we can follow in our own way."

"I can't wait to hear what Vreeland says," Vitorio remarked.

"Are you kidding? He'll go along with it. He'll spend 10 to 15 minutes telling us how great we all are and insinuating that we don't really need this, and then he'll back Connie all the way. Face it, this is the way it's going to be, and he really doesn't need our input or approval. It just looks good," commented Gary.

Vitorio turned off and closed the tablet. "I just feel that imposing something like this on management is a slap at every one of us. We know what's expected. We don't need training. We also know our people and we have to have some flexibility within a broad set of boundaries. This sort of thing just hamstrings us. Connie wants the *Stepford Wives*."

"I just hope a couple of senior managers speak up at this meeting and voice some concerns. Maybe it will be toned down a little," Gary said. "You and I are middle management and we haven't been with the company long enough. All we can do at this meeting is sit and nod."

Questions

1. Are Connie and her staff on the right track to avoid manager mishaps by defining a new set of leader rules and core values and imposing it by fiat from the top down?
2. Do you think a more participative and open culture can be imposed on managers with value statements and training sessions? Why?
3. Why do you think Vitorio and Gary are on the defensive? Might the emphasis on core leadership behaviors be handled in a different way? What do you suggest?

ch2: On the Job Video Cases

On the Job: Barcelona Restaurant

Group: The Evolution of Management Thinking

Questions

1. In what ways is Barcelona's management approach consistent with modern developments in management thinking?

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3. What aspects of restaurant work are especially challenging to wait staff, and how does Barcelona's approach to management help employees overcome the downsides of the job?



pt1: Integrative Case

The Clean-Energy Future Is Now

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pt1: Integrative Case

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Against a backdrop of ubiquitous marketing for electric cars and hybrids, the choice of a natural gas vehicle for Green Car of the Year was an unmistakable nod to a development in green energy that is so immense that it promises to transform the U.S. energy grid and end North American dependence on foreign oil. That development is the discovery of the Marcellus Shale. Located throughout the Appalachian Basin of the eastern United States, the Marcellus Shale is a massive sedimentary rock formation deep beneath the Earth's surface that contains one of the largest methane deposits anywhere in the world. Once thought to possess a modest 1.9 trillion



cubic feet of natural gas, this 600-mile-wide black shale formation below Pennsylvania, Ohio, New York, and West Virginia was explored by geologists in 2004 and was found to contain between 168 trillion and 516 trillion cubic feet of natural gas. Combined with other U.S. shale plays, including the Barnett Shale in Texas, the discovery of the Marcellus led the International Energy Agency (IEA) to rank the United States the new number one natural gas producer in the world, edging out resource-rich Russia. In addition, the Marcellus has triggered a green-energy boom known as the Great Shale Gas Rush, which is creating thousands of green jobs, revitalizing the nation's economy, and pointing the way to a clean-energy future.

The breakthrough couldn't have come at a better time. In a highly turbulent business environment shaken by a global recession and new government restrictions on traditional energy, today's business managers struggle to know which energy alternatives are viable, or even affordable. The unexpected bankruptcy of well-funded green-energy darlings Solyndra and Beacon Power further underscore the uncertainty of the alternative energy marketplace. To gain stability for their organizations, managers need solutions that are reliable now, not decades into the future.

Thanks to an abundant supply of affordable natural gas, the green energy future has arrived. According to the U.S. Environmental Protection Agency (EPA) profile on clean energy, natural gas is a clean-burning fuel that generates roughly half the carbon emissions of coal and oil while releasing zero sulfur dioxide or mercury emissions. Given its low price relative to other energy sources, natural gas has game-changing implications for trucking fleets, consumer autos, electric power generation, and commercial heating—not to mention natural gas ovens, clothes dryers, water heaters, and other appliances.

While shale gas is a win-win for business and the environment, its impact on green jobs and the economy is equally important. According to a 2011 IHS Global Insight study, shale gas production—currently 34 percent of all natural gas production in the United States—supported more than 600,000 green jobs in 2010, a number that will increase to 870,000 jobs by 2015. As for the national economy, shale gas contributed \$76.9 billion to the U.S. gross domestic product (GDP) in 2010 and is projected to contribute \$118.2 billion by 2015. Over the next 25 years, shale gas will raise more than \$933 billion in tax revenue for local, state, and federal governments. The news about natural gas is good for average consumers as well. In 2011, property owners in the Marcellus region received \$400 million in natural gas royalties—a number that will

climb even higher in the next decade. Additionally, individual U.S. consumers can expect \$926 in new disposable income per year from cost savings related to natural gas. Combined, this economic activity equates to much-needed relief in hard times.

What does the switch to natural gas mean for industry-leading companies? For automakers like Honda and Volvo, natural gas vehicles have begun making their way into regular assembly-line production. Transport businesses such as UPS are converting fleets from diesel to natural gas as part of the White House's National Clean Fleets Partnership. Transit leaders like Navistar and Clean Energy Fuels have launched strategic partnerships to build America's Natural Gas Highway. Manufacturers such as Westport Innovations have made organizational changes to become leading producers of liquefied and compressed natural gas engines. Utility companies like Dominion are replacing coal-based electricity with gas-fired electric generation. And drillers like Range Resources are finding new ways to improve the quality and safety of natural gas exploration while controlling costs.

There are no limits to the possibilities of the Great Shale Gas Rush. However, it will take visionary leadership and skillful management to deliver on the promise of a truly sustainable clean-energy future.

Integrative Case Questions

1. What turbulent forces are causing business leaders to rethink their use of energy?
2. Which managers—top managers, middle managers, or first-line managers—would make companywide decisions about energy use? How might the new workplace enable all managers to capitalize on the Great Shale Gas Rush?
3. Which historical management perspectives have particular relevance to the exploration and extraction of natural gas? Explain.

Sources: Based on "Honda Civic Natural Gas Is 2012 Green Car of the Year," *Green Car Journal*, November 17, 2011, www.greencar.com/articles/honda-civic-natural-gas-2012-green-car-year.php (accessed June 7, 2012); Elwin Green, "Natural gas Locked in the Marcellus Shale Has Companies Rushing to Cash in on Possibilities," *Pittsburgh Post-Gazette*, March 16, 2012, www.post-gazette.com/stories/business/news/natural-gas-locked-in-the-marcellus-shale-has-companies-rushing-to-cash-in-on-possibilities-370058/ (accessed June 7, 2012); Kevin Begos, "Gas Drillers Generate About \$3.5 Billion in Revenues From Marcellus Shale," Associated Press, May 5, 2012, www.timesunion.com/business/article/AP-Pa-gas-drilling-brought-3-5-billion-in-2011-3536873.php (accessed June 8, 2012); Timothy J. Considine, Robert Watson, and Seth Blumsack, *The Pennsylvania Marcellus Natural Gas Industry: Status, Economic Impacts, and Future Potential*, John and Willie Leone Family Department of Energy and Mineral Engineering, Penn State University, July 20, 2011, <http://marcelluscoalition.org/wp-content/uploads/2011/07/Final-2011-PA-Marcellus-Economic-Impacts.pdf> (accessed June 8, 2012); IHS, "Shale Gas Supports More than 600,000 American Jobs Today; by 2015, Shale

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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.	_____	_____

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

HOT
TOPIC

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

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

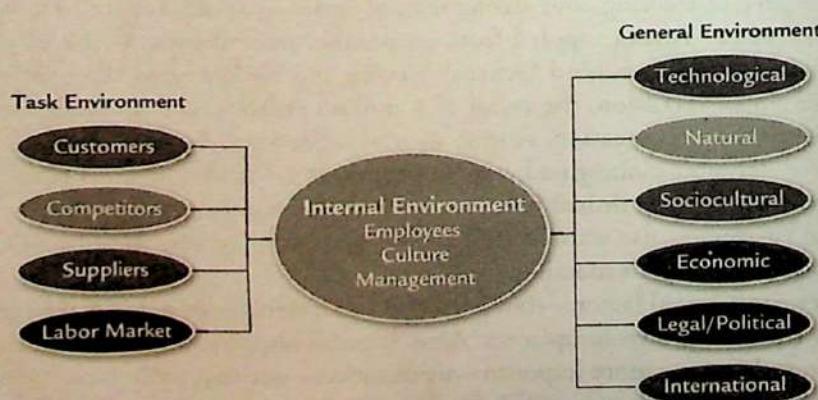


Exhibit 3.1 illustrates the relationship among the general, task, and internal environments. As an open system, the organization draws resources from the external environment and releases goods and services back to it. We will now discuss the two components of the external environment in more detail. 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

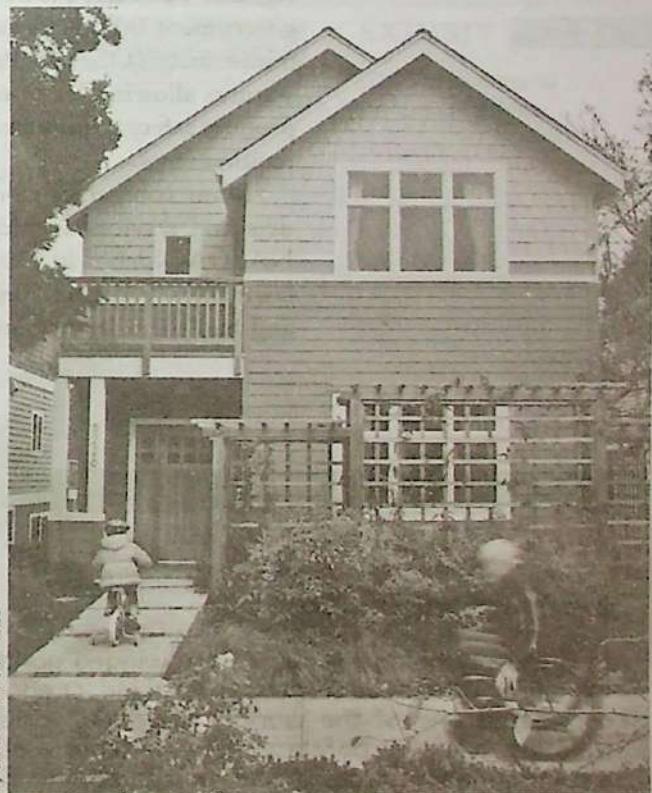
The sociocultural dimension of the general environment represents the demographic characteristics as well as the norms, customs, and values of the general population. Important sociocultural characteristics are geographical distribution and population density, age, and education levels. Today's demographic 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.

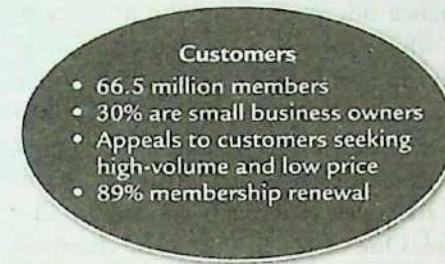
Costco's biggest competitive advantage is its workforce. "Costco compensates employees very well, well above the industry in terms of wages and benefits," says R. J. Hottovely, a retail analyst at Morningstar. "When retailers are cutting health benefits, Costco employees don't have to worry about that," 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**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

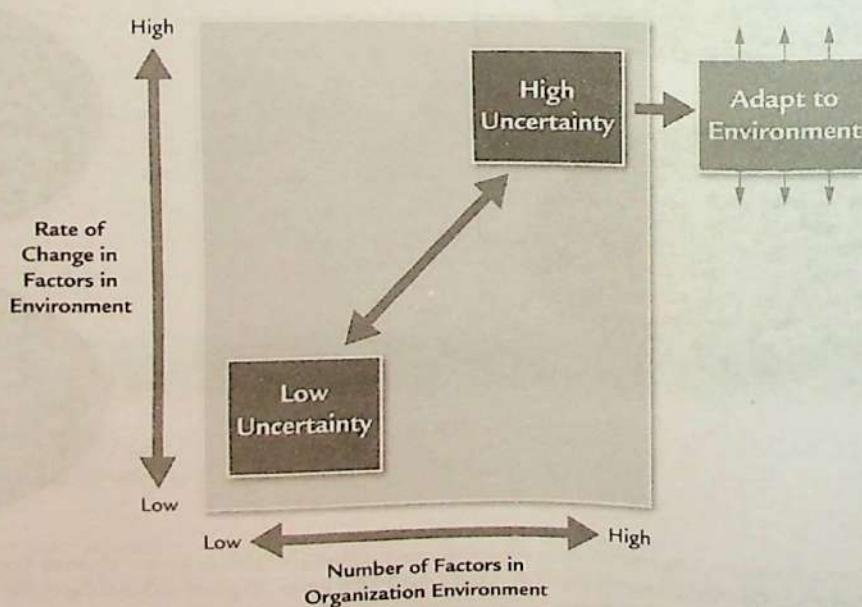
Refer to your score on the opening questionnaire to see how well you might adapt as a new manager in an uncertain environment.

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.

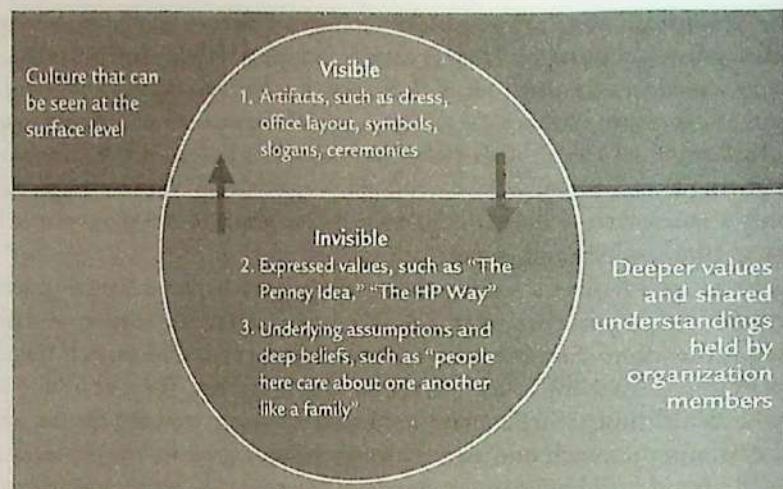
The Internal Environment: Corporate Culture

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.

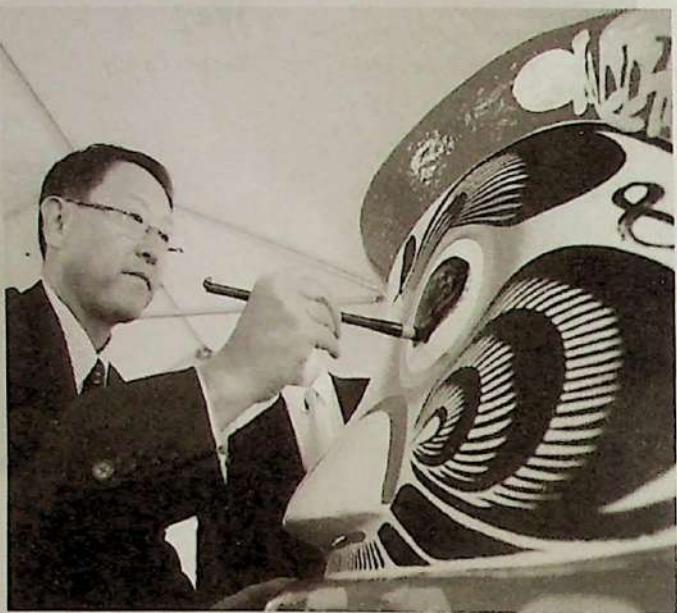
Innovative Way Zappos Family

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.

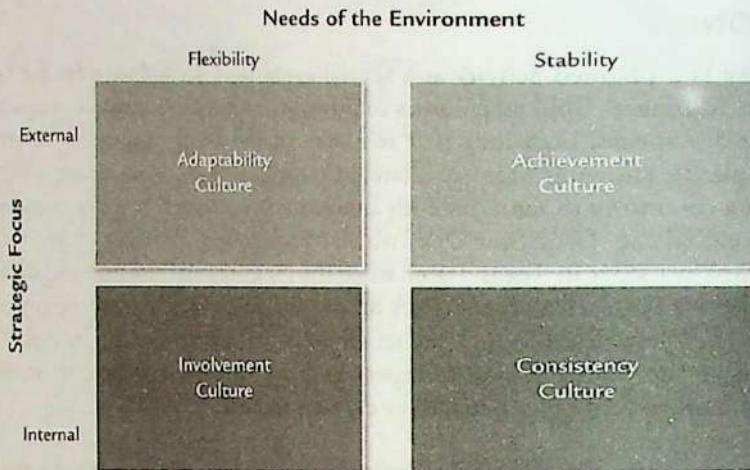
In considering what cultural values are important for the organization, managers consider the external environment, as well as the company's strategy and goals. Studies suggest that the right fit between culture, strategy, and the environment is associated with four categories or types of culture, as 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 co-operation, 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.

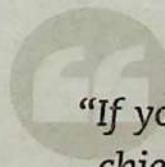
Corporate culture plays a key role in creating an organizational climate that enables learning and innovative responses to threats from the external environment, challenging new opportunities, or organizational crises. However, managers realize they can't focus all their effort on values; they also need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

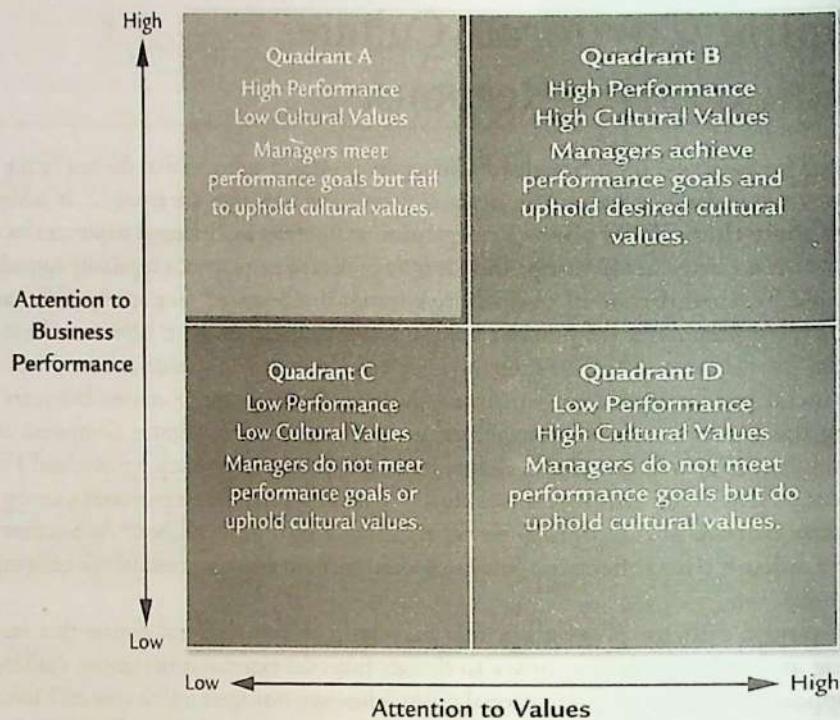


"If you see your job not as chief strategy officer and the guy who has all the ideas, but rather as the guy who is obsessed with enabling employees to create value, I think you will succeed."

— VINEET NAYAR, CEO OF HCL TECHNOLOGIES

EXHIBIT 3.8

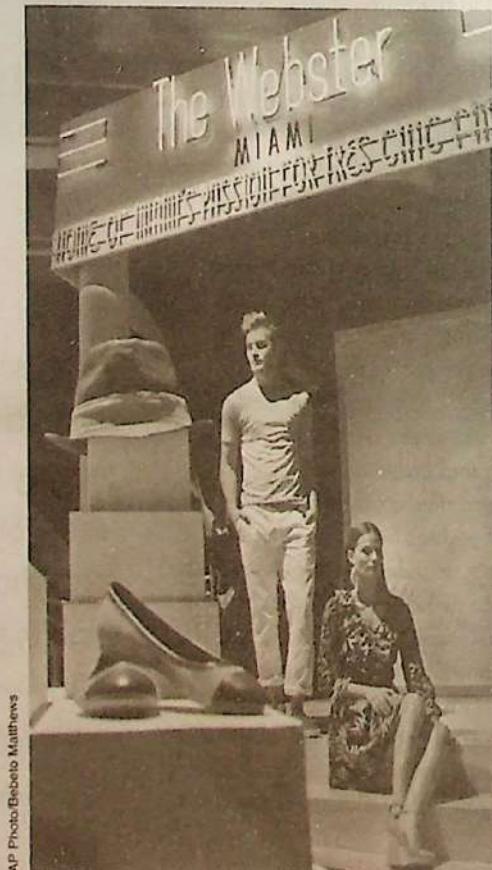
Combining Culture and Performance



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.



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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